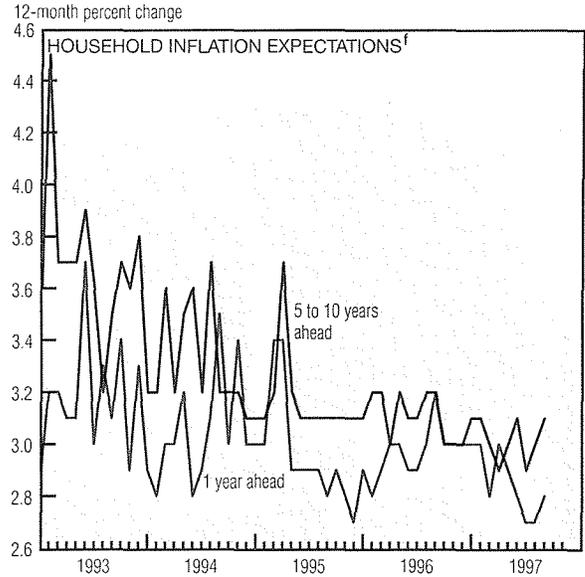
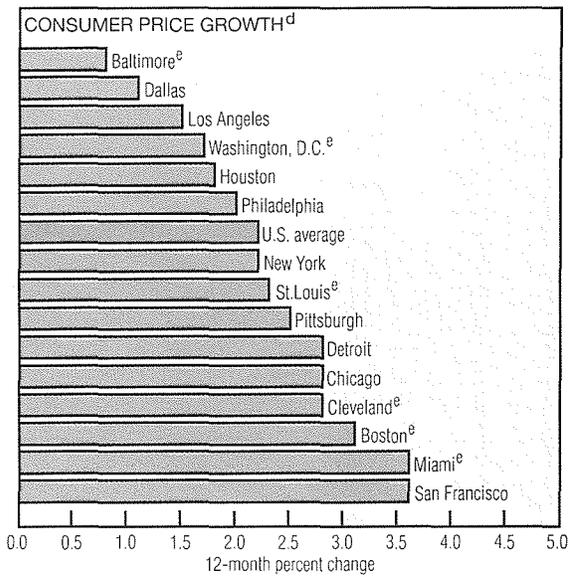
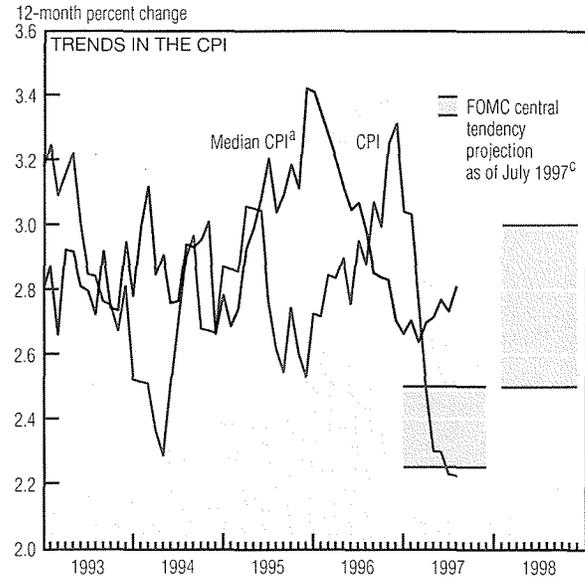


# Inflation and Prices

	Annualized percent change, last:				1996 avg.
	1 mo.	7 mo.	12 mo.	5 yr.	
<b>August Price Statistics</b>					
<b>Consumer Prices</b>					
All items	2.3	1.6	2.2	2.7	3.3
Less food and energy	0.7	2.2	2.3	2.8	2.6
Median <sup>a</sup>	2.3	2.9	2.8	2.9	2.7
<b>Producer Prices</b>					
Finished goods	3.7	-2.2	-0.2	1.2	2.9
Less food and energy	0.8	-0.3	0.0	1.1	0.7
<b>Commodity futures prices<sup>b</sup></b>					
	27.3	-0.9	-2.9	3.7	-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. August 1996 to August 1997, unless otherwise noted.  
 e. July 1996 to July 1997.  
 f. Median expected 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; and the University of Michigan.

Consumer prices rose at a 2.3% annualized rate in August, a small acceleration from the year-to-date average increase of 1.6% and only a shade higher than the 12-month average of 2.2%. The median CPI, an alternative measure of inflation, also advanced 2.3% in August, below its 12-month trend increase of 2.8%. The Consumer Price Index (CPI) continues to track just under the 1997 central tendency range set by the Federal Open Market Commit-

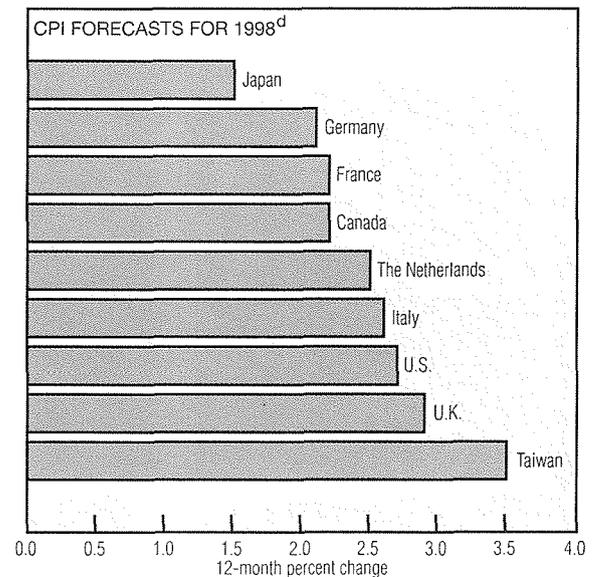
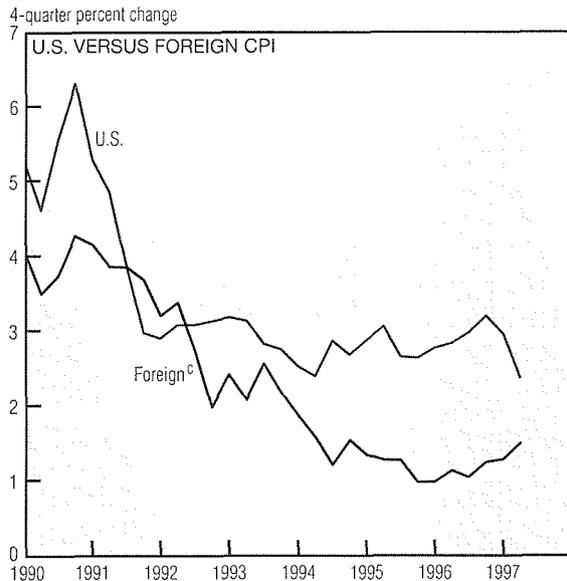
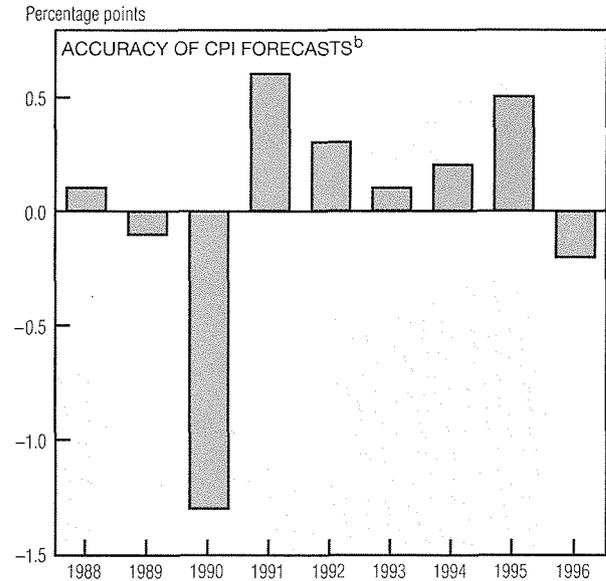
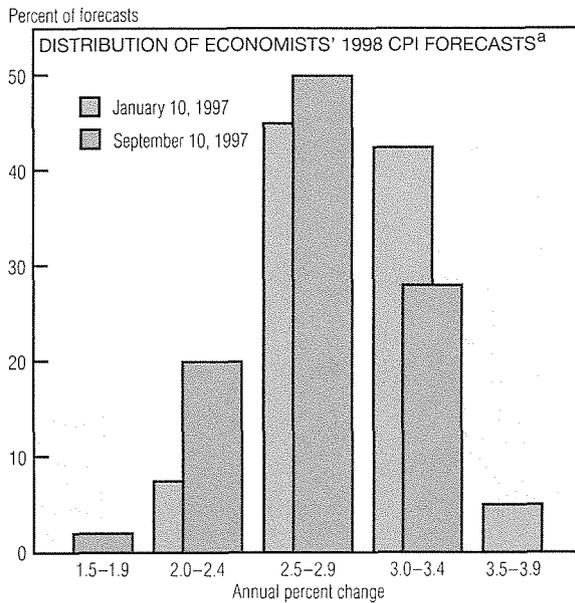
tee (FOMC) last July, and is about half a percentage point below the group's 1998 midpoint.

While consumer prices have risen moderately this year, retail price growth has varied substantially by region. Over the most recent 12-month period, retail price increases averaged a mere 0.8% in Baltimore and 1.1% in Dallas. At the other extreme, Miami and San Francisco residents saw retail prices rise at an average rate of slightly more than 3½%.

According to survey data, households expect the average increase in retail prices to pick up to 2.8% over the next 12 months and to reach slightly more than 3% over the next five to 10 years.

Economists also foresee next year's inflation rate exceeding this year's modest rise. The Blue Chip consensus forecast shows the CPI advancing at a 2.7% pace between this year and next. Still, this is a  
*(continued on next page)*

## Inflation and Prices (cont.)



- a. Blue Chip panel of economists.  
b. Percentage-point deviation, Blue Chip consensus forecast minus actual CPI.  
c. Trade-weighted average.  
d. Consensus forecast of the Blue Chip panel of economists.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; International Monetary Fund, *International Financial Statistics*; and *Blue Chip Economic Indicators*, January 10 and September 10, 1997.

much more sanguine outlook than projected at the beginning of the year. In January, nearly half of the economists surveyed believed that the CPI would reach 3% or more in 1998. Less than 30% hold that view today. Moreover, while fewer than 10% of those participating in January's survey predicted that inflation would come in under 2½% next year, more than 20% expect such a slight uptick today.

This year, economists are likely to have overestimated the growth rate of the CPI by at least half a percent-

age point, and almost certainly more. In fact, the Blue Chip panelists have been overly pessimistic about the inflation outlook in six of the past seven years, overpredicting the CPI's growth rate by 0.35 percentage point per year. Last year, however, they were overly optimistic about the inflation trend, which was 0.2 percentage point higher than the consensus forecast.

Although the U.S. retail price performance has been favorable relative to both our recent history and expectations, increases have tended to be ½ to 1½ percentage points

higher, on average, than those of our major trading partners. In fact, on a trade-weighted basis, foreign retail prices have risen less than 2% per year since late 1993. Economists predict that the U.S. inflation rate will be somewhat worse than that of our foreign trading partners again in 1998. Of our largest trading partners, only the U.K. (at 2.9%) and Taiwan (3.5%) are expected to post higher retail price increases. Canada, France, Germany, and Japan are all expected to see consumer prices rise less than 2½% next year.