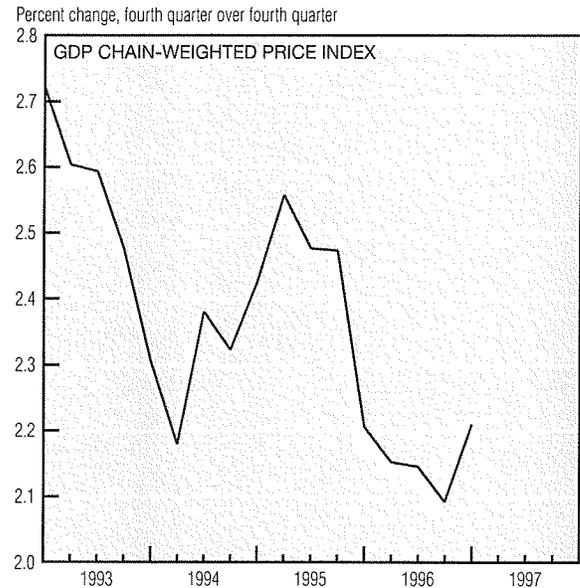
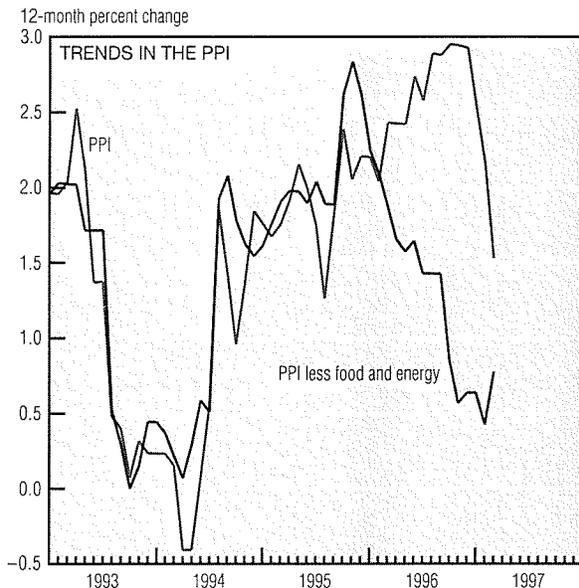
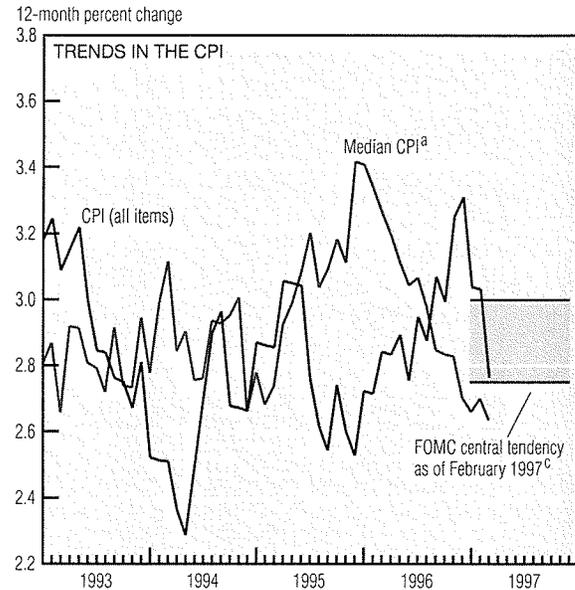


Inflation and Prices

March Price Statistics	Annualized percent change, last:				1996 avg.
	1 mo.	3 mo.	12 mo.	5 yr.	
	Consumer Prices				
All items	0.8	1.8	2.8	2.8	3.3
Less food and energy	2.9	2.4	2.5	2.9	2.6
Median ^a	2.1	2.9	2.6	2.9	2.7
Producer Prices					
Finished goods	-0.9	-3.0	1.5	1.6	2.9
Less food and energy	4.3	0.8	0.8	1.4	0.6
Commodity futures prices ^b	31.5	4.6	-1.2	3.0	-0.7



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. SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; the Federal Reserve Bank of Cleveland; the Commodity Research Bureau; and U.S. Department of Commerce, Bureau of Economic Analysis.

The monthly inflation indicators moderated considerably in March. The Consumer Price Index (CPI) rose a mere 0.8% (annualized rate) during the month, and the Producer Price Index for finished goods (PPI) declined an annualized 0.9%. The median CPI, a measure of core inflation, advanced at a faster pace (2.1%), but also fell below its recent 12-month trend (2.6%). Indeed, the current inflation trend, as measured by retail prices, appears to be run-

ning near (or slightly below) the Federal Open Market Committee's 2¾% to 3% central tendency projection for 1997.

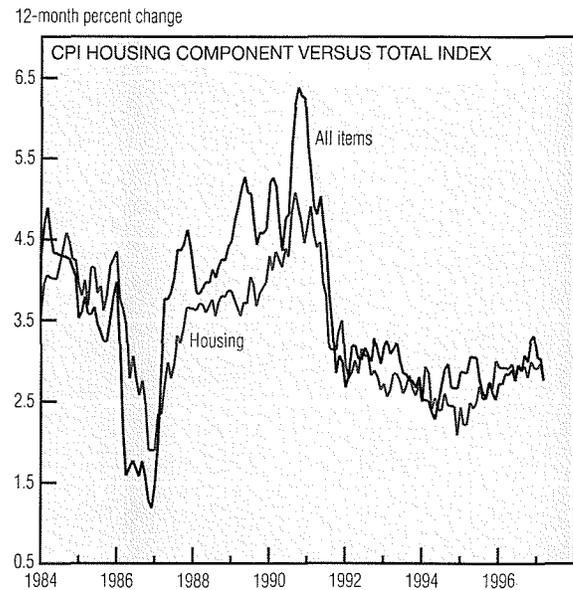
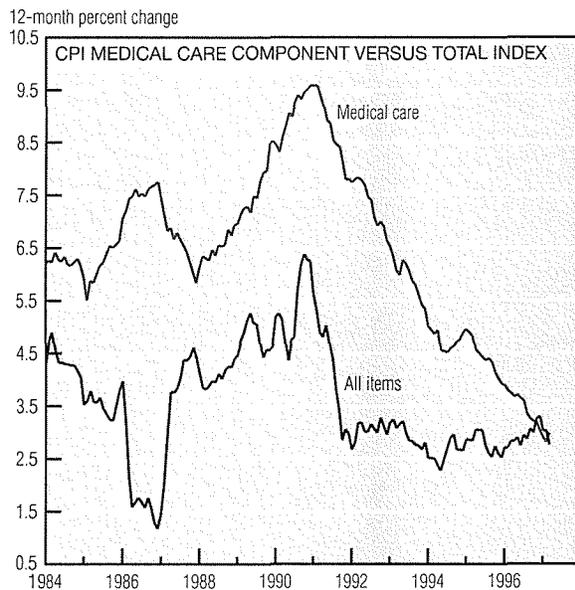
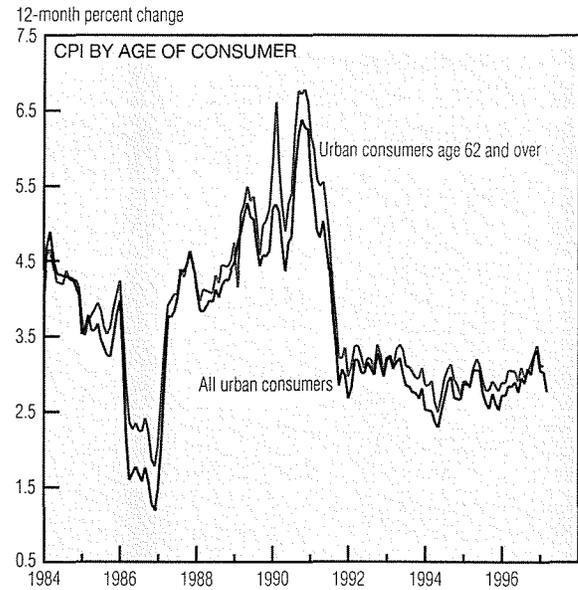
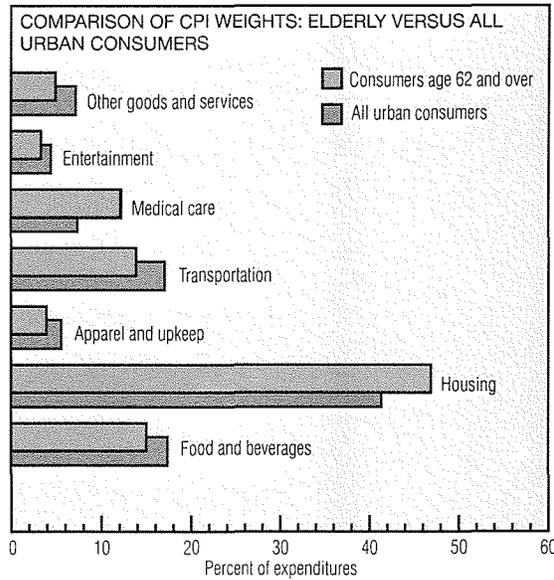
Other measures of aggregate price behavior have been equally subdued. The 12-month trend in producer prices is about ¾ percentage point lower than at this time last year, and the core PPI (less food and energy) is roughly two percentage points lower.

When we combine the price data

from the CPI and the PPI, a clearer picture of the economy's recent inflation pattern emerges. One such measure, the GDP chain-weighted price index, is calculated using price data from retail, wholesale, and a variety of other sources. Over the past year, it has increased about 2.2%—a small uptick from its trend a quarter before, but still down a bit from trend rates posted earlier in the expansion.

(continued on next page)

Inflation and Prices (cont.)



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

Which price statistic owns the right to the title "U.S. inflation rate" is a subject of heated controversy among economists and economic policymakers alike. Indeed, each measure has its strengths—and weaknesses. In recent months, the most critical focus has been on shortcomings in the construction of the CPI, although it is arguably one of the most carefully crafted of all economic statistics. The criticism may be related largely to the index's prominence. Among its many appli-

cations, the CPI serves as an escalator for Social Security benefits and has become a focal point in federal budget debates. Unfortunately, the index was never designed to serve as an escalator for the cost-of-living changes faced by older Americans.

Economists at the Bureau of Labor Statistics, who produce the CPI, are attempting to improve the index. To date, they have constructed several experimental adjustments. In one case, the CPI has been reweighted to better reflect the spending habits of the elderly (cur-

rently, it is weighted on the basis of expenditure patterns for all urban consumers). In the new index, medical care and housing costs are more heavily emphasized, while the importance of transportation and food expenditures is reduced. These seemingly small adjustments appear to have a significant impact on the resulting price statistic: Medical-care cost increases have traditionally been among the highest in the index, and housing cost increases have been among the most stable.