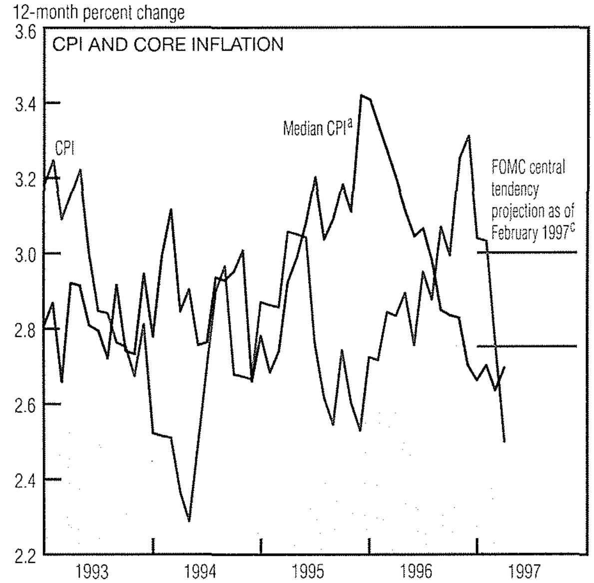
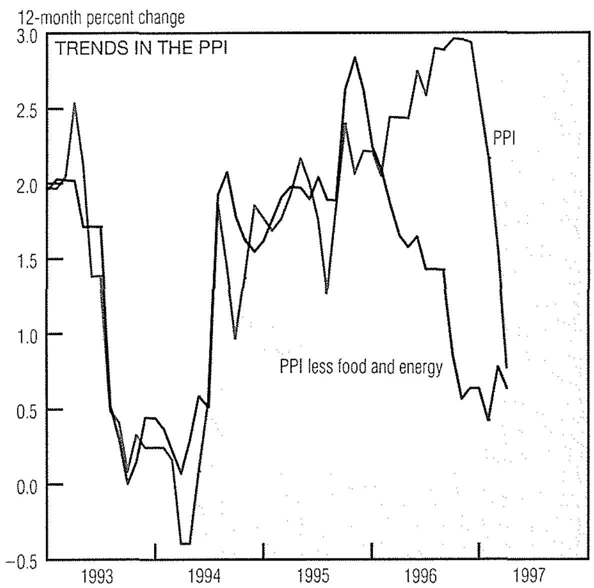
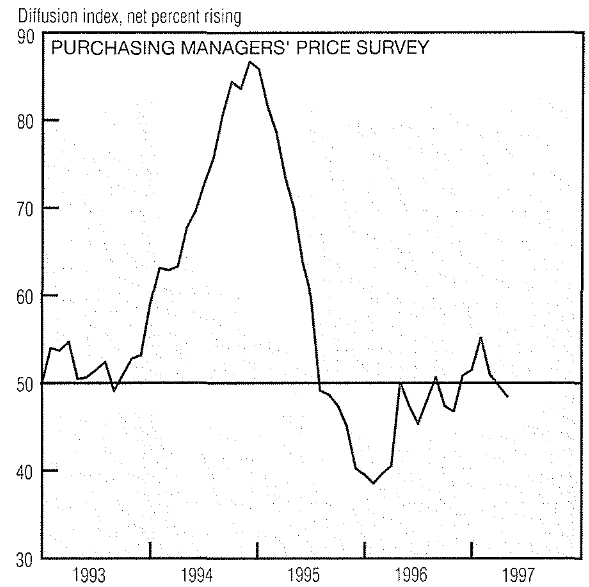
Inflation and Prices

April Price Statistics

	Annualized percent change, last: 1 mo.	4 mo.	12 mo.	5 yr.	1996 avg.
Consumer Prices					
All items	0.8	1.5	2.5	2.8	3.3
Less food and energy	3.6	2.7	2.6	2.9	2.6
Median[a]	3.6	3.0	2.7	2.9	2.7
Producer Prices					
Finished goods	−7.0	−4.0	0.8	1.4	2.9
Less food and energy	−1.7	0.2	0.6	1.3	0.6
Commodity futures prices[b]	−4.1	2.3	−5.2	3.4	−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; National Association of Purchasing Management; and the Commodity Research Bureau.

Retail prices inched up in April at an annualized 0.8%, while wholesale prices actually declined 7.0%. Indeed, the April numbers extend the generally moderate growth rate of prices seen since the beginning of the year. Year to date, the Consumer Price Index (CPI) is up an annualized 1.5%—less than half its 1996 average increase (3.3%).

A substantial share of this year's downward pressure on prices, both retail and wholesale, originated in the highly volatile food and energy areas, both of which showed net declines during the first four months of 1997. This has obviously been a welcome trend for U.S. households and businesses. Still, the drops in food and energy costs, which will not continue indefinitely, mask the broadly based inflation that the Federal Reserve hopes to control.

It is difficult to gauge the amount of underlying or "core" inflationary pressure in the economy; however, two measures, the CPI less food and energy and the median CPI, are rising at nearly the same pace in 1997 as they averaged in 1996 (around 2.75%). Earlier this year, the Federal Open Market Committee, the chief policymaking arm of the Federal Reserve System, projected consumer price increases between 2.75% and 3% for 1997.

How one judges the economy's inflationary trend depends on one's particular vantage point—price increases in the manufacturing sector seem significantly less than those in the nonmanufacturing economy. Reports from purchasing managers have failed to reveal any net upward

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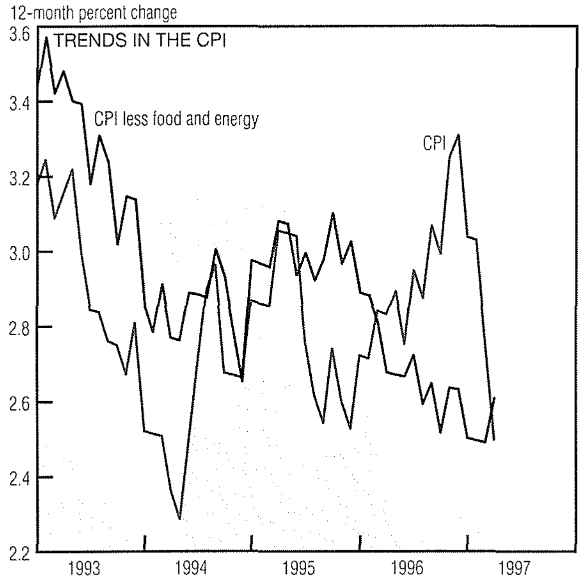
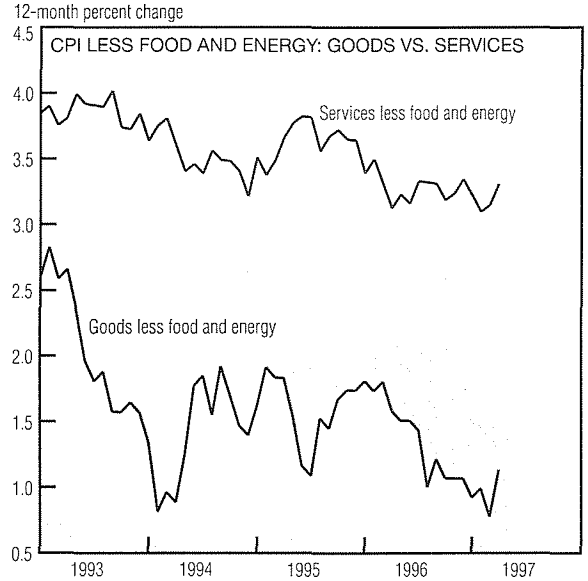
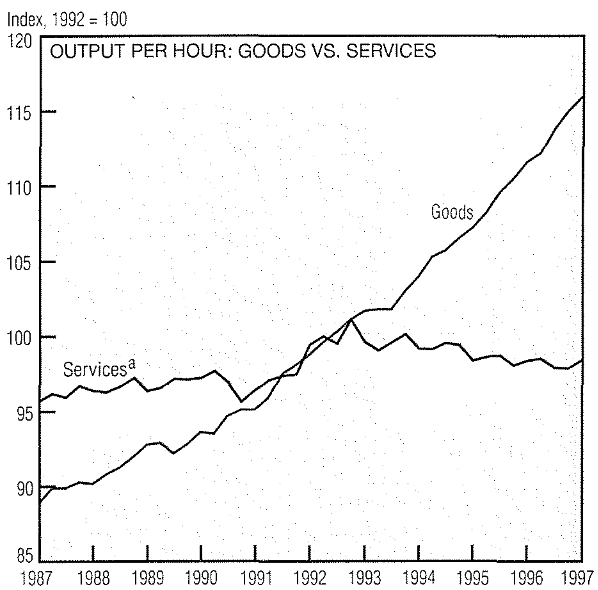
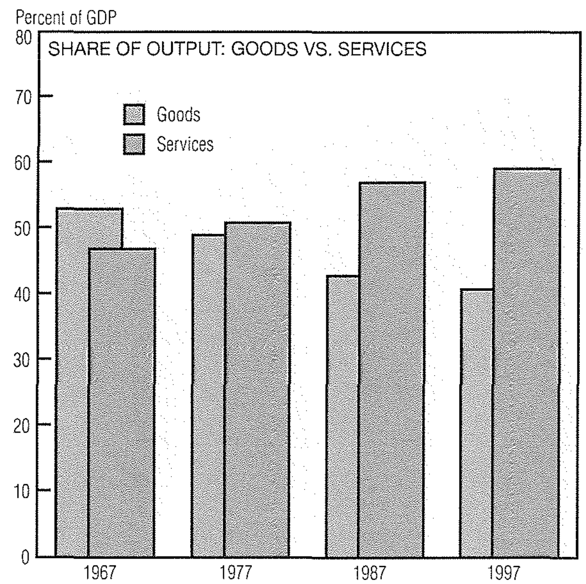
Inflation and Prices (cont.)









a. Services productivity is output per hour in the nonmanufacturing sector, calculated by Heinemann Economic Research, Great Neck, N.Y.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of Economic Analysis; and Heinemann Economic Research.

movement in prices for about two years, and that impression is largely supported by the slight overall rise in the Producer Price Index less food and energy over the expansion. Likewise, price increases for goods continue well below those for services. At the retail level (excluding food and energy), the rise in goods prices has been running several percentage points below that for service prices.

The large discrepancy is something of an enigma for economists—and a problem for policymakers. It may be that the economic fundamentals between these two broad classifications are different, so that goods are actually becoming less expensive relative to services. This difference may also reflect a measurement problem: The price of a good may be much easier to measure than the price of an intangible service. The challenge for policymakers is that if we are overestimating the prices of services, we must be underestimating their production, which suggests that U.S. inflation is lower—and U.S. growth higher—than the official statistics state.

It is certainly curious that reported productivity in the goods sector continues to show impressive gains, while productivity growth in the service sector has languished. This potential measurement error may represent a growing inaccuracy in gauging U.S. economic performance. Thirty years ago, the service side of the economy accounted for less than 50% of national output; today, that share is almost 60%.