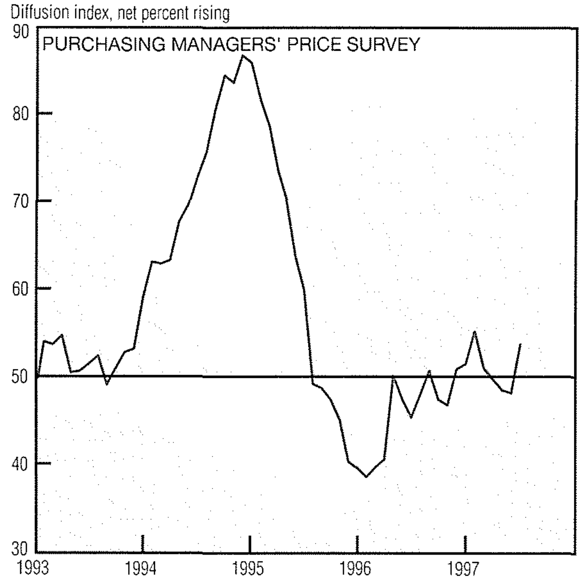
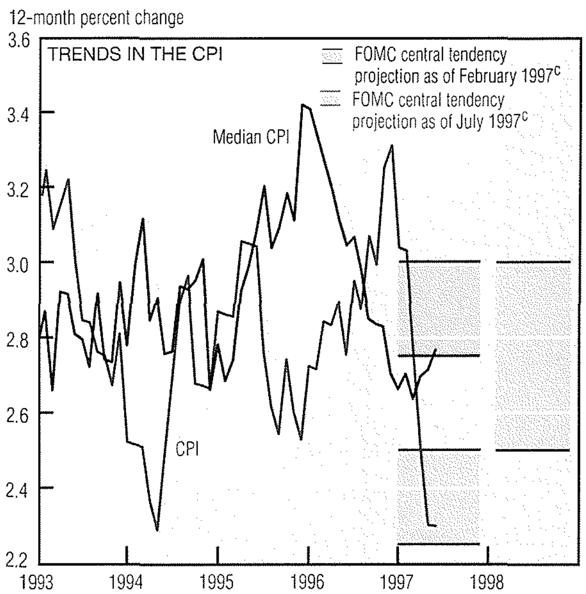
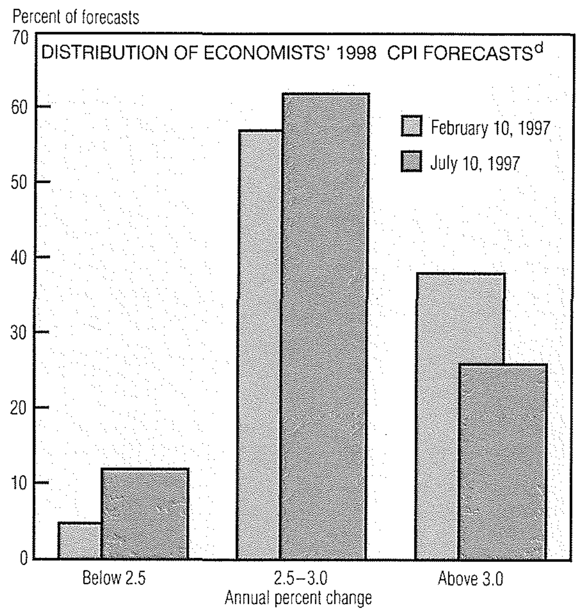
Inflation and Prices

June Price Statistics

	Annualized percent change, last: 1 mo.	6 mo.	12 mo.	5 yr.	1996 avg.
Consumer Prices					
All items	1.5	1.4	2.3	2.7	3.3
Less food and energy	1.4	2.4	2.5	2.9	2.6
Median[a]	2.8	3.0	2.8	2.9	2.7
Producer Prices					
Finished goods	−0.9	−3.4	−0.1	1.2	2.9
Less food and energy	1.7	−0.3	0.1	1.2	0.7
Commodity futures prices[b]	−27.7	1.0	−2.4	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.
d. 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; the National Association of Purchasing Management; and *Blue Chip Economic Indicators,* February 10 and July 10, 1997.

In June, the Consumer Price Index (CPI) rose at a mere 1.5% annualized rate, nearly the same pace it has followed since last December. Indeed, the six-month average rise in the CPI (1.4%) is the lowest six-month posting in almost 11 years.

Price increases further down the production chain have also been very subdued. Over the past year, the Producer Price Index has remained essentially unchanged, and reports from purchasing managers hint that little upward pressure will be coming from industry in the immediate future.

The moderate rate of price increase this year prompted the Federal Open Market Committee (FOMC) to revise downward its central tendency forecast for the 1997 CPI growth rate—from 2¾%–3% last February, to 2¼%–2½% in July. For next year, the FOMC sees the rate of CPI increase in the 2½%–3% range.

Economists participating in the Blue Chip survey have also reduced their expectations for inflation. Last February, about 38% of them predicted that the CPI would increase more than 3% in 1998, compared to only 5% who expected growth below 2½%. In July, the share of economists projecting that 1998's CPI growth rate would exceed 3% had fallen to 26%, while the proportion expecting less than a 2½% increase had risen to about 12%.

In his July semiannual report to Congress, Federal Reserve Chairman

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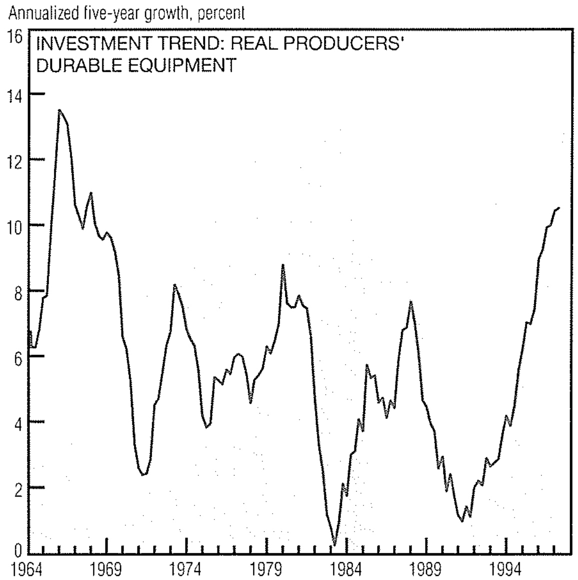
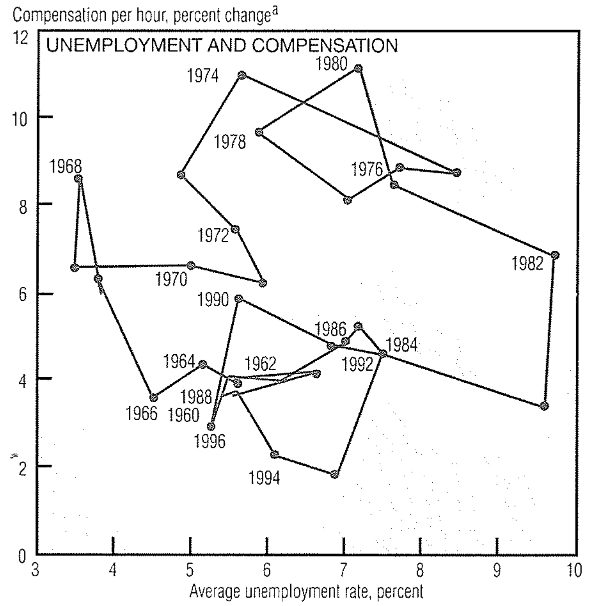
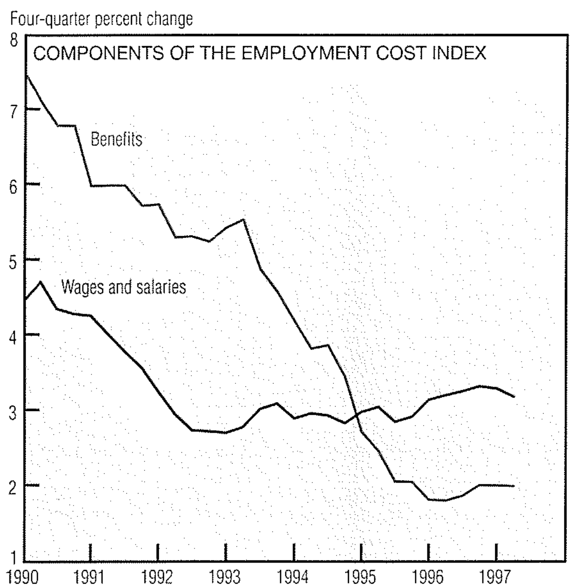
Inflation and Prices (cont.)







a. Fourth quarter over fourth quarter.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and U.S. Department of Commerce, Bureau of Economic Analysis.

Greenspan noted that monetary policymakers "have been puzzled about how an economy, operating at high levels and drawing into employment increasingly less experienced workers, can still produce subdued … inflation rates."

Although the relationship between the unemployment rate and the rate of compensation growth has been erratic since 1960, the jobless rate for 1996 (just above 5%) is associated with one of the lowest rates of compensation growth in the past 35 years (about 2¾%). In 1964, for example, when unemployment was also around 5%, compensation growth topped 4%. In 1970, a similar jobless rate coincided with compensation growth of more than 6%, and in 1974, 5½% unemployment was associated with a compensation growth rate of about 11%.

The Chairman noted that several factors may be helping to hold down wage and price increases. Firms appear to be profiting from unusually strong productivity gains, which may have resulted from the capital investment surge of recent years. Growth in business purchases of equipment during the past five years has exceeded 10% annually—its best performance since the 1960s.

"Certainly," he said, "changes in the health care industry and the pricing of health services have greatly contributed to holding down growth in the cost of benefits, and hence overall labor compensation." He also observed that job insecurity is probably helping to subdue wage demands and cited several indicators, including the fact that "the number of workers voluntarily leaving their jobs to seek other employment has not risen in this period of tight labor markets." The caution here is that to the extent that these forces are temporary, "cost and price pressures would tend to reemerge," a situation the Federal Reserve "plans to monitor closely" this year and next.