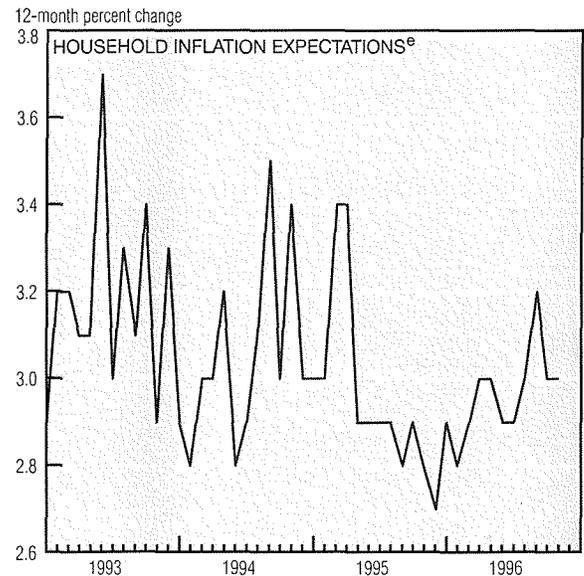
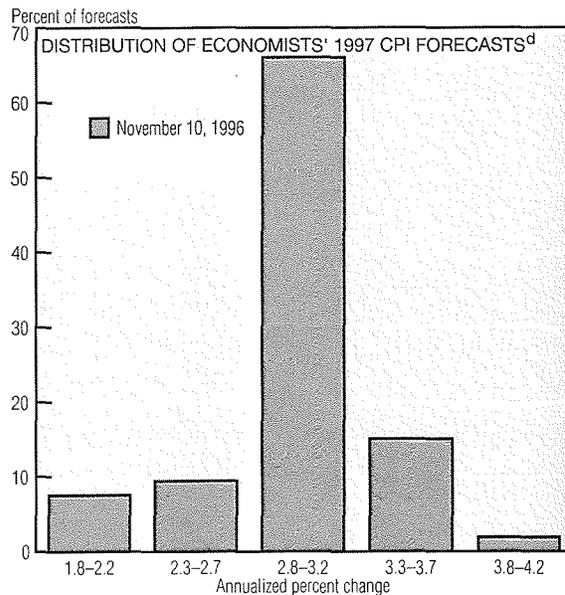
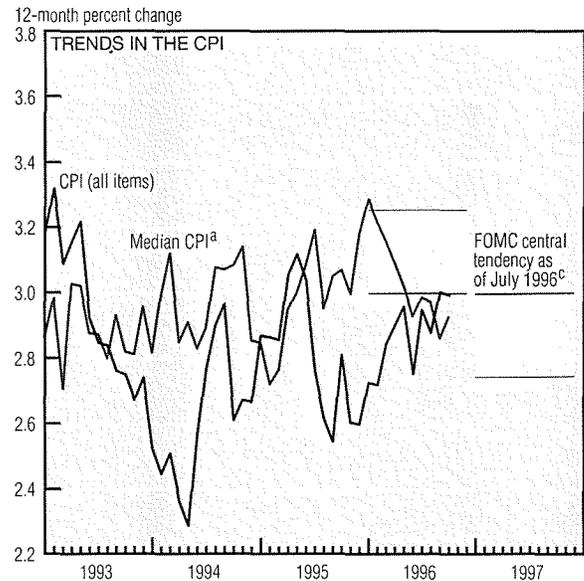


# Inflation and Prices

October Price Statistics	Annualized percent change, last:				1995 avg.
	1 mo.	10 mo.	12 mo.	5 yr.	
<b>Consumer Prices</b>					
All items	3.9	3.3	3.0	2.9	2.6
Less food and energy	2.9	2.8	2.6	3.0	3.0
Median <sup>a</sup>	4.3	2.9	2.9	3.0	3.2
<b>Producer Prices</b>					
Finished goods	4.7	2.5	3.0	1.6	2.1
Less food and energy	-3.3	0.4	0.9	1.4	2.6
<b>Commodity futures prices<sup>b</sup></b>					
	-8.0	0.1	1.5	2.4	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.  
 e. Median expected 12-month change in consumer prices as measured by the University of Michigan's Survey of Consumers.  
 SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; the Federal Reserve Bank of Cleveland; the Commodity Research Bureau; University of Michigan; and *Blue Chip Economic Indicators*, November 10, 1996.

The monthly price statistics took an unexpected jump in October, spurred mostly by higher food and energy prices. Producer prices increased at an annualized rate of nearly 5% during the month; however, excluding a temporary (and probably reversible) spike in food and energy prices, they actually fell 3.3% in October. At the retail level, October prices increased at about a 4% pace, but a percentage point less after food and energy goods are factored out.

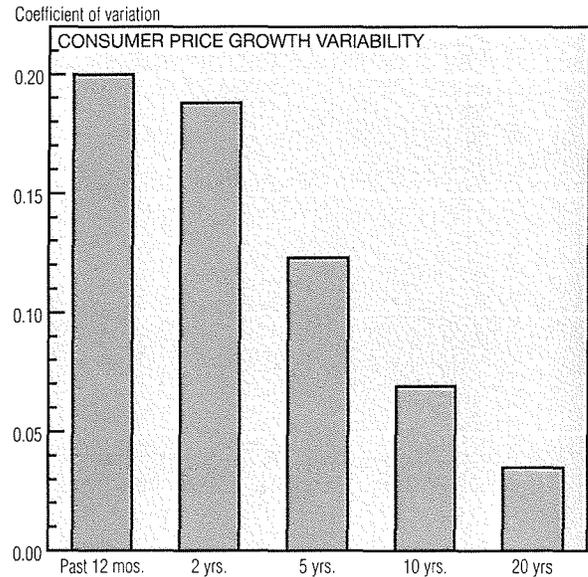
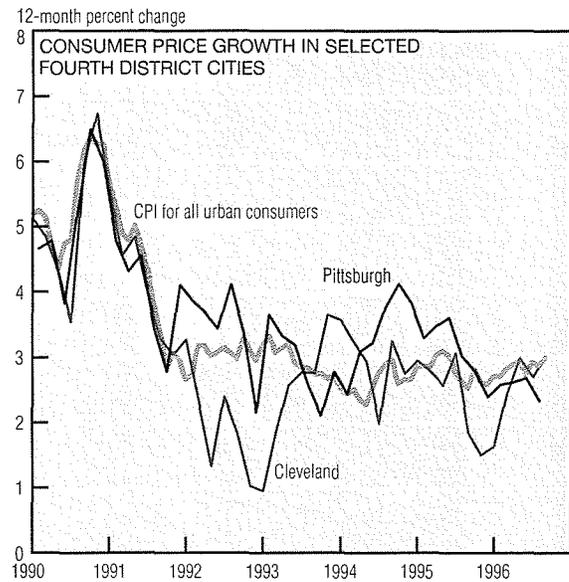
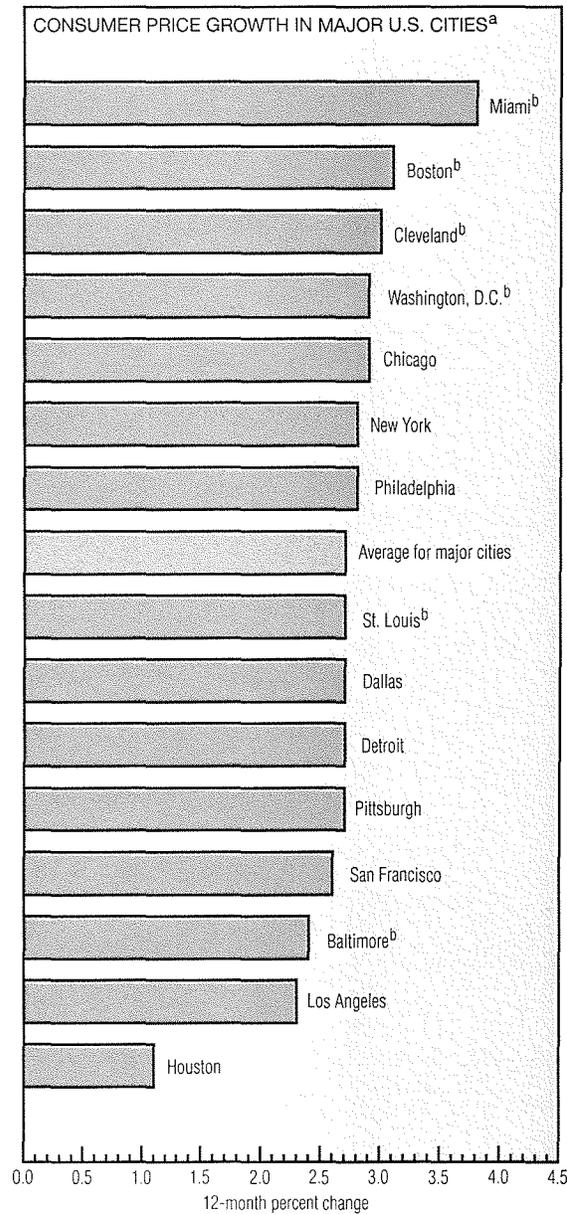
For the year to date, consumer prices increased at an annualized rate of about 3%, which is virtually identical to their average over the past five years. Still, this year's retail price performance is coming in at the lower end of the range projected by Federal Reserve policymakers last July (3% to 3¼%), but at the high end of their expectation for consumer price increases in 1997 (2¾% to 3%).

Indeed, looking forward, few economists expect inflation to devi-

ate much from its recent 3% trend. Nearly 70% of those polled in November predicted a Consumer Price Index (CPI) increase of 2.8% to 3.2% between this year and next. Similarly, surveys of households indicate that the median consumer expects prices to rise 3% over the next 12 months.

The CPI represents changes in the cost of a representative basket of goods in 85 urban areas. For any particular year, retail price changes  
*(continued on next page)*

## Inflation and Prices (cont.)



a. 12-month percent change covers the period beginning October 1995 and ending October 1996, unless otherwise noted.

b. Covers the period September 1995 to September 1996.

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

can vary substantially from region to region. For example, over the past 12 months, consumer price increases among 15 major cities were highest in Miami (3.8%) and lowest in Houston (only 1.1%). Other major cities that posted larger-than-average retail price gains during that period were Boston (3.1%) and Cleveland (3.0%), while Los Angeles (2.3%) and Baltimore (2.4%) showed smaller-than-average increases. To some extent, disparities among regions' year-to-year retail price increases probably

reflect the measurement errors that creep into the regional data because of their relatively small sample. Still, some of the difference may represent varying degrees of prosperity. For example, in recent years Los Angeles and Houston have almost certainly experienced greater economic distress than Miami, Boston, or Cleveland, and this may partly account for their more moderate cost-of-living growth.

However, differences in the cost-of-living increase across major urban

areas have tended to diminish over time, presumably because sampling errors are erased and economic growth differences lessen. In fact, cost-of-living increases for 15 major U.S. cities varied about 40% less over the past five years than over the past 12 months. That variability is further reduced as the time span is increased; thus, over the past 20 years, variation in the cost-of-living increase among major U.S. cities has been quite small relative to any particular year.