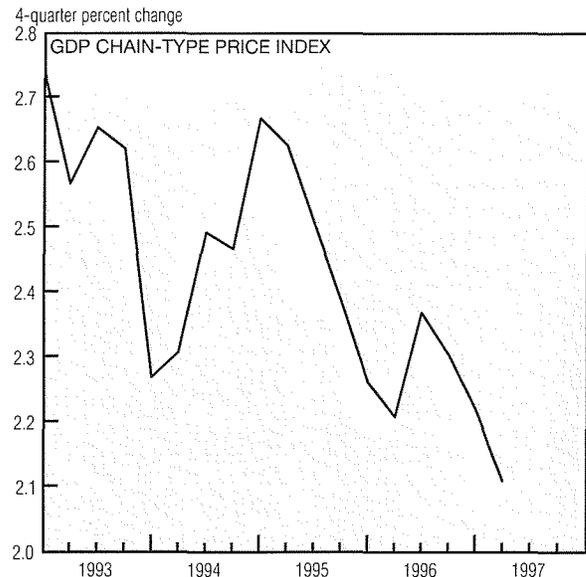
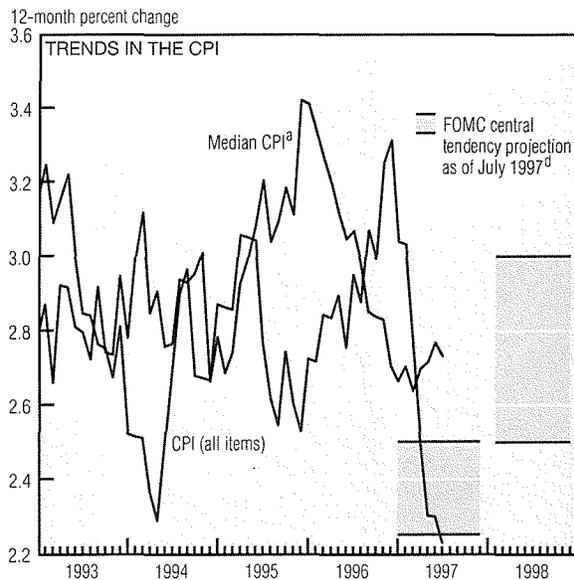
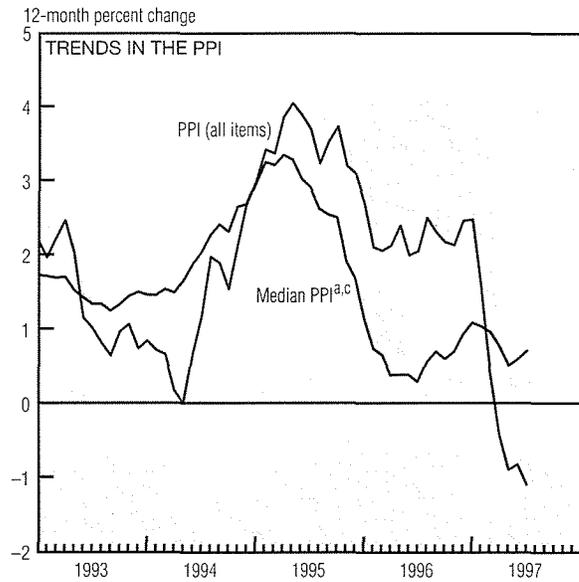


Inflation and Prices

	Annualized percent change, last:				1996 avg.
	1 mo.	7 mo.	12 mo.	5 yr.	
July Price Statistics					
Consumer Prices					
All items	2.3	1.5	2.2	2.7	3.3
Less food and energy	2.1	2.4	2.4	2.8	2.6
Median ^a	2.8	3.0	2.7	2.9	2.7
Producer Prices					
Finished goods	-0.9	-3.1	-0.2	1.2	2.9
Less food and energy	-1.7	-0.5	0.0	1.1	0.7
Commodity futures prices^b					
	-31.4	-4.4	-3.9	2.9	-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. Based on the PPI for all items.

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

Inflation remained unexpectedly restrained in July, as the Consumer Price Index (CPI) rose an annualized 2.3% and the Producer Price Index (PPI) for finished goods actually fell 0.9%. Nonetheless, data on the individual components of these indexes suggest that the overall rate of price increase is somewhat greater than the average figures indicate.

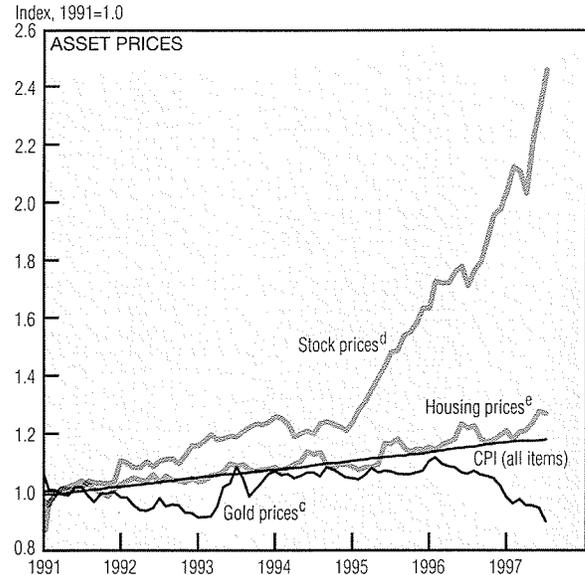
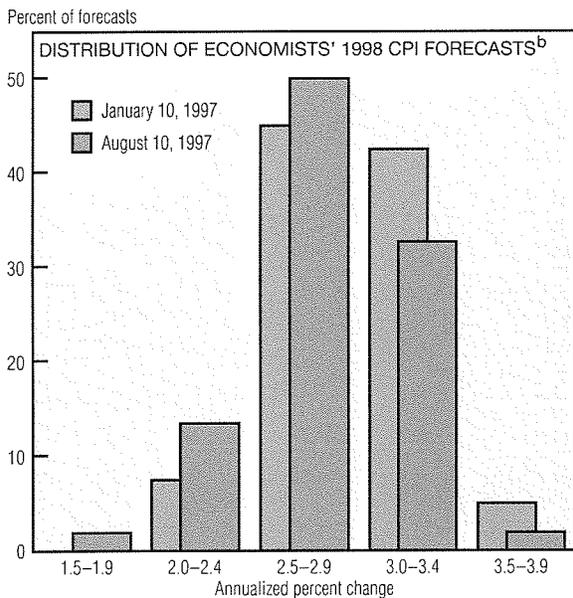
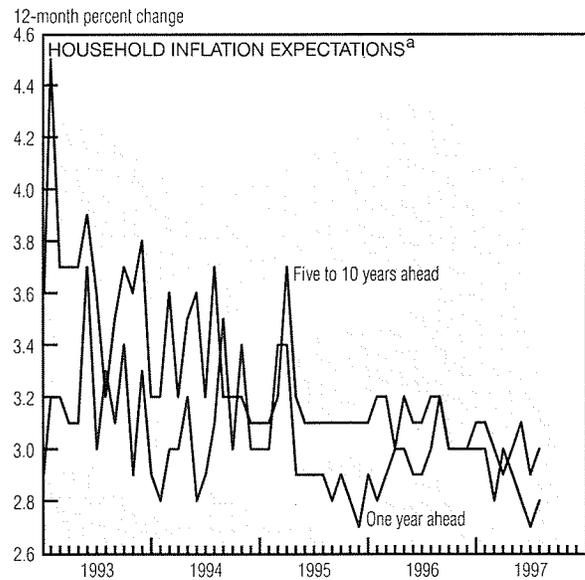
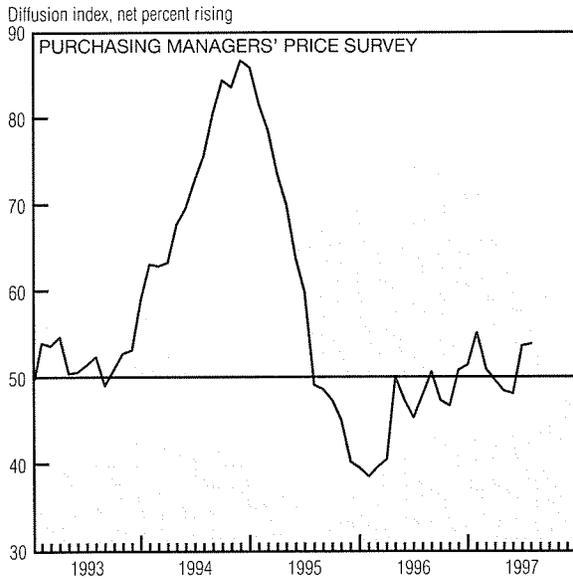
While the PPI for all goods has fallen about 1% over the past 12 months, the majority of price increases at the producer level have been running about 1½ percentage points higher. The median PPI is up approximately ¾% over the 12 months ended in July. Similarly, the CPI has advanced at an average rate of 2.2% during the past year—just below the lower end of the Federal Open Market Committee's (FOMC)

latest central tendency projection—but the median CPI has moved up to 2.7%, well above its expected range.

Still, inflation has been subdued this year. Viewed from its broadest perspective—the GDP chain-type price index, which includes retail and wholesale goods and services—the price level rose an average of 2.1% over the past 12 months, the smallest uptick in more than 30 years.

(continued on next page)

Inflation and Prices (cont.)



- a. Median expected change in consumer prices as measured by the University of Michigan's Survey of Consumers.
- b. Blue Chip panel of economists.
- c. Handy and Harman base price, New York.
- d. Standard & Poor's stock price index, composite.
- e. Median sales price, existing single-family homes, not seasonally adjusted.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; National Association of Realtors; Standard & Poor's Corporation; *Metals Week*; National Association of Purchasing Management; the University of Michigan; and *Blue Chip Economic Indicators*, January 10 and August 10, 1997.

Few expect this year's exceptional inflation performance to continue over the year ahead. On the other hand, there appears to be little sentiment that prices will accelerate substantially. Reports from purchasing managers continue to show that, on net, industrial prices are holding steady. Household survey data indicate that consumers expect retail prices to rise only 2.8% in the next 12 months—not much different

from their projections over the past 3½ years. And economists, who have been the most pessimistic inflation forecasters since mid-decade, have recently revised their 1998 projections downward. Last January, almost half of those participating in the Blue Chip survey saw the CPI rising 3% or more next year. In August, only about one-third held that view.

Data from asset markets, which can provide a warning signal of

a growing inflationary sentiment among investors, show no clear indication of speculative behavior. Although the stock market has climbed sharply in the last few years, other assets, such as home prices, have merely kept pace with inflation. In fact, gold prices, which are sometimes considered a harbinger of a growing inflationary psychology, have actually been declining.