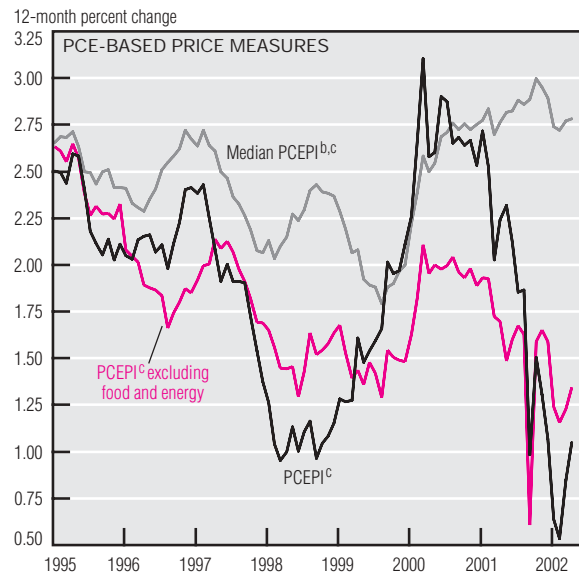
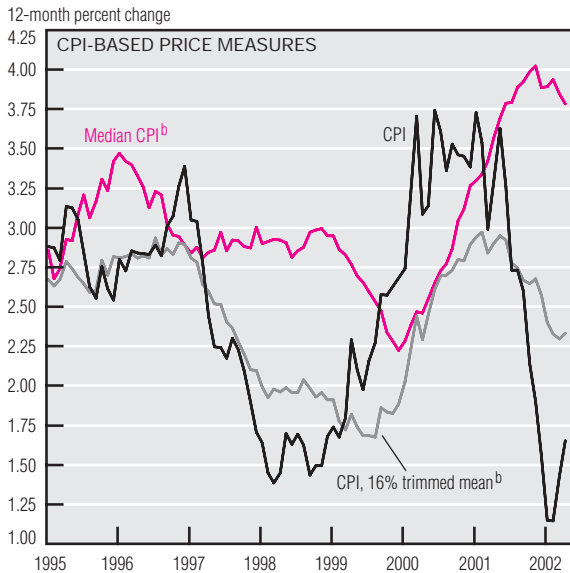
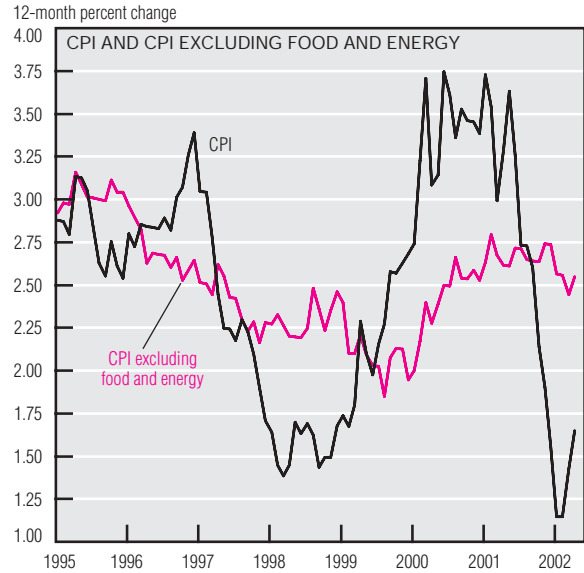


Inflation and Prices

	Percent change, last:				2001 avg.
	1 mo. ^a	3 mo. ^a	12 mo.	5 yr. ^a	
Consumer prices					
All items	6.2	4.3	1.6	2.3	1.5
Less food and energy	3.2	2.6	2.5	2.4	2.7
Median ^b	3.4	3.7	3.8	3.1	3.9
Producer prices					
Finished goods	-2.6	4.1	-2.0	1.1	-1.7
Less food and energy	0.8	0.8	0.3	1.1	0.9



a. Annualized.
 b. Calculated by the Federal Reserve Bank of Cleveland.
 c. Personal Consumption Expenditure (chain type) Price Index.
 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.

For the second straight month, the Consumer Price Index (CPI) showed an outsized gain, pushed in large part by another surge in gasoline prices. The retail price measure rose 6.2% (annualized rate) in April and is up an annualized 4.3% over the February–April period. Even excluding food and energy goods, however, retail prices showed substantial upward pressure in April, rising an annualized 3.2%. The very recent acceleration in retail prices appears to have been relatively broadly based. The median CPI continued to show gains in excess of 3% in April and has averaged just shy of

4% over the past 12 months. And the 16% trimmed-mean CPI, an inflation measure that excludes the highest and lowest 8% of the CPI, was up 2.5% in April, a modest increase from its 12-month average annualized growth of 2.3%.

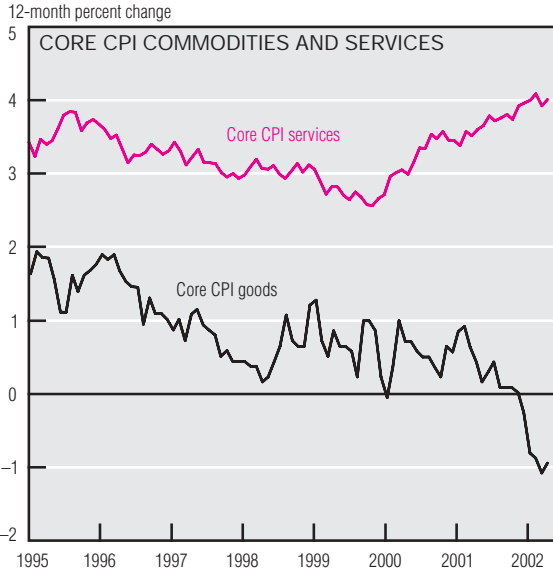
Similar readings have been registered in the other major measure of retail prices, the Price Index for Personal Consumption Expenditures (PCEPI). After slowing to a virtual halt early this year, the PCEPI has bounced back a bit, showing a recent trend just above an annualized 1%. The PCEPI excluding food and energy goods

has shown a slightly higher growth trend recently (1.3% over the past 12 months), and the median PCEPI has reached a plateau of around 2³/₄% per year.

Although the most recent uptick in retail prices seems to have been rather broadly diffused across markets, the large dichotomy in price growth between goods and services markets remains a prominent feature of the data. Over the past 12 months, retail goods prices (excluding food and energy) have fallen at an annualized rate of about 1%, while core

(continued on next page)

Inflation and Prices (cont.)



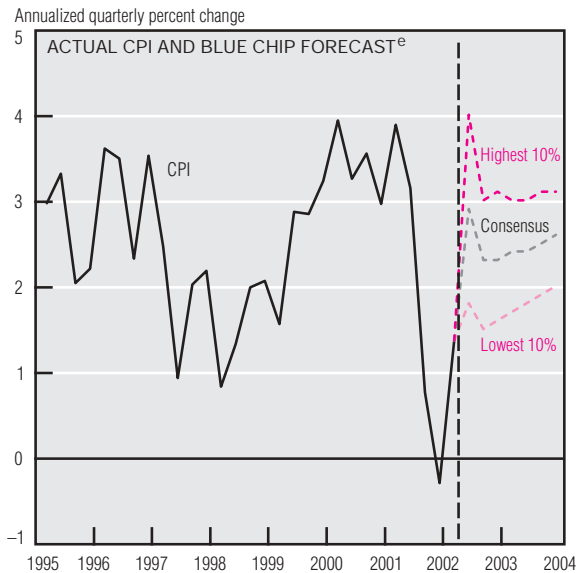
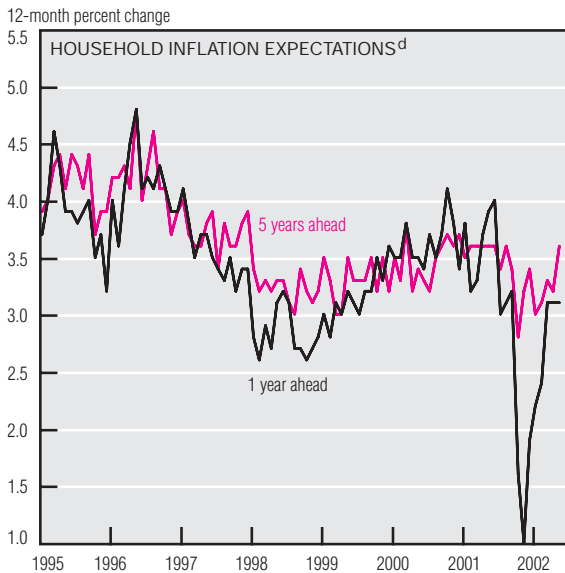
Forecast Accuracy of Various CPI-Based Measures^a

Forecast of 12-month percent change in CPI, 12 months ahead, RMSE^b

	Percent change, prior			
	1 mo.	3 mo.	6 mo.	12 mo.
CPI	2.37	1.77	1.50	1.47
CPI excluding food and energy	2.13	1.77	1.71	1.75
Median CPI ^c	1.54	1.36	1.34	1.38
16% trimmed mean ^c	1.38	1.24	1.22	1.28

Forecast of 24-month percent change in CPI, 24 months ahead, RMSE^b

CPI	2.51	1.94	1.69	1.68
CPI excluding food and energy	2.24	1.87	1.78	1.78
Median CPI ^c	1.56	1.37	1.36	1.39
16% trimmed mean ^c	1.49	1.33	1.31	1.37



a. All measures are based on a consistently applied methodology across time.
 b. Root mean square error, a measure of forecast accuracy. A smaller RMSE indicates greater forecast accuracy.
 c. Calculated by the Federal Reserve Bank of Cleveland.
 d. Mean expected change in consumer prices.
 e. 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*, May 10, 2002.

services prices are rising at an annualized clip of about 4%.

Among the various measures of retail price increases, which is likely to give the best indication of future retail price trends? Historically, the 16% trimmed-mean and the median have provided the most accurate gauge of future CPI growth. Indeed, the past month's increase in the median CPI has historically been at least 35% more accurate than the monthly CPI in gauging the next 12 months of CPI growth.

The efficiency of the median and trimmed-mean measures in predicting inflation trends (relative to the CPI and the CPI excluding food and energy) tends to lessen when based on data for a period longer than one month. However, even when using, for example, 12-month percent changes, the median and trimmed-mean measures remain superior predictors of future inflation.

Households have noted the upward trend in retail prices recently, and their expectations of future price

increases at the retail level have begun to inch upward. The most recent reading of the University of Michigan's household inflation expectations data shows an expected increase of slightly more than 3% over the next 12 months, and a bit more than 3½% on average over the next five years. These estimates are well above the CPI predictions of most economists, who show a consensus inflation expectation of about 2½% for this year and next.