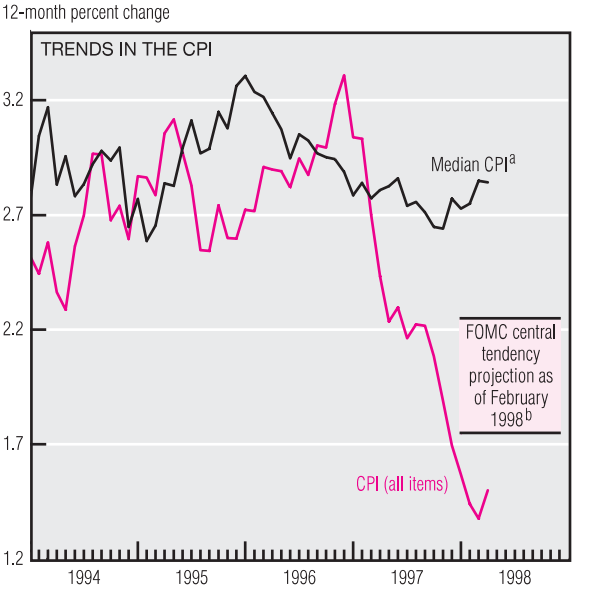
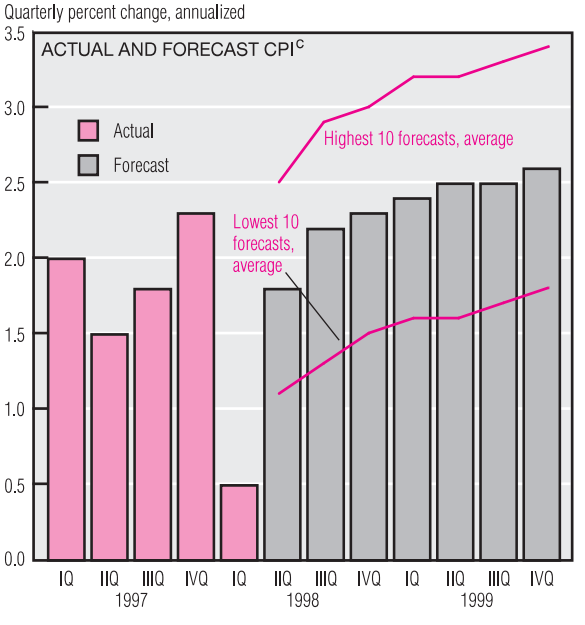
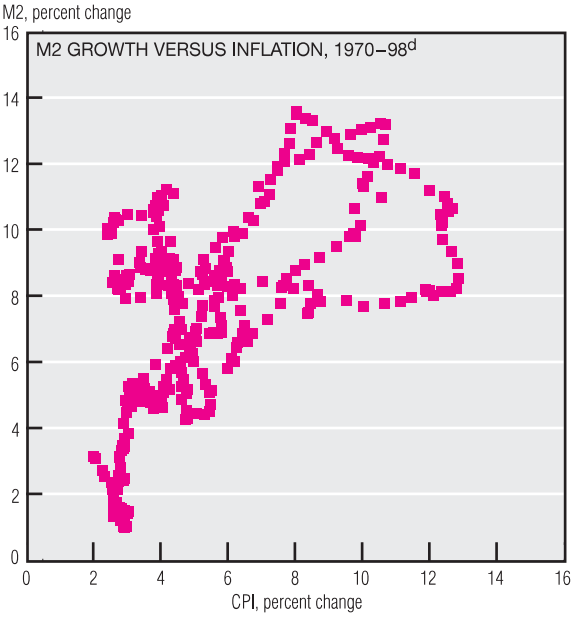
Inflation and Prices

April Price Statistics

	Annualized percent change, last:				1997
	1 mo.	3 mo.	12 mo.	5 yr.	avg.
Consumer prices					
All items	3.0	1.2	1.5	2.4	1.7
Less food and energy	3.5	2.8	2.2	2.7	2.2
Median[a]	3.2	3.4	2.8	2.9	2.8
Producer prices					
Finished goods	2.8	–0.6	–1.2	0.7	–1.2
Less food and energy	2.6	1.4	0.1	0.9	0.0







a. Calculated by the Federal Reserve Bank of Cleveland.
b. 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.
c. Blue Chip panel of economists.
d. Relationship between 24-month percent change for both series, with M2 lagged 24 months, annual percent change.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; the Federal Reserve Bank of Cleveland; and *Blue Chip Economic Indicators*, May 10, 1998.

Retail prices took a step higher in April, as the Consumer Price Index (CPI) rose an annualized 3%—twice its average increase over the past 12 months. Excluding food and energy, the CPI jumped an annualized 3.5% during the month, another rather sharp rise from its recent trend.

The April retail price report is a departure from the startling drop in the inflation trend over the past year or so. In fact, the recent 12-month trend increase in the CPI is ¼ percentage point below the lower end of the Federal Open Market Committee's 1998 central tendency projection.

Economists anticipate that the CPI will gradually return to a trend growth rate near 2½% by the end of this year, although the range of opinion seems unusually wide. Pessimists see the inflation trend moving back above 3% by year's end and continuing to inch upward over the course of 1999, while optimists expect inflation to remain below the 2% mark for the remainder of the century.

Economic pessimists might be swayed by persistent acceleration in the growth of the broader money measures since 1994. Few economists challenge the notion that over long horizons, the inflation trend closely follows the growth rate of the money supply. Still, measurement difficulties and the long, variable lags that are presumed to separate a money supply expansion from

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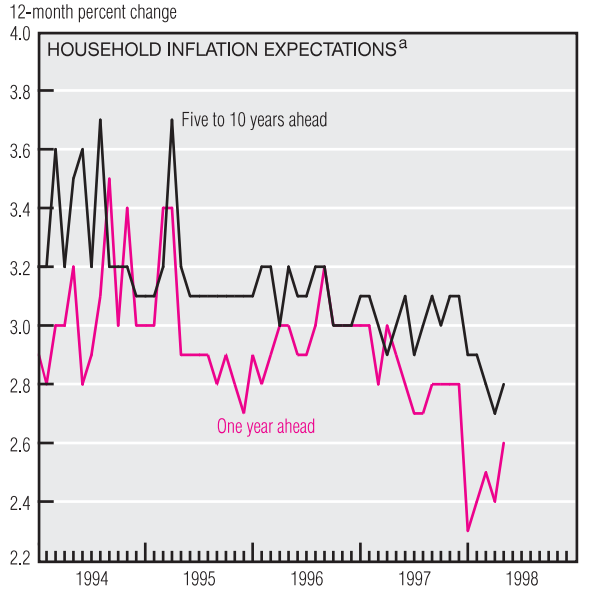
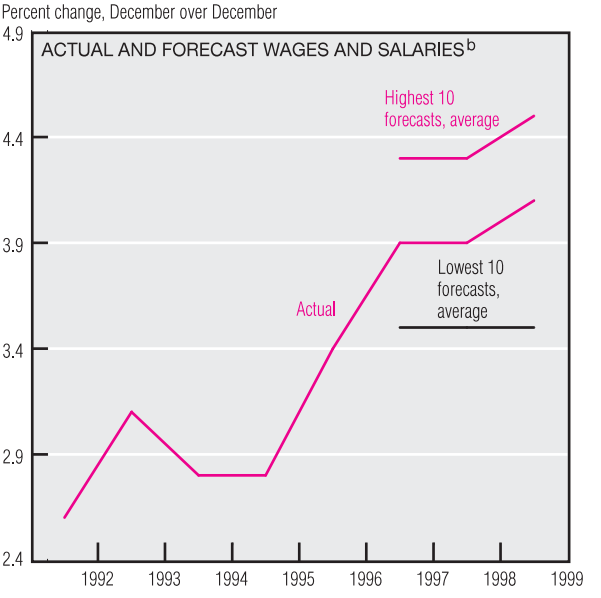
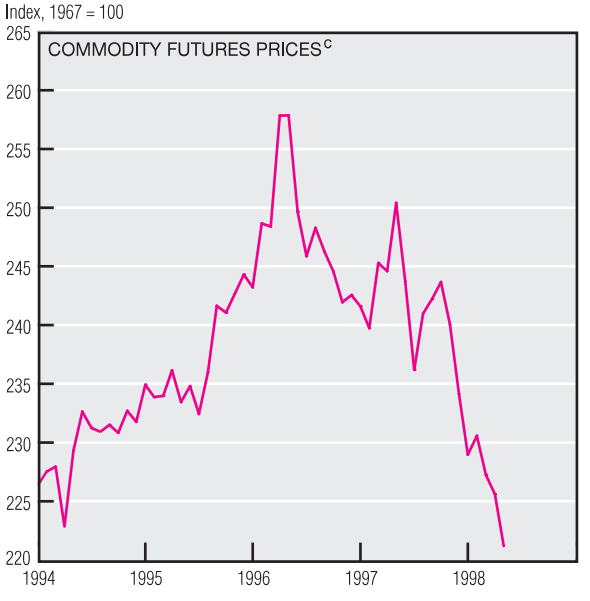
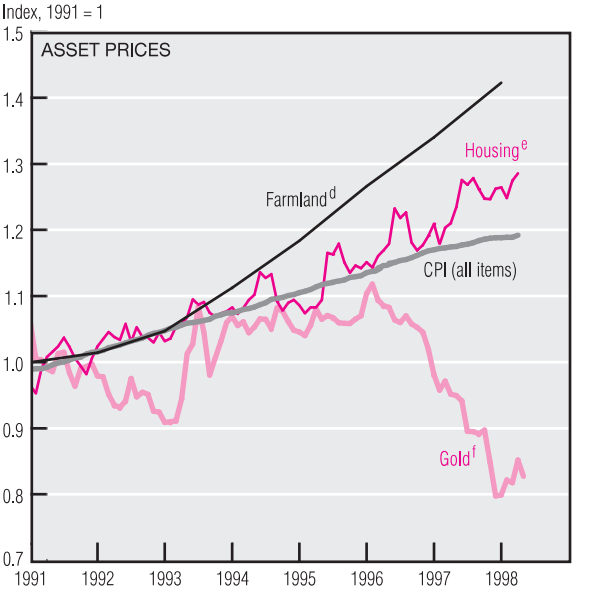
Inflation and Prices (cont.)









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. 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.
d. Average price per acre.
e. Median sales price, existing single-family homes, not seasonally adjusted.
f. Handy and Harman base price, New York.
SOURCES: U.S. Department of Agriculture, Economic Research Service; the Commodity Research Bureau; the University of Michigan; *Blue Chip Economic Indicators*, May 10, 1988; National Association of Realtors; and *Metals Week*, various issues.

its ultimate influence on the price level cause the growth rate of the broad money measures to deviate from inflation for prolonged periods. This delay forces economists to rely on other "leading indicators" to gauge the economy's future inflation trend. Unfortunately, these indicators have been sending mixed signals for some time now.

For example, the latest Blue Chip survey shows that households anticipate a small improvement in the inflation rate for the coming year as well as five to 10 years ahead. Wage demands seem to be on the rise, however, and economists are forecasting further acceleration in wage growth for 1999.

Commodity futures prices, often viewed as a bellwether of the inflation trend, have been on a downward trek since early 1996 and show little inclination to turn around. Asset prices, which sometimes provide insights into the liquidity excesses that may ultimately show up as inflation, are inconclusive. Real estate indicators, like housing and farmland prices, have far outpaced the CPI trend in recent years. But gold prices, which many judge to be a good signal of the economy's inflationary potential, have moved sharply lower.