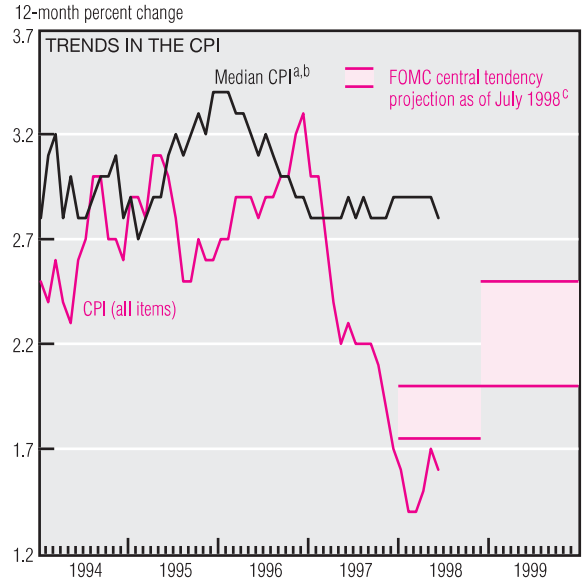
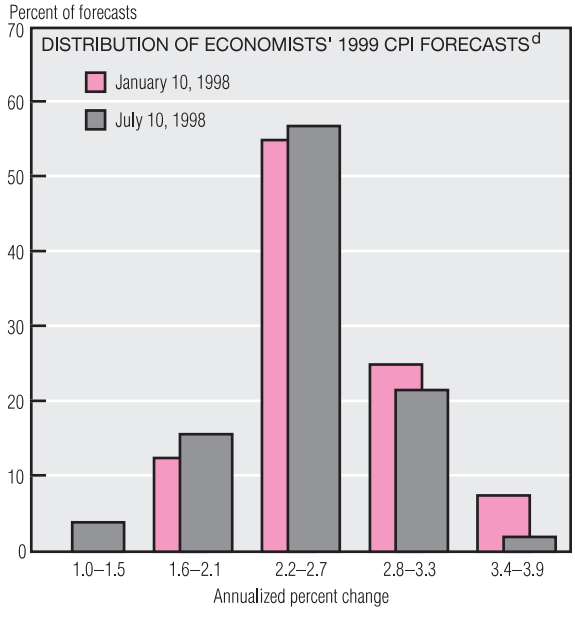
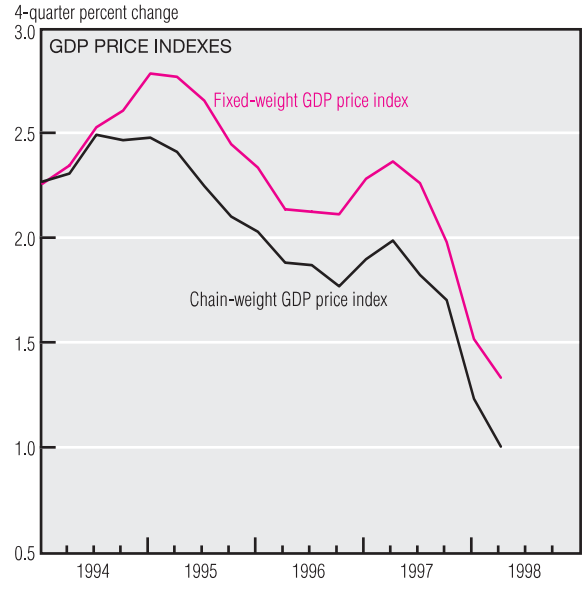
Inflation and Prices

June Price Statistics

	Annualized percent change, last: 1 mo.	3 mo.	12 mo.	5 yr.	1997 avg.
Consumer prices					
All items	0.7	2.5	1.6	2.5	1.7
Less food and energy	1.4	2.6	2.2	2.6	2.2
Median[a,b]	2.2	2.7	2.8	2.9	2.9
Producer prices					
Finished goods	–0.9	1.2	–0.8	0.8	–1.2
Less food and energy	2.5	2.6	0.8	1.0	0.0







a. Calculated by the Federal Reserve Bank of Cleveland.
b. The median CPI component structure and market basket were updated in May 1998, and the weighting scheme was revised.
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. Blue Chip panel of economists.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of Economic Analysis and Bureau of the Census; the Federal Reserve Bank of Cleveland; and *Blue Chip Economic Indicators,* January 10 and July 10, 1998.

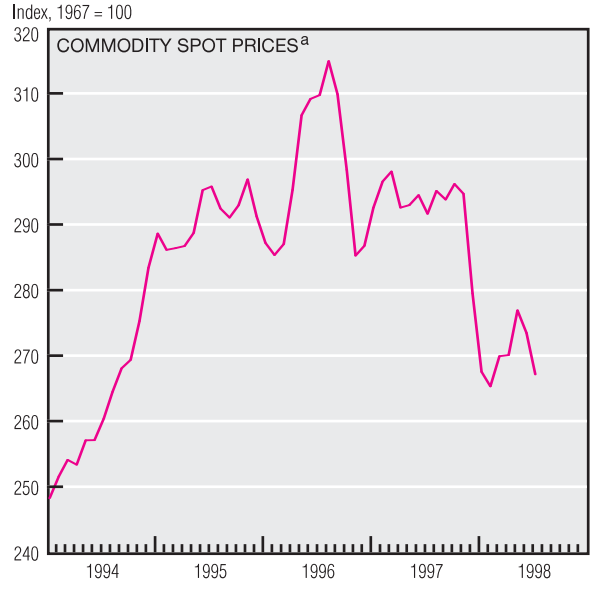
Following a modest acceleration in May, the monthly price statistics resumed their nearly year-old pattern of unusually small increases. The Consumer Price Index (CPI) rose at a very slight 0.7% annualized rate (a.r.) in June, and is up a mere 1.6% over the past 12 months. Even excluding food and energy prices (which have trended lower over the past year or so), the CPI is up only 2.2% over the 12 months ended in June, about 0.4 percentage point lower than its five-year average annual increase. Likewise, the Producer Price Index (PPI) fell 0.9% (a.r.) in June and 0.8% over the past 12 months.

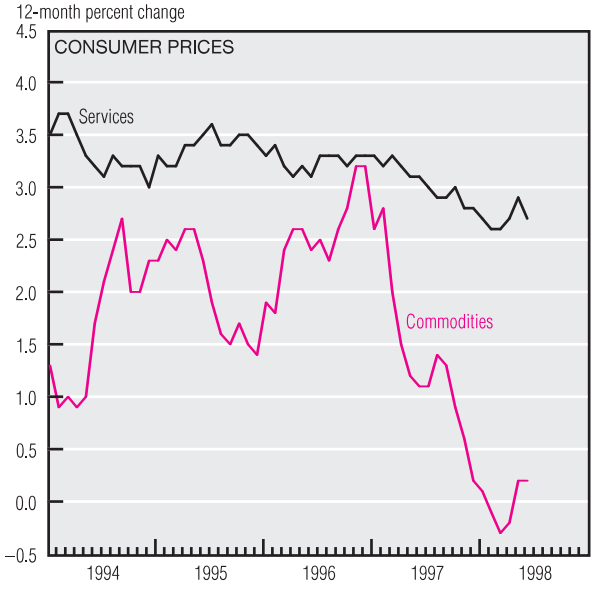
Prices' unexpectedly modest behavior this year prompted the Federal Open Market Committee (FOMC), the chief policymaking body of the Federal Reserve, to revise its 1998 CPI projection downward to a range of 1¾%–2%. The Committee sees the CPI's growth trajectory moving slightly higher in 1999 (into the 2%–2½% range).

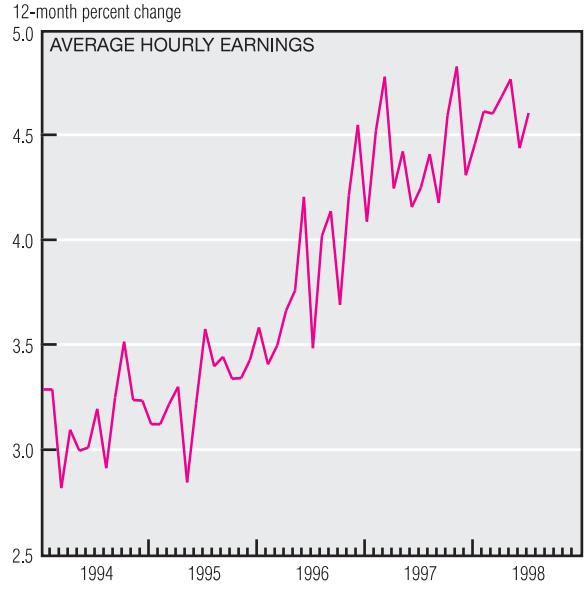
The overwhelming majority of Blue Chip economists also see the rate of retail price increase moving a bit higher next year. Almost 57% of those surveyed expect the CPI to rise at a rate of between 2.2% and 2.7% next year, although the proportion who foresee an even faster growth rate (24%) is slightly greater than those expecting a smaller increase (20%). Still, the number of inflation pessimists seems to be shrinking—last January, about one-

(continued on next page)

Inflation and Prices(cont.)







a. As measured by the KR–CRB composite spot index, all commodities. Data reprinted with permission of the Commodity Research Bureau, a Knight–Ridder Business Information Service.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and the Commodity Research Bureau.

third of the economists projected the CPI would rise at a rate exceeding 2.7% next year.

In his semiannual Monetary Policy Report to Congress, Federal Reserve Chairman Greenspan warned that, despite unusually favorable trends in the major price indexes, "the risks of a pickup in inflation remain significant," and that the FOMC "elected in March to move to a state of heightened alert against inflation." He indicated that while consumer prices, as well as broader measures including a variety of GDP price indexes, suggest that inflation has moved down, some of this improvement was transitory. Prominent among these temporary influences has been the "reduced demand from Asia that, among other things, has led to a softening of commodity prices [and] a strong dollar that has contributed to bargain prices on many imports." Indeed, "service price inflation, less influenced by international events, has remained steady at about a 3% rate since before the beginning of the crisis."

Chairman Greespan also noted the need to find a balance between compensation growth and productivity growth, although admittedly, "the adverse wage-price interactions that played so central a role in pressuring inflation higher in many past business expansions—eventually bringing those expansions to an end—have not played a significant role in the current expansion." Still, compensation growth has clearly accelerated over time (as evidenced by a run-up in the growth rate of average hourly earnings). If those trends continue or accelerate further, and should labor productivity growth not keep pace, the relatively sanguine inflation reports of recent quarters may come abruptly to an end.