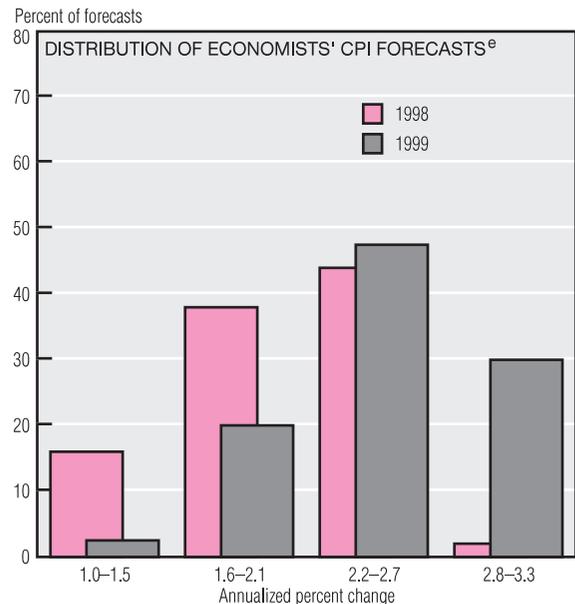
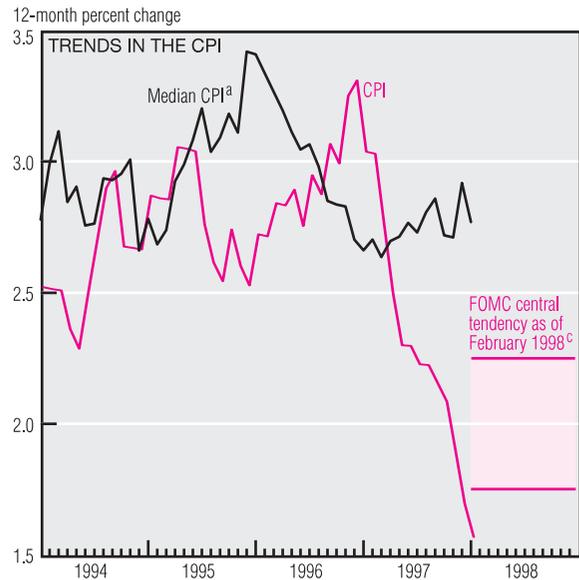


# Inflation and Prices

	Annualized percent change, last:				1997 avg.
	1 mo.	6 mo.	12 mo.	5 yr.	
<b>January Price Statistics</b>					
Consumer prices					
All items	0.0	1.6	1.6	2.5	1.7
Less food and energy	2.1	2.0	2.2	2.7	2.2
Median <sup>a</sup>	1.4	2.6	2.8	2.9	2.9
Producer prices					
Finished goods	-7.9	-0.8	-1.9	1.0	-1.5
Less food and energy	-1.7	0.3	-0.1	1.0	0.0
Commodity futures prices <sup>b</sup>					
	-23.5	-6.0	-5.2	2.6	-3.5



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*, February 10, 1998.

The Consumer Price Index (CPI) remained unchanged in January, while the Producer Price Index (PPI) fell an annualized 7.9%. Both indexes were heavily influenced by falling energy prices. With the volatile food and energy components removed, the CPI climbed 2.1% for the month, while the PPI declined a much smaller 1.7%.

At its February meeting, the Federal Open Market Committee (FOMC) lowered its 1998 central tendency projection for the CPI, a

reflection of the past year's declining inflation numbers. Still, the central tendency remains above the current CPI, implying that energy prices are expected to rebound in 1998. The CPI energy index fell 1.8% in December, then slid another 2.4% in January. The median CPI climbed a slight 1.4% in January, within the July 1997 central tendency range but well above the February revision.

Consumers and private forecasters continue to expect only a moderate rate of inflation in 1998. Consumers'

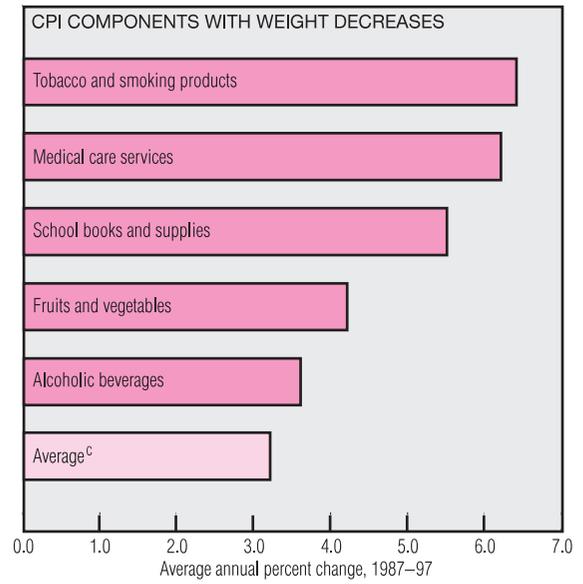
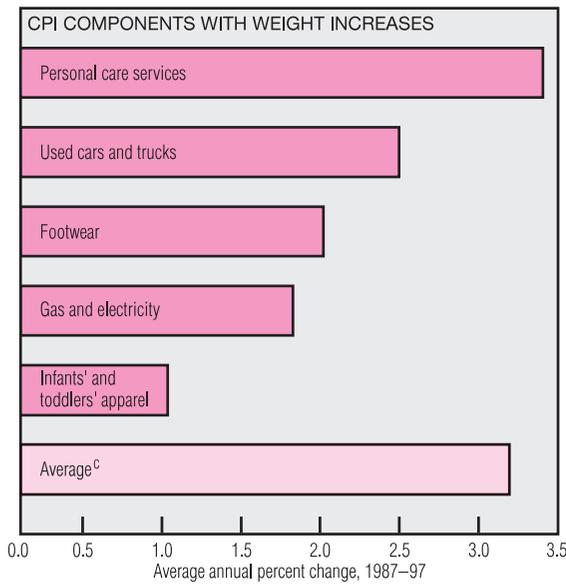
median projection rose slightly from December and now stands closer to the median CPI than to the all-inclusive index. Consumer expectations have dropped about half a point since the first quarter of 1997. Economists participating in the latest Blue Chip survey revised their 1998 inflation expectations downward for the third straight month, although over the longer term, they expect the inflation rate to move toward its current five-year average of 2.5%.

*(continued on next page)*

# Inflation and Prices (cont.)

Affected CPI components	Year introduced	Percentage-point effect on CPI percent change
<b>Pre-1998</b>		-0.28
Generic prescription drugs	1995	-0.01
Food at home	1995	-0.04
Home ownership	1995	-0.10
Rent	1995	0.03
All items (store sample)	1996	-0.10
Hospital services	1997	-0.06
<b>1998 and after</b>		
Personal computers	1998	-0.06
All items (updated market basket)	1998	-0.15
All items (averaging technique)	1999	-0.15
All items (item sample)	1999	-0.05
<b>Total</b>		-0.69

Component	Weight after revision <sup>b</sup>	Percent change in weight
Personal care services	0.963	70.9
Infants' and toddlers' apparel	0.268	63.0
Used cars and trucks	1.880	57.4
Footwear	0.895	24.5
Gas and electricity (energy services)	3.757	10.5
Medical care services	4.392	-28.5
School books and supplies	0.194	-28.9
Fruits and vegetables	1.394	-29.7
Alcoholic beverages	0.983	-37.7
Tobacco and smoking products	0.894	-47.0



a. Data are from the 1998 *Economic Report of the President*.  
 b. Weights for all items sum to 100.  
 c. Includes 36 individual average price changes.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and 1998 *Economic Report of the President*.

Every 10 years, the Bureau of Labor Statistics (BLS) releases a major revision of the CPI. Although the latest revision has several facets, the new consumer market basket of goods is the most noteworthy. Based on the BLS's 1993-95 Consumer Expenditure Survey, the updated market basket is expected to lower the published CPI by 0.15%. Other changes include a new major expenditure group—education and communication—and a general re-

classification of many items. Additional revisions will be made through 1999 and are expected to further decrease the reported rate of price inflation.

One result of the revised market basket is a reweighting of the components of the CPI. For example, the weight associated with tobacco and smoking products plummeted 47%, while the weight assigned to personal care services rose 70.9%. These revisions reflect an economic fact of

life: People tend to shift their spending away from goods whose prices rise rapidly toward goods whose prices are more stable. Nearly all of the items assigned significantly higher weights experienced lower-than-average price growth over the last 10 years, while nearly every item given a lower revised weight had higher-than-average price growth over the same period. The market basket revision will thus reduce the upward bias in the CPI.