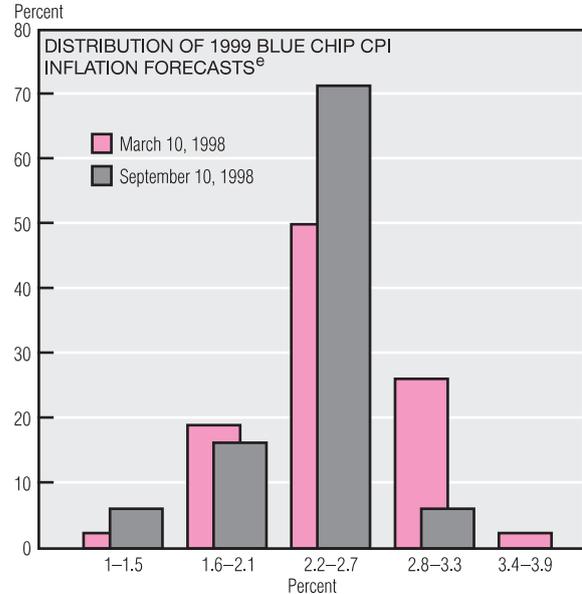
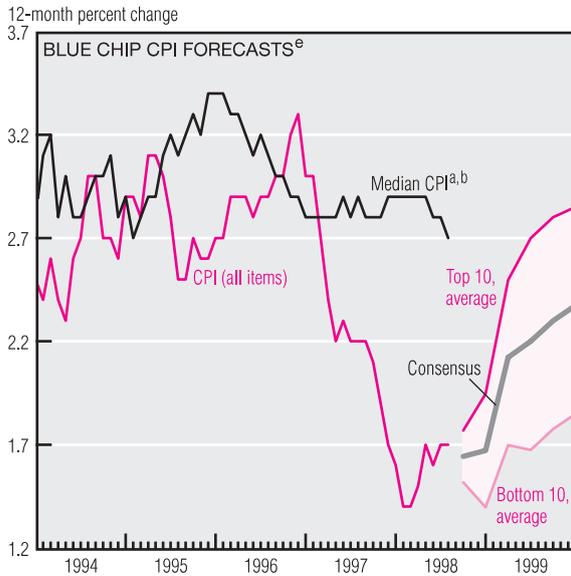
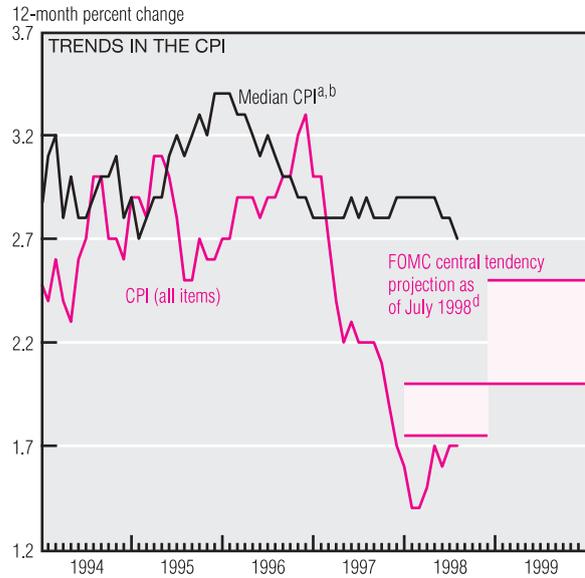


Inflation and Prices

August Price Statistics	Annualized percent change, last:				1997 avg.
	1 mo.	3 mo.	12 mo.	5 yr.	
Consumer prices					
All items	2.2	1.7	1.7	2.5	1.7
Less food and energy	2.8	2.1	2.4	2.6	2.2
Median ^{a,b}	2.6	2.6	2.7	3.0	2.9
Producer prices					
Finished goods	-4.5	-0.9	-0.8	1.0	-1.2
Less food and energy	-0.8	1.1	0.9	1.2	0.0
Commodity futures prices^c					
	-0.4	-19.4	-16.6	-1.2	-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. Blue Chip panel of economists.
 SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; Federal Reserve Bank of Cleveland; Commodity Research Bureau; and *Blue Chip Economic Indicators*, March 10 and September 10, 1998.

Consumer prices increased an annualized 2.2% in August, yielding a 12-month percent change that continues to hover just under the lower bound of the Federal Open Market Committee's (FOMC) central tendency range for the year (1.75%). The median CPI, an alternative measure of inflation, increased an annualized 2.6% in August. Price declines outweighed price increases as the Producer Price Index (PPI) fell an annualized 4.5% for the month. Food and energy

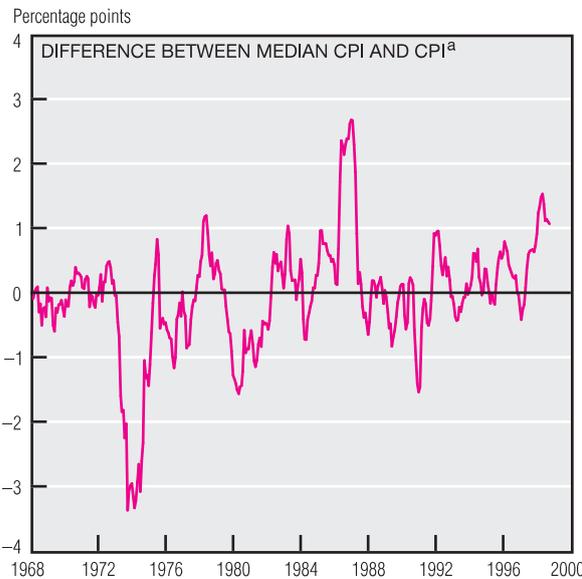
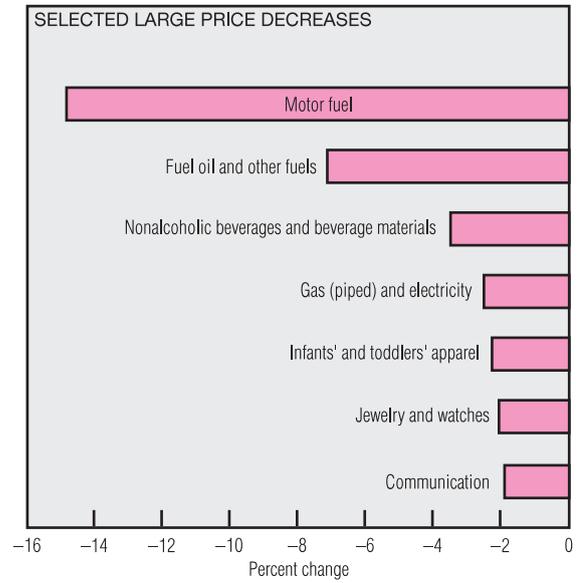
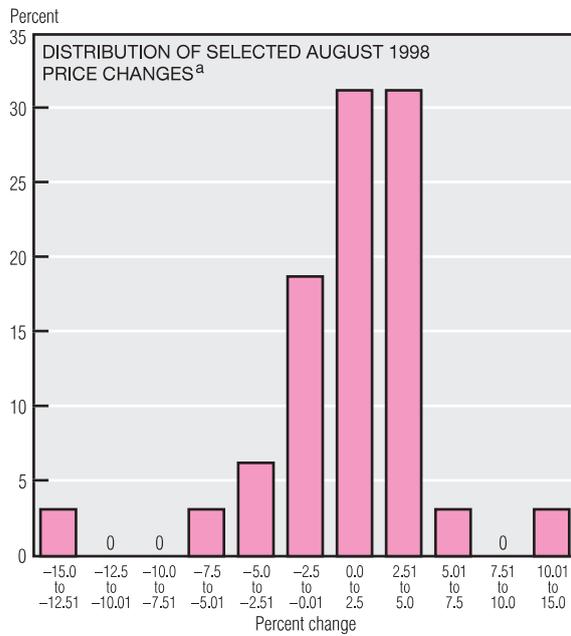
prices continued their slide, but the PPI excluding these volatile components also dropped an annualized 0.8%. Commodity futures prices held steady in August, after falling 36.5% (annualized) in July.

Economists responding to September's Blue Chip Survey forecast that the consumer price trend will increase significantly from its current mark. The CPI is running close to the consensus forecast for the beginning of 1999, but is expected to be rising

at a 2.1% annualized rate by 1999:IIQ and at a 2.4% pace by the end of the year. However, the distribution of responses to the most recent Blue Chip CPI forecast shows over 70% predicting that consumer prices will increase between 2.2% and 2.7% in 1999. This is a substantial shift from the March 10 survey, in which far more forecasts called for inflation in excess of 2.7%.

(continued on next page)

Inflation and Prices (cont.)



Accounting of Large Median CPI Gaps^a

Peak date	Gap	Inflation at gap		Gap closed	Inflation at close	
		CPI	Median		CPI	Median
1/74	-3.3	9.6	6.3	13 mo.	11.2	11.0
5/76	-1.2	6.1	5.1	4 mo.	5.5	5.3
4/78	1.2	6.5	7.7	5 mo.	8.5	8.7
3/80	-1.6	14.6	13.0	23 mo.	7.6	7.6
11/86	2.7	1.3	4.0	5 mo.	3.8	3.9
11/90	-1.5	6.3	4.7	4 mo.	4.9	4.8
3/98	1.5	1.4	2.9	5 mo. ^b	1.7	2.8

a. All data are based on 12-month percent changes.
 b. Through August 1998.
 SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and Federal Reserve Bank of Cleveland.

Over the 12 months ending in August, consumer prices have varied substantially. Forty percent of the component consumer price indexes have increased outside a relatively wide range of 0–5%. Interestingly, 30% of consumer prices have fallen. Energy prices have exhibited an especially large decline over the past 12 months; motor fuel prices have fallen 14.8% since August 1997.

The CPI has reported low inflation rates since early 1997 and is currently

running significantly below its five-year trend. The issue is whether these declines reflect the onset of a lower inflation trend or merely a transitory disturbance. Historical data show that since 1968, the CPI and median CPI have followed the same trend. Currently, however, the median CPI is running about 1.1 percentage points higher than the CPI. A closer look shows that the median CPI tends to be relatively stable while the CPI shows more overall

variation. Once the difference becomes as large as or larger than the current one (which has happened six times since 1968), it is usually the CPI that adjusts to close the gap. One notable exception is the January 1974 gap: Both the median CPI and the CPI rose, but the greater increase came from the median CPI. Responses to the September 10 Blue Chip Survey suggest that this most recent gap may be closed by increases in the CPI.