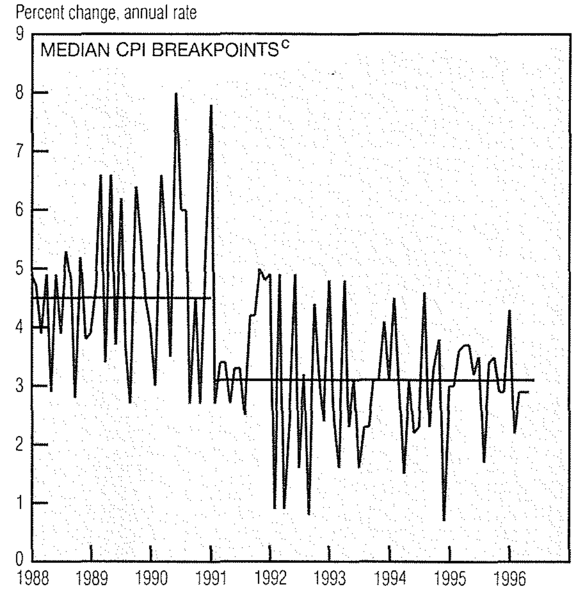
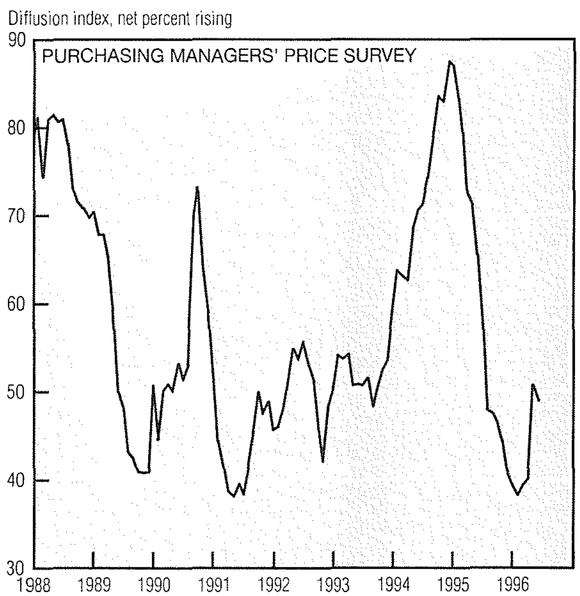
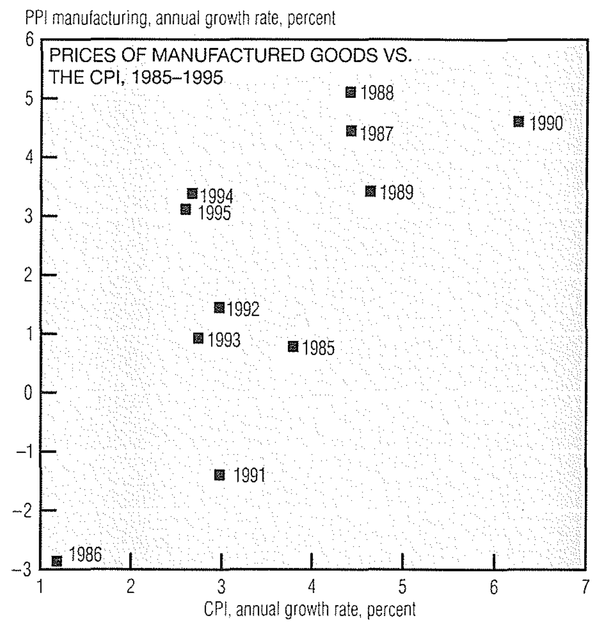
Inflation and Prices

May Price Statistics

	Annualized percent change, last: 1 mo.	5 mo.	12 mo.	5 yr.	1995 avg.
Consumer Prices					
All items	3.9	4.1	2.9	2.9	2.6
Less food and energy	3.0	3.0	2.7	3.2	3.0
Median[a]	2.9	3.0	3.0	3.1	3.2
Producer Prices					
Finished goods	−0.6	2.6	2.3	1.5	2.1
Less food and energy	−0.4	0.3	1.5	1.7	2.6
Commodity futures prices[b]	0.0	13.8	10.5	3.6	5.4







a. Calculated by the Federal Reserve Bank of Cleveland.
b. As measured by the KR–CRB composite futures index, all commodities. Data reprinted with permission of the Commodity Research Bureau, a Knight-Ridder Business Information Service.
c. Horizontal lines represent trends.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; Board of Governors of the Federal Reserve System; the Federal Reserve Bank of Cleveland; National Association of Purchasing Management; and the Commodity Research Bureau.

The Consumer Price Index (CPI) continued to accelerate in May, rising at an annual rate of 3.9% and contributing to a year-to-date increase of 4.1%. This represents a substantial deterioration from the 2.6% rate observed in 1995. However, much of the uptick has been attributed not to actual underlying inflation, but to transitory shocks in the typically volatile energy and food components. When these items are excluded from the index, its annualized, year-to-date growth is identical to 1995's rate. The median CPI through May is actually below last year's posting, but shows no clear signs of straying from the 3.1% path it has followed for the last five years.

Producer-level prices provide a more optimistic picture of current inflation. The Producer Price Index (PPI) and the purchasing managers' price index both suggest only moderate upward pressure. The PPI and the PPI less food and energy each receded slightly in May, and when food and energy items are excluded, the index has remained essentially unchanged this year. In addition, the PPI growth rate is more than two percentage points below last year's rate. Similarly, purchasing managers have generally reported prices to be falling or holding steady since late last year.

Recent moderate price behavior at the industrial level probably reveals more about conditions specific

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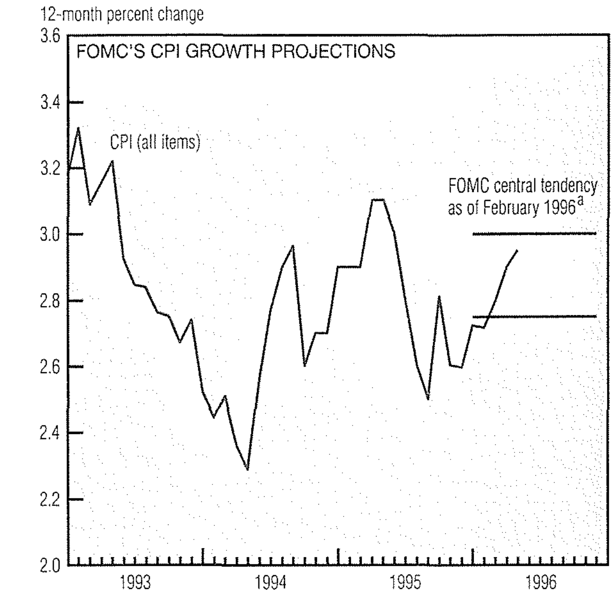
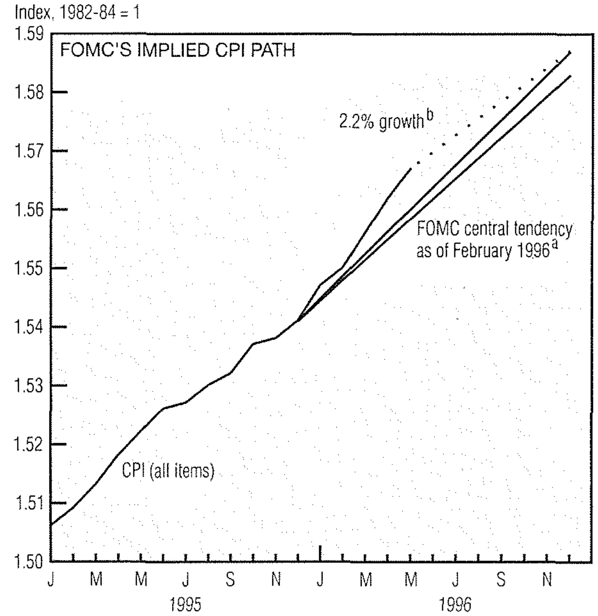
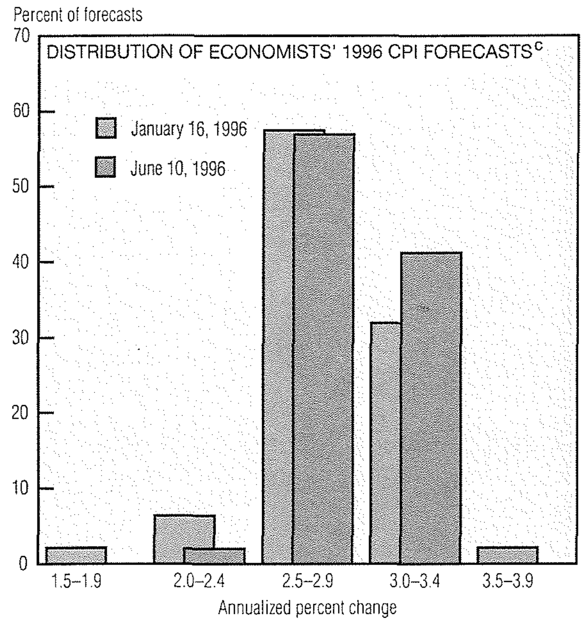
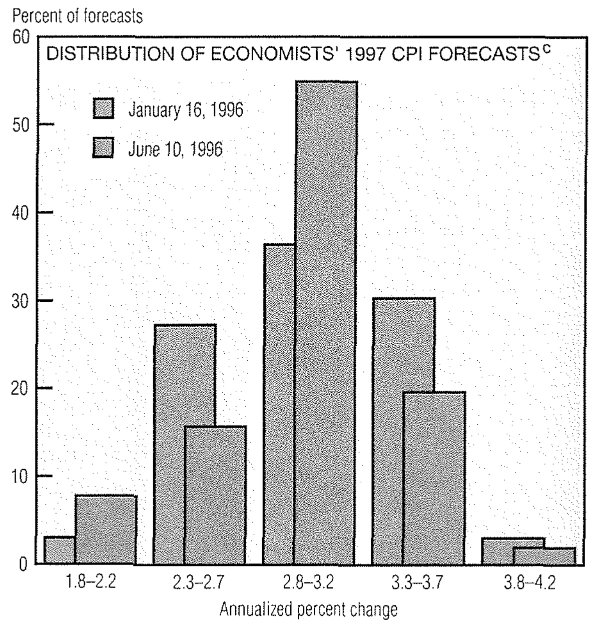
Inflation and Prices (cont.)









a. Upper and lower bounds for CPI inflation path as implied by the central tendency growth ranges issued by the FOMC and nonvoting Reserve Bank presidents.
b. 2.2% annualized growth represents a reference point between current CPI growth and the upper bound of the FOMC central tendency.
c. Consensus forecast of the Blue Chip panel of economists.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; Board of Governors of the Federal Reserve System; and *Blue Chip Economic Indicators*, January 16 and June 10, 1996.

to manufacturers than about general inflationary trends. Indeed, since 1990, the correlation between manufacturing prices and retail prices has been weak. While CPI growth has hovered around 2½% to 3%, manufacturing prices have fluctuated widely, from a low of about –1½% in 1991 to nearly 3% last year.

The CPI continues to climb toward the upper bound of the central tendency range projected by Federal Reserve officials for 1996. When the range was announced in February, an upper limit of 3.0% appeared much less optimistic than it does today. An annualized growth rate of no more than 2.2% for the remainder of 1996 would be required for the CPI to end the year within the Fed's projected range.

It appears that many economists have become more pessimistic about price trends for 1996. In January, approximately 65% of the Blue Chip panel expected the rate of retail price increases to remain below 3% this year. By June, only 59% held that view. The percentage anticipating that the inflation rate would stay below 2.5% dropped from 8.5% to less than 2% over the same period.

This increased pessimism has not, however, been as clearly reflected in the forecasts for 1997. In June, more than half of the Blue Chip economists predicted that the CPI would fall into the 2.8% to 3.2% range next year, compared with only 36% in January. The ranks of those expecting growth above 3¼% and those who anticipate less than a 2¾% rise have both dwindled since January.