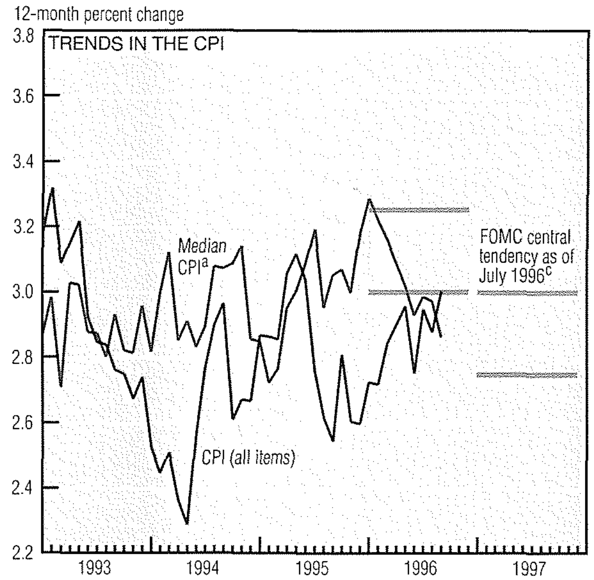
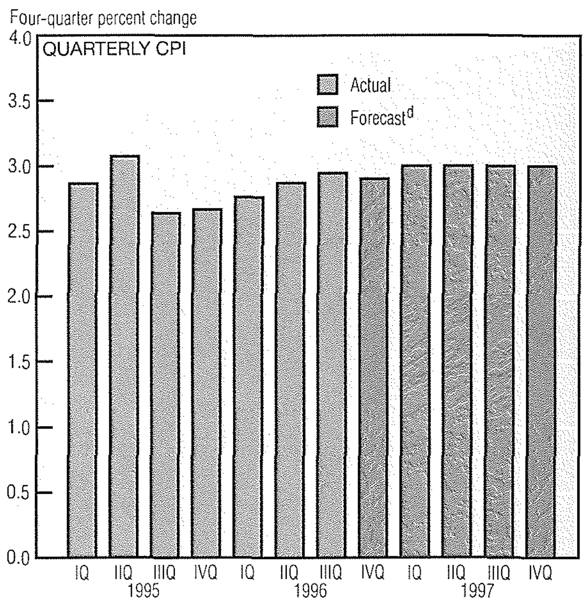
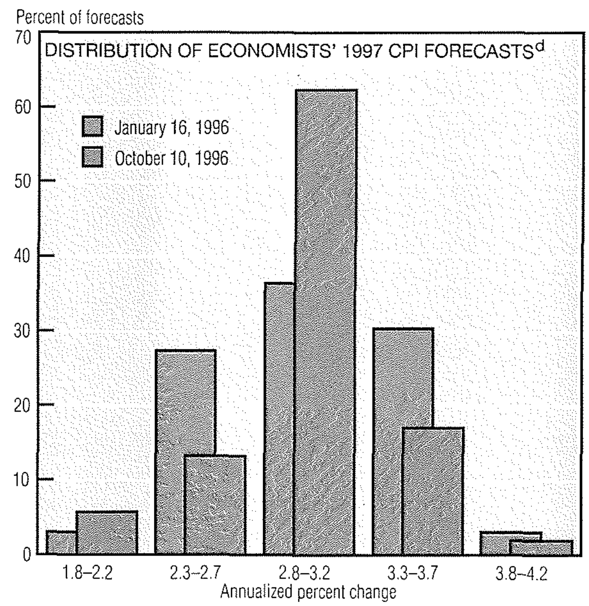
Inflation and Prices

September Price Statistics

	Annualized percent change, last: 1 mo.	9 mo.	12 mo.	5 yr.	1995 avg.
Consumer Prices					
All items	3.1	3.2	3.0	2.9	2.6
Less food and energy	3.7	2.8	2.6	3.0	3.0
Median[a]	2.1	2.8	2.9	3.0	3.2
Producer Prices					
Finished goods	2.8	2.3	2.7	1.6	2.1
Less food and energy	3.4	0.8	1.4	1.6	2.6
Commodity futures prices[b]	−9.3	1.1	1.9	2.8	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; and *Blue Chip Economic Indicators*, January 16 and October 10, 1996.

The September price statistics remain generally in line with their 3% trend of the last few years. The Producer Price Index and the Consumer Price Index (CPI) rose at annualized rates of 2.8% and 3.1% during the month (but a bit higher when food and energy goods are excluded). Year to date, the CPI is up 3.2%, while its core measures (the CPI excluding food and energy and the median CPI) have risen at a slightly more moderate 2.8% pace.

Unless retail prices break sharply from their recent trend, it's likely that the index will end the year at the lower end of the Federal Open Market Committee's July central tendency projection (3%), but near the top of the range set for 1997 (2¾% to 3%).

Economists generally agree that the CPI will remain at or very near 3% through the end of next year. Fewer than 40% foresee a CPI gain of less than 2.8% or more than 3.2% in 1997. Last January, about 30% predicted a drop below the 2.8% level, and 34% expected a rise of more than 3.2%.

Economists look at several factors in ascertaining the economy's near-term inflationary course, but chief among them are the past stance of monetary policy and the degree to which economic resources are capacity constrained. The latest Blue Chip Survey reveals a wide range of opinions regarding the future path

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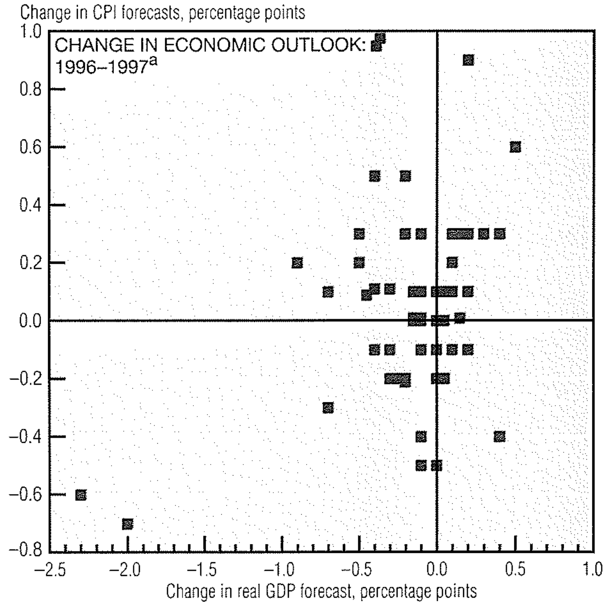
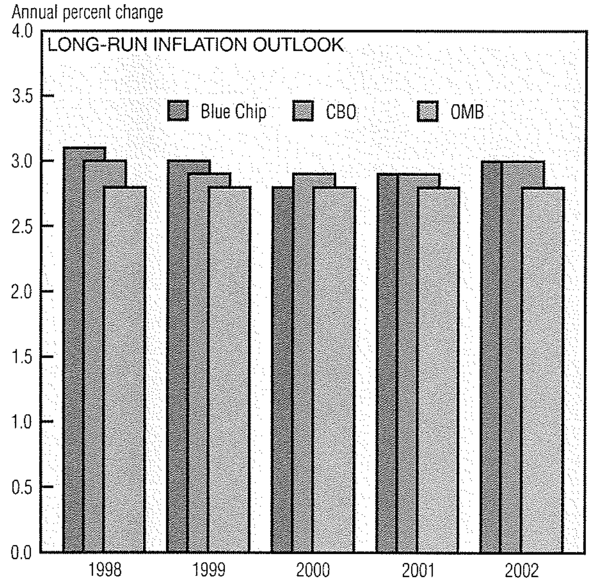
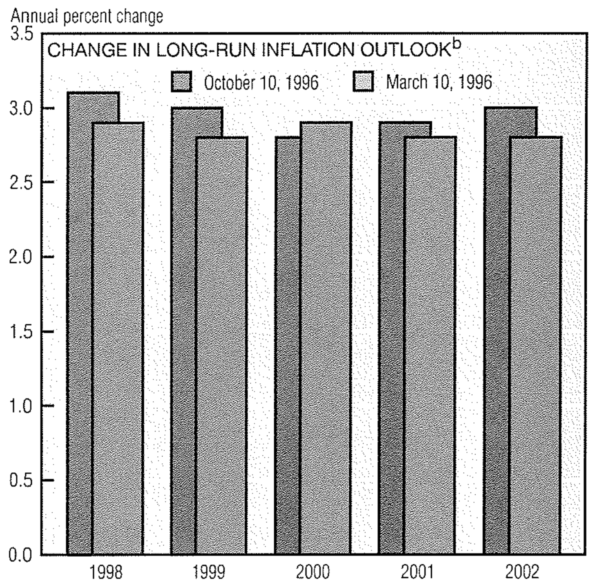
Inflation and Prices (cont.)







Most Serious Problems Facing the U.S. Economy Today[c]
(10=highly important)

	November 1995 survey	September 1996 survey
Growth in government spending; entitlements	8.5	8.2
Federal government debt; deficit	7.2	6.5
Trade deficit; value of the dollar; trade barriers	5.7	5.1
Interest rates; Federal Reserve policy	4.3	4.0
Inflation	3.1	3.9
Recession threat	3.7	3.4

a. Individual forecasts of the Blue Chip panel of economists, October 10, 1996.
b. Consensus forecast of the Blue Chip panel of economists.
c. Survey of the Blue Chip panel of economists.
SOURCES: *Blue Chip Economic Indicators*, October 10, 1996; and *Blue Chip Econometric Detail*, September 10, 1996.

of inflation and economic growth. About half of those responding to the October 10 poll see inflation accelerating in 1997, but of those, only about 40% expect the economy to grow at a faster rate. Of the economists who believe that inflation will moderate next year, most also see the economy slowing from its 1996 pace and, presumably, putting less strain on capacity. Only a small number of respondents anticipate both faster growth and lower inflation (6%).

Over the longer term, economists generally believe that inflation is predominantly the outcome of monetary policy. The most optimistic long-term outlook comes from the Office of Management and Budget (OMB), which projects a 2.7% increase over each of the five years spanning 1998 and 2002. Both the Congressional Budget Office (CBO) and the Blue Chip panel see inflation moderating slightly before showing a small rising trend between 2000 and 2002. Overall, the three groups expect that monetary policy will keep inflation in the 2¾% to 3% range through 2002.

This is a slightly less sanguine long-term outlook than economists gave seven months ago. Indeed, in the past year, surveys of economists have listed inflation as an increasingly serious problem facing America, while the threat of economic recession is seen as having receded. Still, neither inflation nor a downturn in the business cycle appears high on the list of important concerns. Topping this year's list—as in 1995—is the growth in government spending and entitlements.