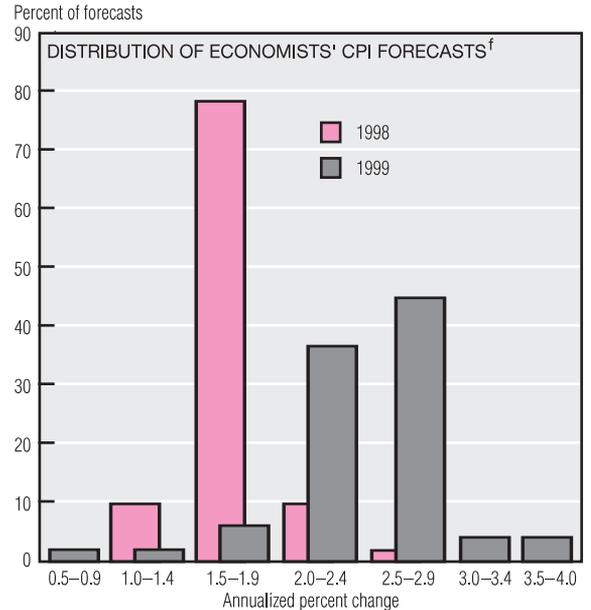
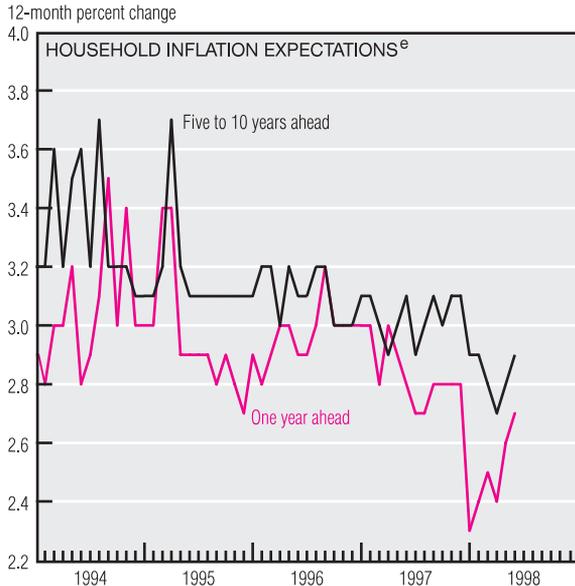
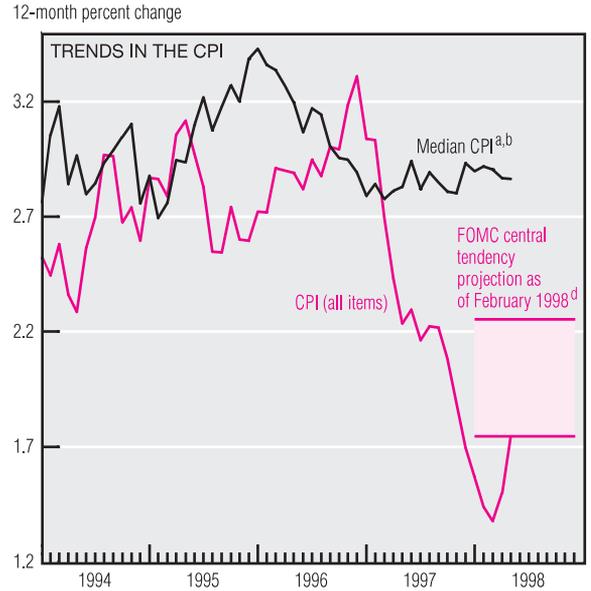


Inflation and Prices

May Price Statistics	Annualized percent change, last:				1997 avg.
	1 mo.	3 mo.	12 mo.	5 yr.	
Consumer Prices					
All items	3.8	2.2	1.7	2.5	1.7
Less food and energy	2.8	2.6	2.3	2.7	2.2
Median ^{a,b}	3.0	2.8	2.9	3.0	2.9
Producer Prices					
Finished goods	1.9	0.3	-0.9	0.8	-1.2
Less food and energy	2.6	1.7	0.6	0.9	0.0
Commodity futures prices^c					
	-36.0	-22.7	-12.6	0.7	-3.5



a. Calculated by the Federal Reserve Bank of Cleveland.
 b. In May 1998, the median CPI component structure and market basket were updated, and the weighting scheme was revised.
 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. 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.
 e. Median expected change in consumer prices as measured by the University of Michigan's Survey of Consumers.
 f. 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*, June 10, 1998.

The Consumer Price Index (CPI) increased an annualized 3.8% in May, partly because energy prices rebounded after five months of decline. The CPI trend has now risen to the lower limit of the FOMC central tendency established in February 1998. Excluding its food and energy components, the CPI increased at 2.8% (annualized rate); along with the median CPI, this suggests that the underlying inflation trend is holding just under 3%. Interestingly, the median CPI, an alternative

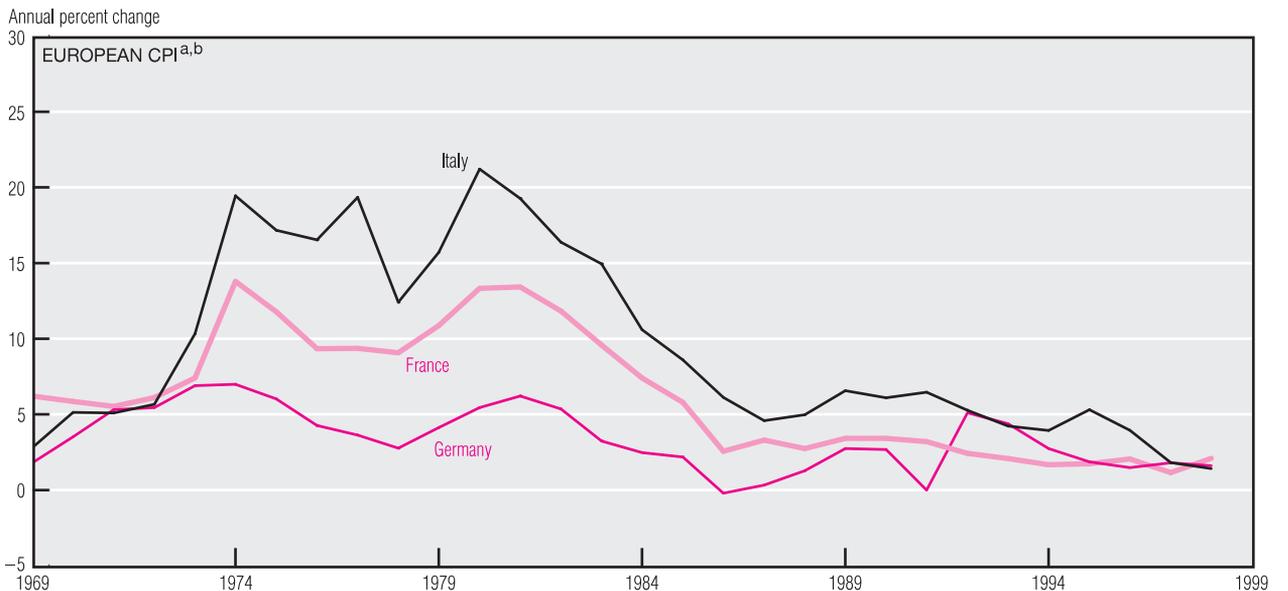
measure of core inflation, held steady at just below 3.0% this year and last, while the CPI and the CPI excluding food and energy initially drifted below that rate and recently returned to it.

Reflecting 1998 revisions by the Bureau of Labor Statistics, the median CPI now has a revised item structure and an updated consumer market basket. In addition, the revised median CPI incorporates a weighting technique based on a component's "relative importance."

Producer prices rose for the second straight month in May, increasing an annualized 1.9%. Excluding the food and energy components, the producer price index (PPI) increased 2.6% (annualized rate). Although there have been recent increases in the CPI and PPI trend growth rates, commodity futures prices continue to decline, and have dropped 12.6% since May 1997.

Households responding to the Michigan Survey of Consumers *(continued on next page)*

Inflation and Prices(cont.)



a. Data not seasonally adjusted.

b. Data through May 1998.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and International Monetary Fund, *International Financial Statistics*, various issues.

reported slightly higher inflation expectations, although both long- and short-run expectations remain under 3.0%. Since May 1997, however, households' short- and long-run inflation expectations have diverged, suggesting that respondents believe the current low inflation environment is transitory and likely to become slightly less favorable within a few years. Economists predict CPI inflation for 1998 will be roughly the same as for 1997, with nearly 80% of respondents putting it in the range of 1.5%–1.9%. Forecasts

for 1999, however, suggest that CPI inflation will increase to the 2.0%–3.0% range. The distribution of CPI inflation forecasts for 1999 shows surprising variation, indicating considerable uncertainty about the future inflation environment.

Inflation among the major industrialized countries has converged to approximately 3% in recent years. In the mid-1970s, these countries experienced dramatic jumps in inflation. In 1974, for example, Japan saw prices rise more than 23%; a year later, the U.K. had a 24% increase.

The speed with which nations reduced the high-inflation trends of the 1970s varied. In France, Italy, and the U.K., double-digit inflation persisted well into the 1980s, while Japan and Germany were able to bring their rates down quickly. The overall moderation was assisted by two factors: Some countries—most notably Canada and the U.K.—adopted explicit inflation targets for their monetary policies, and inflation convergence became a criterion for membership in the European Monetary Union.