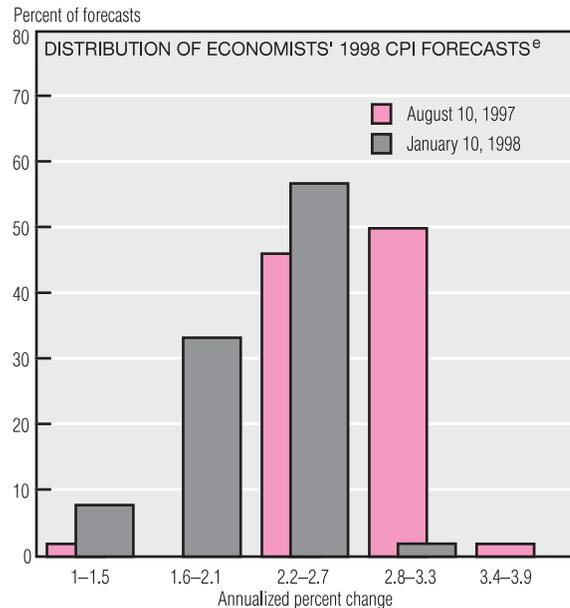
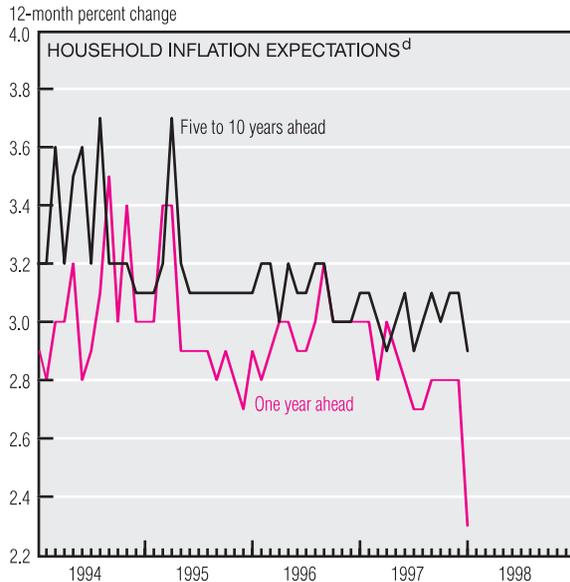
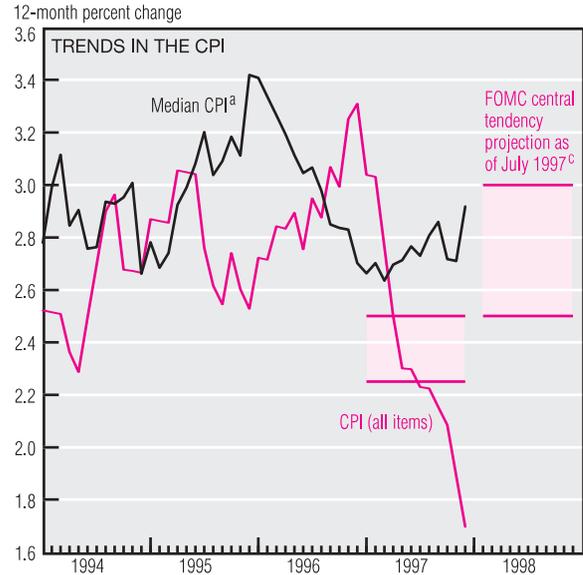


# Inflation and Prices

|   | Annualized percent change, last: |       |        |       | 1996 avg. |
|---|----------------------------------|-------|--------|-------|-----------|
|   | 1 mo.                            | 6 mo. | 12 mo. | 5 yr. |           |
| <b>December Price Statistics</b>            |                                  |       |        |       |           |
| <b>Consumer prices</b>                      |                                  |       |        |       |           |
| All items                                   | 0.7                              | 2.0   | 1.7    | 2.6   | 3.3       |
| Less food and energy                        | 2.8                              | 2.0   | 2.2    | 2.7   | 2.6       |
| Median <sup>a</sup>                         | 4.6                              | 2.8   | 2.9    | 2.9   | 2.7       |
| <b>Producer prices</b>                      |                                  |       |        |       |           |
| Finished goods                              | -1.8                             | 0.9   | -1.3   | 1.2   | 2.9       |
| Less food and energy                        | -1.7                             | 0.3   | 0.0    | 1.1   | 0.7       |
| <b>Commodity futures prices<sup>b</sup></b> |                                  |       |        |       |           |
|   | -25.9                            | -7.7  | -3.5   | 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. 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*, August 10, 1997 and January 10, 1998.

The Consumer Price Index (CPI) rose just 0.7% in December (annual rate), bringing the yearly increase to a mere 1.7%, the lowest posting since 1986's 1.2% gain. Energy prices were substantial contributors, but if the food and energy components are excluded, inflation was still 0.4 percentage point lower than in 1996. While most price measures were down, the median CPI—an estimate of the economy's underlying

inflationary trend—ended the year higher, at 2.9%.

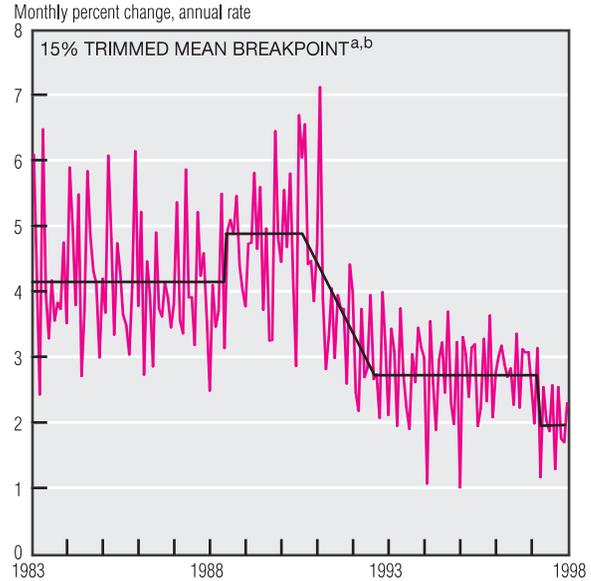
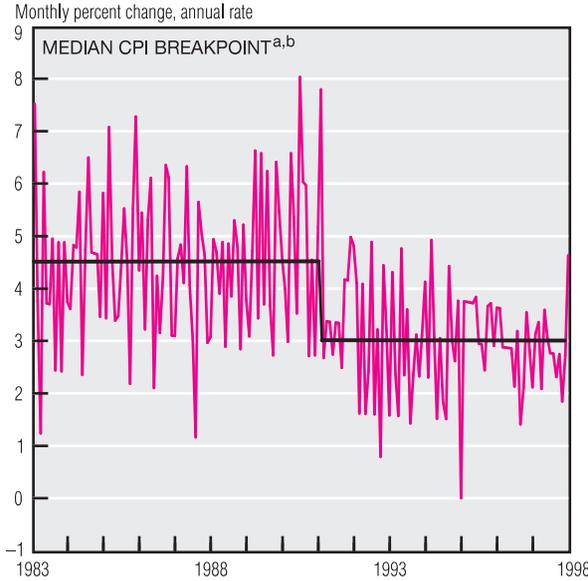
Price reductions predominated at the producer and commodity levels. Again, energy prices stand out, with the energy price index (final goods) falling 6.4% in 1997. Even excluding the transitory moves in energy costs, the "core" measure of price change in the industrial sector showed essentially no change for the year. While small price increases

earlier in the production process do not automatically lead to lower consumer inflation rates, it is hard not to be optimistic about the 1998 inflation outlook.

Indeed, forecasters and households are now expecting lower inflation rates than just a few months ago, with the median household anticipating only a 2.3% rise. Professional forecasters' expectations have

*(continued on next page)*

# Inflation and Prices (cont.)



|           |  |
|-----------|--|
| January   | Food away from home                      |
| February  | Other private transportation commodities |
| March     | Shelter                                  |
| April     | Medical care services                    |
| May       | Shelter                                  |
| June      | Shelter                                  |
| July      | Shelter                                  |
| August    | Shelter                                  |
| September | Shelter                                  |
| October   | Auto maintenance and repair              |
| November  | Shelter                                  |
| December  | Personal and educational services        |

|                                     | Months |
|-------------------------------------|--------|
| Dairy products                      | 9      |
| Other food at home                  | 9      |
| Used cars                           | 8      |
| House furnishings                   | 8      |
| Housekeeping services               | 8      |
| Other utilities and public services | 7      |
| Cereals and bakery products         | 7      |
| Apparel services                    | 7      |

a. Calculated by the Federal Reserve Bank of Cleveland.  
 b. Horizontal lines represent trends.  
 c. Trim frequency shows the number of months component was dropped in calculating the 15% trimmed mean.  
 SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and the Federal Reserve Bank of Cleveland.

also dropped dramatically. As recently as last August, more than half of the Blue Chip economists were looking for rates above 2.8%. Now, only one forecast exceeds that pace. The median CPI is one of the few indicators to show underlying inflation rates of around 3%. This measure eliminates all extreme price changes and focuses on the middle of the price-change distribution. The current reading indicates that 1997's monthly numbers are statistically in-

distinguishable from the 3% inflation seen over the last five years. One obvious factor keeping the median CPI high relative to other inflation measures is the stability in the cost of shelter, which accounts for a substantial portion of most household budgets. In contrast, the mean of the distribution of price changes—which excludes only those goods and services with the most extreme (15%) changes—fell sharply in 1997 to an underlying

trend of only 2%. While the concept is similar to the median in that it focuses on core price changes rather than extreme ones, it excludes far fewer categories of goods and services. Aside from some volatile components, like used cars and dairy products, the trimmed mean indicates that most prices have changed little. Continuation of this pattern would support the public's recovered confidence in the purchasing power of the dollar.