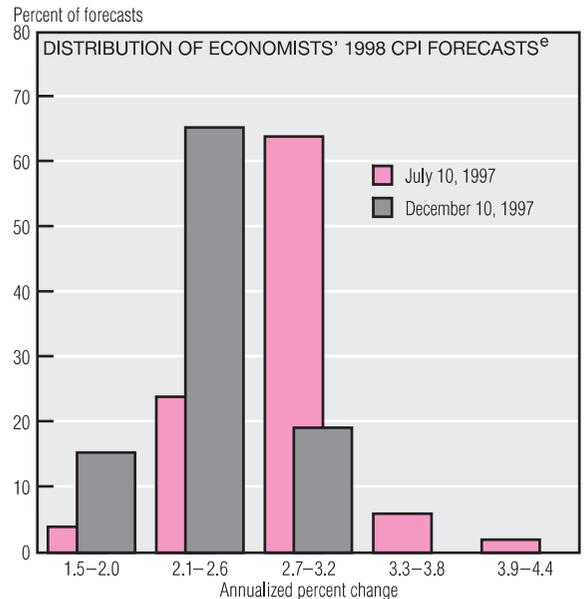
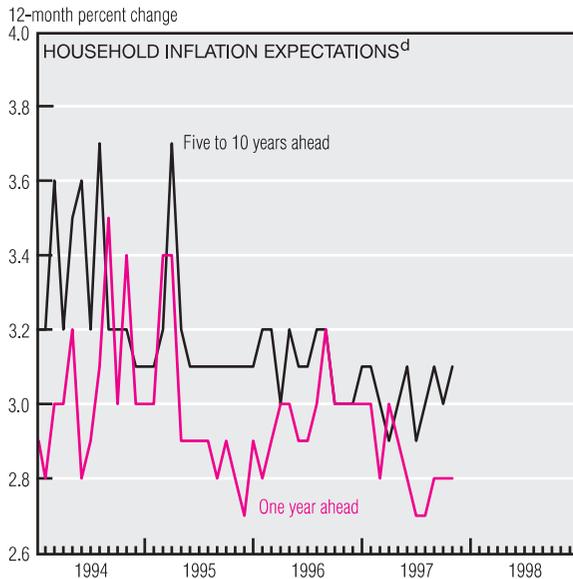
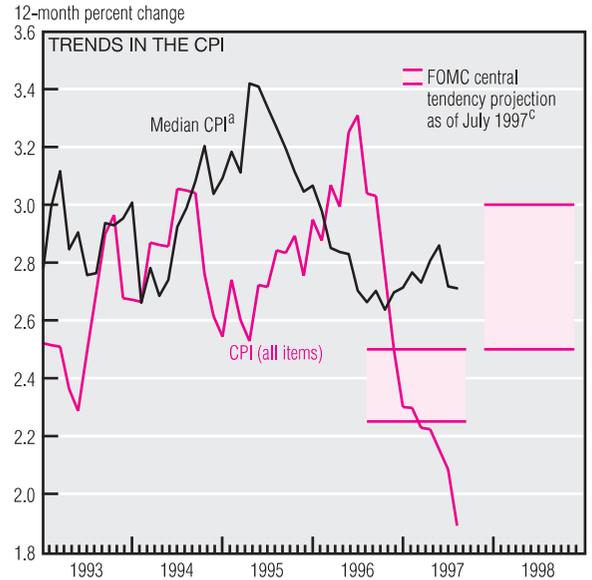


# Inflation and Prices

November Price Statistics	Annualized percent change, last:				1996 avg.
	1 mo.	6 mo.	12 mo.	5 yr.	
Consumer prices					
All items	1.5	2.3	1.6	2.6	3.3
Less food and energy	1.4	2.1	2.0	2.7	2.6
Median <sup>a</sup>	2.7	2.4	2.8	2.9	2.7
Producer prices					
Finished goods	-1.8	1.5	-0.9	1.2	2.9
Less food and energy	-0.8	2.0	0.2	1.1	0.7
Commodity futures prices <sup>b</sup>					
	-16.4	-1.5	-0.7	3.5	-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. Median expected change in consumer prices as measured by the University of Michigan's Survey of Consumers.

e. 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 University of Michigan; and *Blue Chip Economic Indicators*, July 10 and December 10, 1997.

The monthly price statistics continued to rise at a relatively subdued pace in November, virtually guaranteeing that 1997's inflation rate will be the lowest since 1986. As in 1986, last year's modest inflation was heavily influenced by falling energy prices. Still, after excluding food and energy goods, the Consumer Price Index's (CPI) rise—near 2.0%—was its smallest advance since 1965, the last year this measure dipped below 2%. The Producer

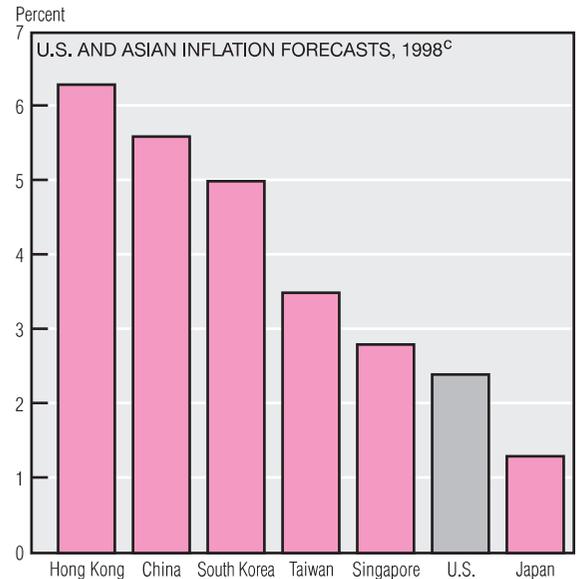
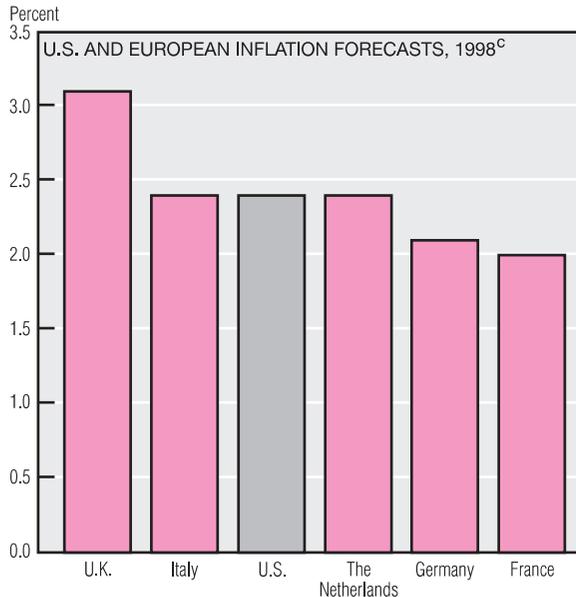
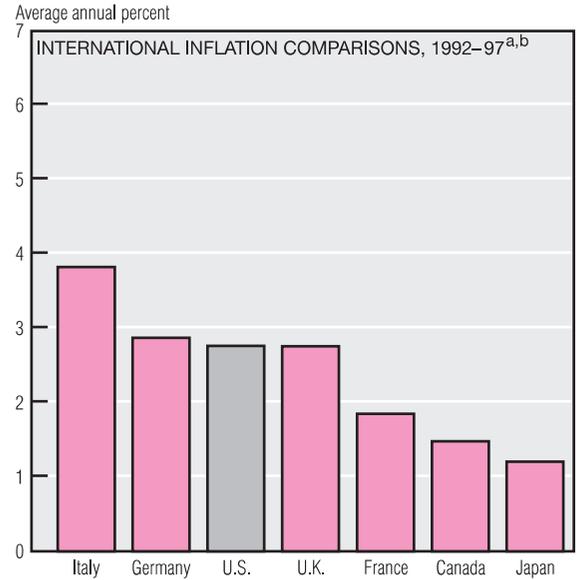
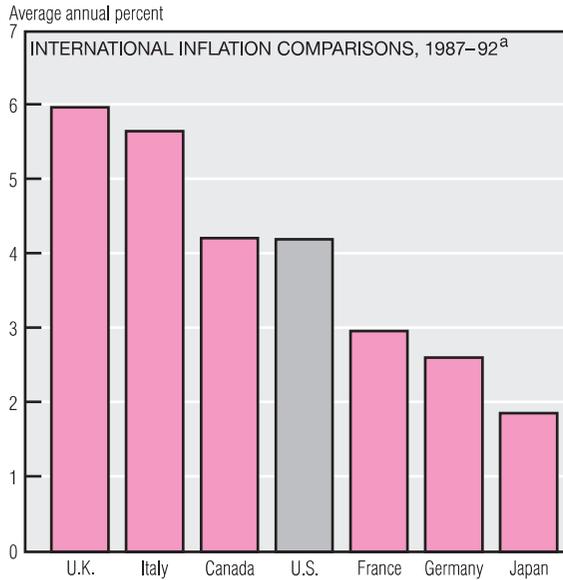
Price Index (PPI) less food and energy will show virtually no increase in 1997, the third time in the past five years that this measure has grown less than 1%.

Looking to 1998, the Federal Open Market Committee (FOMC) expects consumer prices to accelerate to within a central tendency range of 2½% to 3%, although the sharp undershoot of the actual CPI from the Committee's 1997 projection may cause the group to revise this forecast downward at its February meeting.

Private forecasters, who last July also foresaw a substantial jump in consumer price growth in 1998, have reduced their forecasts sharply. Last July, nearly 65% of all economists participating in the Blue Chip survey expected consumer prices to rise between 2.7% and 3.2% this year. As of December, less than 20% held that view. Sixty-five percent now see consumer prices increasing between 2.1% and 2.6% in 1998, and 15% are projecting a rise of 2% or less.

(continued on next page)

## Inflation and Prices (cont.)



a. Based on yearly CPI data reported by the International Monetary Fund.

b. Data for 1997 are through November.

c. Consensus forecast of the Blue Chip panel of economists.

SOURCES: *Blue Chip Economic Indicators*, December 10, 1997; International Monetary Fund, *International Financial Statistics*; and DRI/McGraw-Hill.

The most pessimistic views about this year's inflation come from surveys of U.S. consumers. In December, households surveyed by the University of Michigan expected consumer prices to advance 2.8% over the next 12 months. Over the next five to 10 years, the same group sees prices picking up slightly, to more than 3% annually.

The easing of U.S. consumer price increases is comparable to what has been seen globally. In the past five years, many major economies have

watched their inflation rates come down by a percentage point or more from the 1987-92 period. The most dramatic improvements have occurred in two nations where inflation targeting has recently been made a central bank priority—the U.K. and Canada. In the U.K., consumer prices rose about 3¼% per year less between 1992 and 1997 than in the preceding five-year period. In Canada, the inflation reduction has been about 2½% annually. In fact, of the major indus-

trialized nations, only Germany showed an acceleration in consumer prices between the two periods.

Looking ahead, economists are projecting that U.S. inflation will mirror the rates seen in the major European economies, most of which have inflation forecasts between 2% and 2½% for 1998. Somewhat higher and more varied inflation rates are projected for Asia (with the notable exception of Japan, where consumer prices are expected to rise less than 1½% next year).