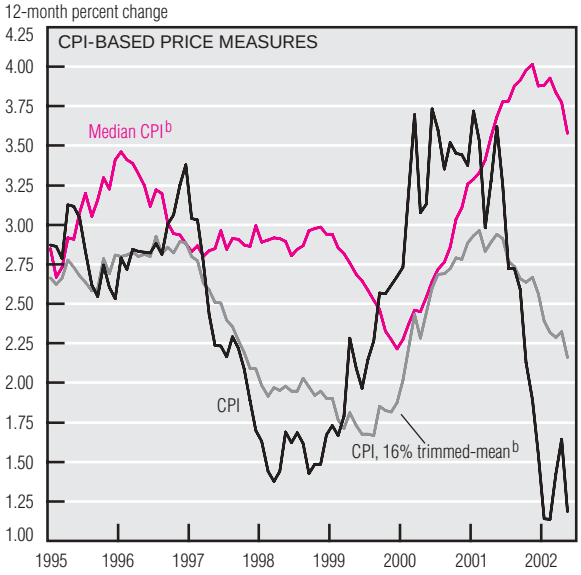
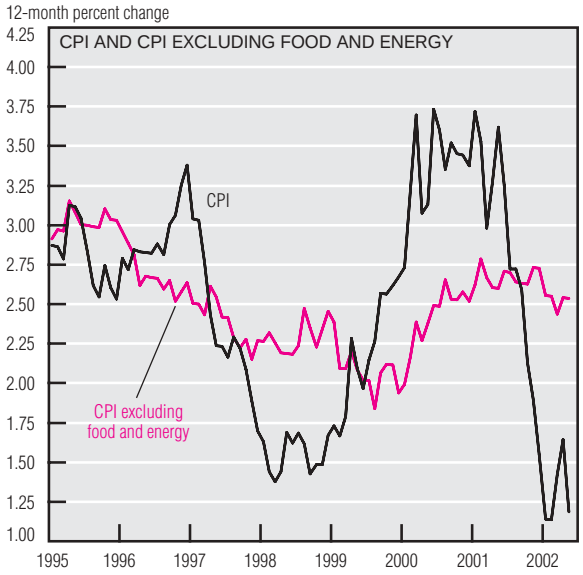
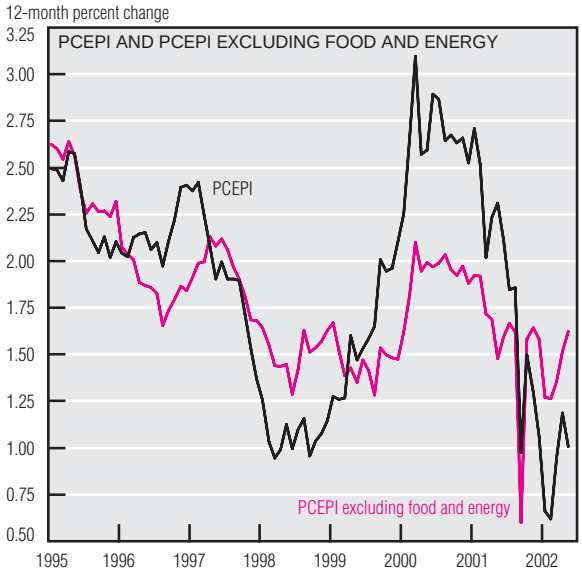
Inflation and Prices

May Price Statistics

	Percent change, last: 1 mo.[a]	3 mo.[a]	12 mo.	5 yr.[a]	2001 avg.
Consumer prices					
All items	0.0	3.4	1.2	2.3	1.5
Less food and energy	1.9	2.1	2.5	2.4	2.7
Median[b]	2.3	3.1	3.6	3.1	3.9
Producer prices					
Finished goods	–5.1	1.5	–2.7	1.1	–1.7
Less food and energy	0.0	0.8	0.1	1.1	0.9







a. Annualized.
b. Calculated by the Federal Reserve Bank of Cleveland.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of Economic Analysis; and Federal Reserve Bank of Cleveland.

The consumer price index (CPI) was unchanged in May after rising sharply (0.5%) in April. Wide swings in energy prices continue to exert considerable influence over the direction of this retail price measure. The CPI's energy index fell 0.7% in May, after posting a huge (4.5%) increase in April. Excluding the highly volatile food and energy items from the consumer market basket reveals a comparatively stable pattern of retail price increases. The CPI excluding food and energy was up slightly less than 2% (at an annualized rate) in May; on a 12-month basis, it has fluctuated within a narrow range between $2^{1}/_{2}$% and $2^{3}/_{4}$% since the middle of 2000.

The 12-month rates of change in both the median CPI and the 16% trimmed-mean CPI have been falling steadily for several months, perhaps a sign that underlying inflationary pressures are easing, albeit modestly. Both of these inflation measures are constructed to be less sensitive to the most extreme price movements in any given month, so they may represent broad price trends better than either the official CPI or the CPI excluding food and energy.

The personal consumption expenditure (chain-type) price index provides yet another measure of retail costs. The PCEPI market basket gives less weight to housing costs (which have been rising substantially in recent years relative to other goods), and this, along with other methodological differences, has caused the PCEPI to record less inflation than the CPI. But like the CPI, the PCEPI has shown wide swings in recent years, and for the same basic reason—prices within its market basket have shown widely varying rates of increase.

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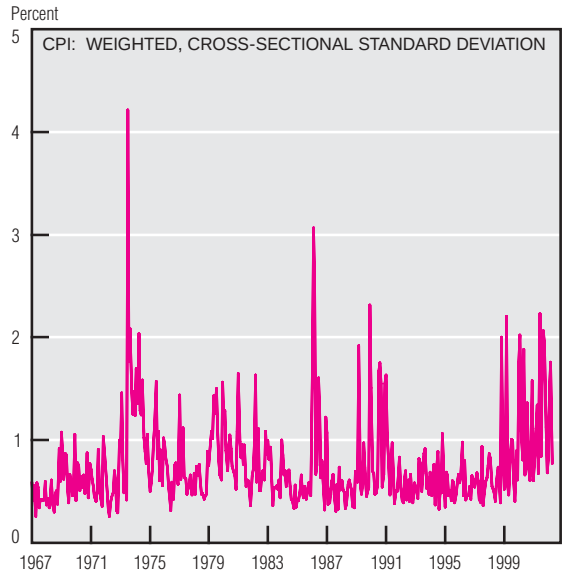
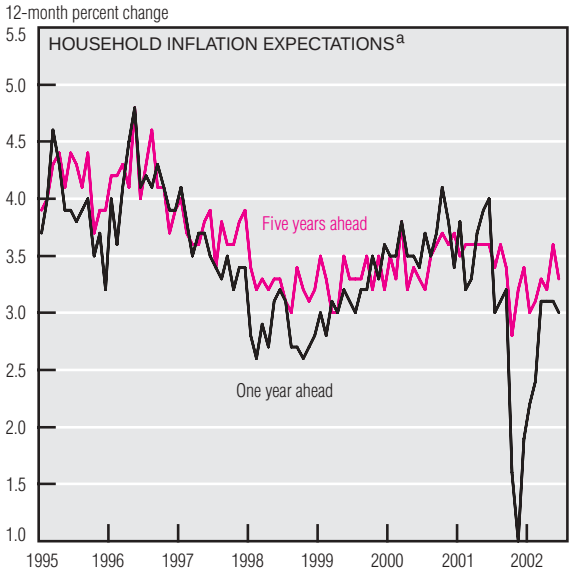
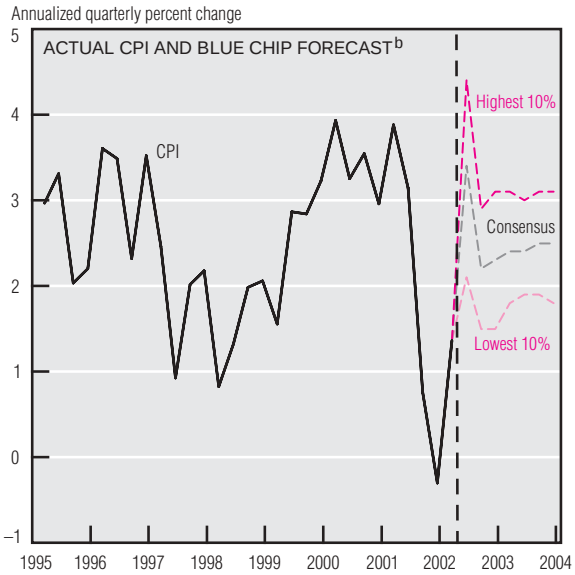
Inflation and Prices *(cont.)*



Extremes of the Price-Change Distribution

Component	24-month annualized percent change	Relative importance, May 2002
Upper tail		
Tobacco and smoking products	6.8	0.9
Motor vehicle insurance	6.0	2.3
Education	5.5	2.8
Medical care services	5.0	4.5
Miscellaneous personal services	4.4	1.6
Fresh fruits and vegetables	4.2	1.0
Gas (piped) and electricity	4.1	3.4
Rent and owners' equivalent rent	4.1	28.6
Lower tail		
Communication	–1.0	3.0
Miscellaneous personal goods	–1.0	0.2
New and used cars and trucks	–1.2	7.1
Jewelry and watches	–1.3	0.4
Infants' and toddlers' apparel	–1.6	0.2
Women's and girls' apparel	–2.0	1.8
Motor fuel and fuel oil and other fuels	–2.7	3.1
Men's and boys' apparel	–3.2	1.1





a. Mean expected change in consumer prices as measured by the University of Michigan's *Survey of Consumers*.
b. Blue Chip panel of economists.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; University of Michigan; Federal Reserve Bank of Cleveland; and *Blue Chip Economic Indicators*, June 10, 2002.

Some of the items in the CPI basket show rather persistent and troubling rates of increase, while others show equal persistence in their outright rates of decline. These divergent patterns make it difficult to gauge the underlying price pressure. In fact, examining the pattern of price changes across goods and services in the CPI's consumer market basket (the weighted standard deviation in the cross-section of price changes in the CPI) shows unusually divergent behavior among the prices of different goods; this unusual behavior has characterized the CPI since about 1999. The varying pattern of price changes within the consumer's market basket contrasts starkly with the 1992–99 period, when price changes were largely uniform across goods and services.

Among the items that have shown large and persistent price increases in recent years are medical care (5%) and housing services (4.1%), whereas price increases for communication, apparel items, and gasoline prices have shown persistent net declines. Whatever causes this diverse behavior in retail prices, greater variability among prices for consumer goods and services does not seem to have affected inflation expectations significantly. Households' long-run expectations (five years ahead or more) have held steady between 3.0% and 3.5% since 1998, while year-ahead expectations, which plummeted after September 11, have settled at about 3%. Similarly, although economists expect CPI inflation to rise a bit from its current low reading, the consensus forecast projects that it will plateau at a rate of 2%–3%, not far from the economy's average trend inflation over the past five years or so.