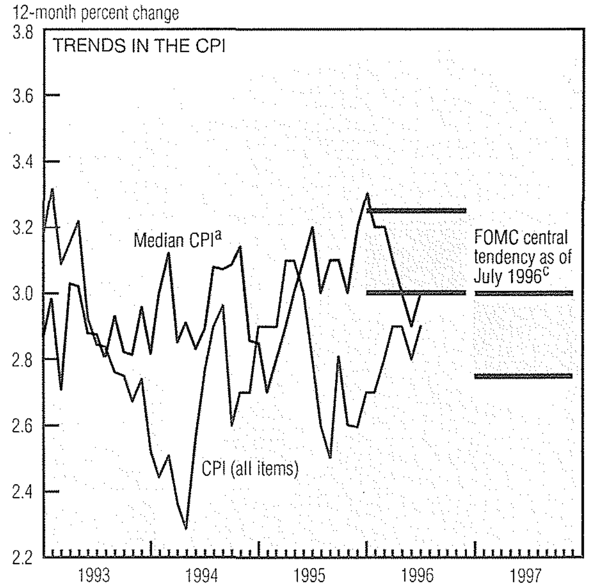
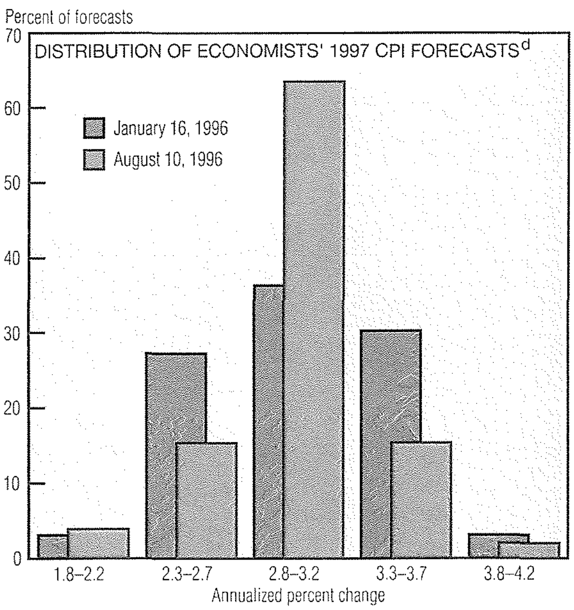
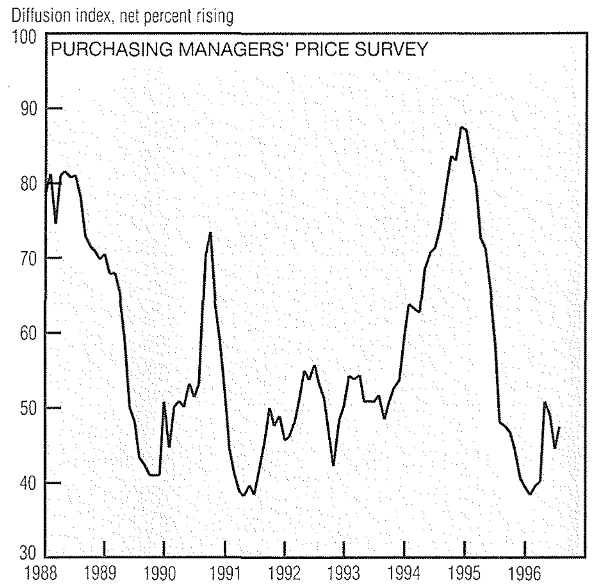
Inflation and Prices

July Price Statistics

	Annualized percent change, last: 1 mo.	7 mo.	12 mo.	5 yr.	1995 avg.
Consumer Prices					
All items	3.1	3.5	2.9	2.9	2.6
Less food and energy	3.7	3.0	2.7	3.1	3.0
Median[a]	4.2	3.1	3.0	3.1	3.2
Producer Prices					
Finished goods	−0.2	2.0	2.6	1.6	2.1
Less food and energy	0.4	0.7	1.5	1.6	2.6
Commodity futures prices[b]	−16.7	1.1	5.8	3.3	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. Forecast of the Blue Chip panel of economists.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; the Federal Reserve Bank of Cleveland; National Association of Purchasing Management; the Commodity Research Bureau; and *Blue Chip Economic Indicators,* January 16 and August 10, 1996.

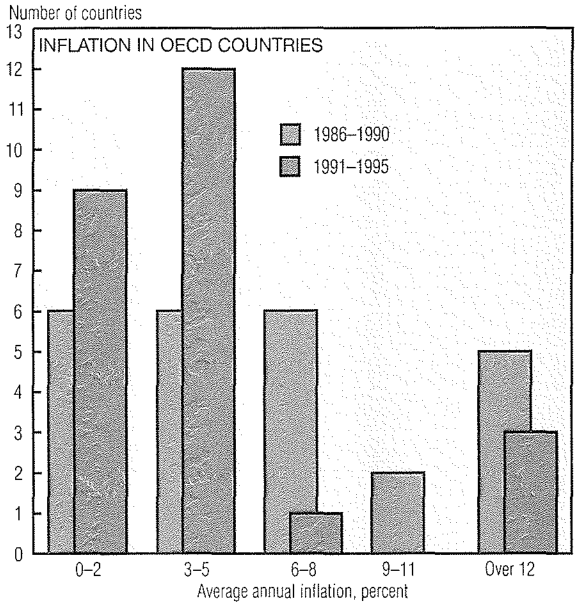
After dropping sharply in June, retail prices resumed the strong upward trend that began last December. The Consumer Price Index (CPI) increased at an annualized rate of 3.1% in July, and has risen 3.5% since the beginning of the year, almost a percentage point higher than 1995's average increase. The core inflation indicators moved up even more in July: The median CPI, and the CPI excluding food and energy, rose an annualized 4.2% and 3.7%, respectively.

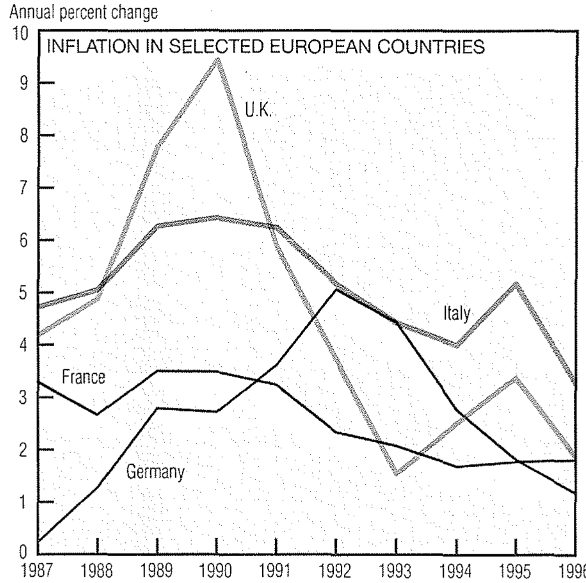
While the current 12-month trend in the CPI is a bit below the central tendency range projected by the Federal Open Market Committee (FOMC) for 1996, year-to-date estimates suggest that CPI growth for the remainder of the year must average slightly less than 3% if the index is to stay within the *upper* bound of that projection. For 1997, the FOMC sees retail price increases slowing to less than 3%. The Blue Chip projections for the CPI are not materially different. For 1997, roughly two-thirds of the economists surveyed see the index increasing around 3%. The respondents who anticipate much higher, or lower, inflation rates appear to be evenly balanced and few in number.

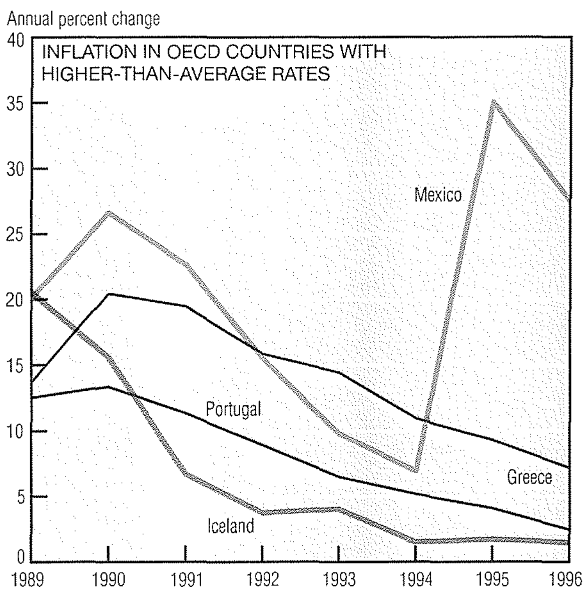
Reports from industry continue to show much less inflationary pressure than was noted at the retail level. Year to date, the Producer Price Index (PPI) has risen at an annualized rate of only 2.0%, and much of that upward climb has

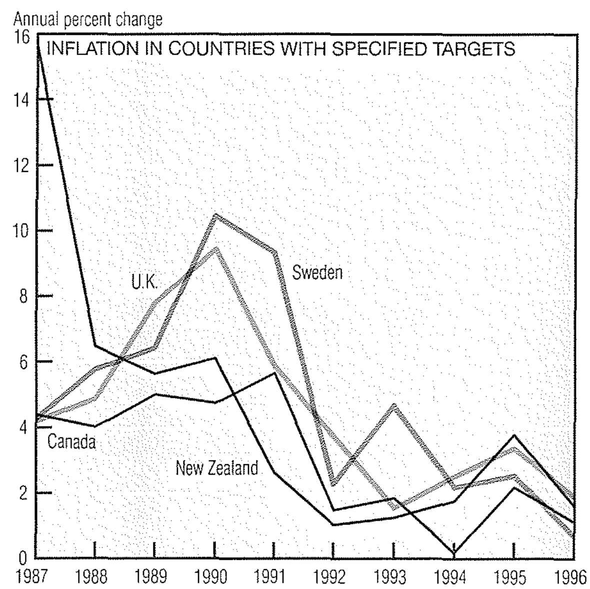
(continued on next page)

Inflation and Prices (cont.)









SOURCE: Organisation for Economic Co-operation and Development (OECD), *Main Economic Indicators*, January 1986 through May 1996.

come from energy commodities. Excluding food and energy, the PPI is up less than 1% this year. Industrial purchasing managers are about evenly divided between those observing price increases and those noting price declines.

Compared with other nations, the U.S. inflation performance has been about average in recent years. In the past five years, the average U.S. inflation rate has been just below the 3% mark. Of 25 countries belonging to the Organisation for Economic Co-operation and Development (OECD), nine had better inflation records over the 1991-95 period, 12 were similar or slightly higher, and only four were substantially worse. This is a marked difference from the late 1980s and reflects a strong disinflationary sentiment among a growing number of nations.

In Europe, many major countries have lowered their inflation rates to 3% or less—for some, nearly a 50% reduction over the last decade. Part of this improvement can probably be tied to the "convergence criteria" imposed by the European Monetary Union. Even nations that tended to suffer from persistent double-digit inflation in the 1980s, such as Portugal, Greece, and Iceland, have been able to engineer dramatic improvements in their inflation rates this decade. Mexico appeared to be following such a path, although a sharp devaluation of the peso in December 1994 reversed this trend.

The disinflationary trend around much of the world has, in some cases, been supported by legislated commitments for central banks to achieve specified inflation targets. Four such nations—New Zealand, Sweden, the U.K., and Canada—have recently brought their inflation rates down to 2% or less per year.