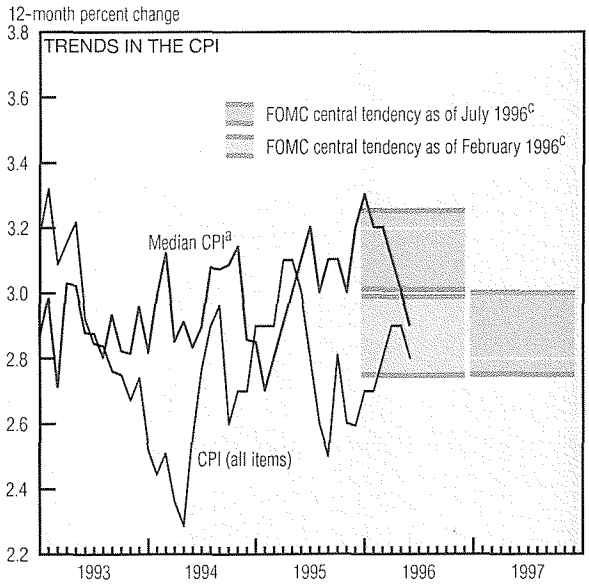
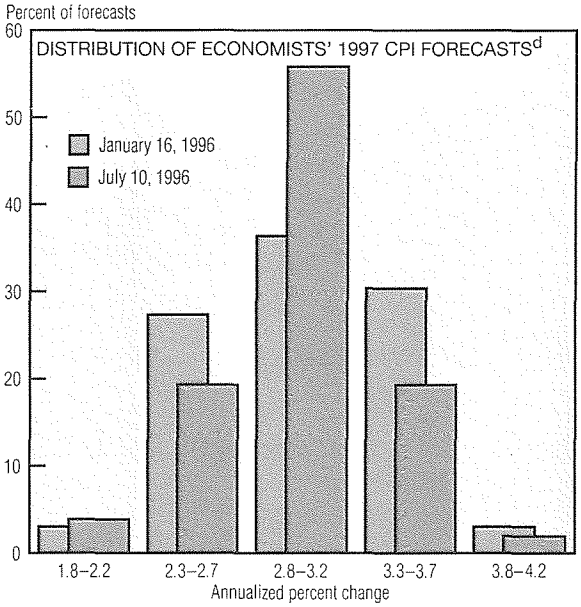
http://clevelandfed.org/research/trends
August 1996
Best available copy

Inflation and Prices

June Price Statistics

	Annualized percent change, last: 1 mo.	6 mo.	12 mo.	5 yr.	1995 avg.
Consumer Prices					
All items	0.8	3.5	2.8	2.9	2.6
Less food and energy	2.2	2.8	2.7	3.1	3.0
Median[a]	2.1	2.9	2.9	3.1	3.2
Producer Prices					
Finished goods	1.2	2.3	2.6	1.5	2.1
Less food and energy	2.9	0.7	1.6	1.7	2.6
Commodity futures prices[b]	–32.2	4.4	6.3	3.1	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. 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.
d. Consensus forecast of the Blue Chip panel of economists.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; the Federal Reserve Bank of Cleveland; the Commodity Research Bureau; the National Association of Purchasing Management; and *Blue Chip Economic Indicators*, January 16 and July 10, 1996.

After increasing at a rate slightly above 4% during the first five months of 1996, the Consumer Price Index (CPI) moderated to an annualized rate of less than 1% in June. The core retail price indicators, the CPI excluding food and energy and the median CPI, were up 2.2% and 2.1%, respectively.

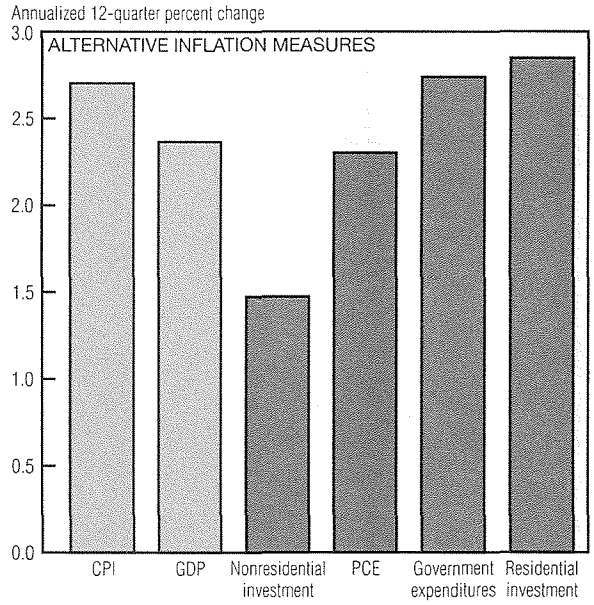
Wholesale price increases, however, accelerated a bit in June. After registering essentially no change during the first five months of the year, the Producer Price Index excluding food and energy goods rose at a 2.9% clip. A similar pattern can be seen in reports from industrial purchasing managers. After posting nine consecutive monthly readings below 50 (which suggest net price declines), the purchasing managers' price index moved back up to the 50 mark. In other words, the proportion of purchasing managers who note rising prices is now about even with those who see them declining.

The stepped-up pace of consumer price increases this year prompted the Federal Open Market Committee (FOMC) to revise its 1996 CPI projections upward, from a central tendency range centered on 2.8% to one centered on 3.1%. The group sees the 1997 growth rate of the CPI slowing to between 2¾% and 3%.

The latest Blue Chip survey indicates that economists expect next year's inflation rates to be similar to this year's. As of July, more than 55% of the Blue Chip economists projected CPI increases in the 2.8% to 3.2% range. Contrary opinions appear to be few and evenly balanced. Only about 22% of the respondents

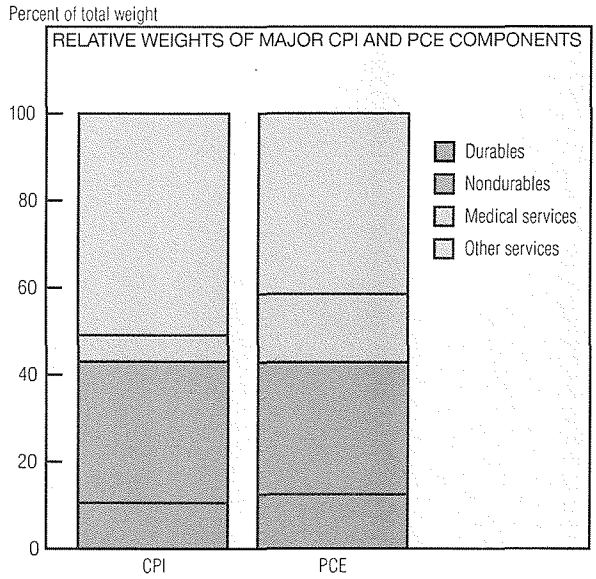
(continued on next page)

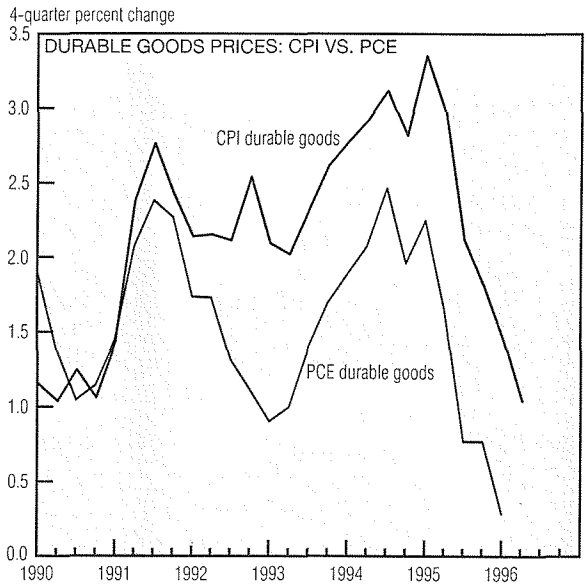
Inflation and Prices (cont.)



Investment Price Changes
(Data through 1996:IQ)

	Annualized percent change, last:		
	4 qtrs.	12 qtrs.	40 qtrs.
Nonresidential investment	1.2	1.1	1.6
Structures	2.5	3.1	2.7
Producers' durable equipment	0.8	0.4	1.1
Information processing	−3.4	−3.1	−2.5
Computers	−12.6	−11.5	−11.0
Industrial equipment	2.9	2.6	3.3
Transportation equipment	2.3	1.8	2.7





NOTES: CPI represents the all-items Consumer Price Index for all urban consumers. All other measures are chain-weighted price deflators for GDP and selected major components. PCE represents the chain-weighted price deflator for the Personal Consumption Expenditures component of GDP.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and U.S. Department of Commerce, Bureau of Economic Analysis.

expect inflation to top 3.2% next year, virtually identical to the proportion that expect inflation to be less than 2.8%.

With consumer price increases seemingly stuck in the neighborhood of 3%, some have wondered whether the CPI is accurately measuring the economy's underlying inflationary thrust. In his recent testimony before Congress, Federal Reserve Board Chairman Alan Greenspan noted that "increases in more comprehensive, and perhaps more representative, chain-weighted measures of consumer prices ... actually have continued to edge lower." Indeed, the average increase in the GDP chain-weighted price index has been almost ½ percentage point less than the CPI over the past three years. A large share of that difference stems from prices of nonresidential investment goods, which have been strongly affected by continued sharp declines in computer prices. This is not a particularly new development. In fact, according to GDP-based price data, computer prices have averaged an 11% annual rate of decline for the past decade.

Even within the consumer goods area, price increases reported by the chain-weighted index have been running below the CPI, partly because the former puts different weights on certain commodities. Among the important differences is that housing is weighted more heavily in the CPI, while medical care receives a smaller weight. Still, the impact of computer prices is clear here also. Using the chain-weighted approach, consumer durable goods prices have increased at a rate of about ½ to 1 percentage point less than CPI durable goods prices since 1992.