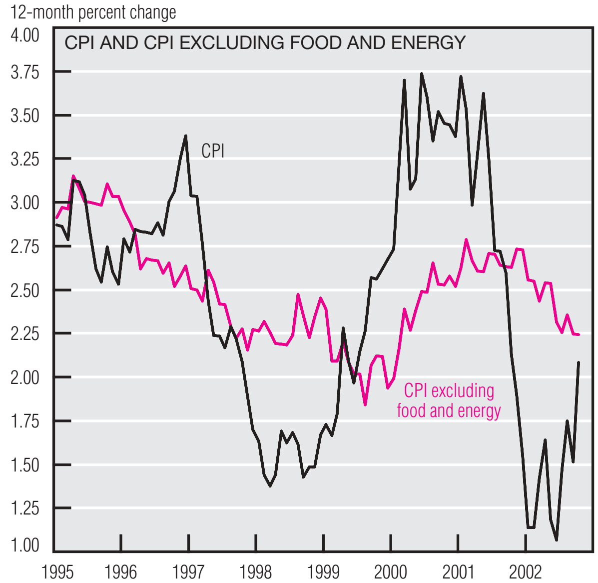
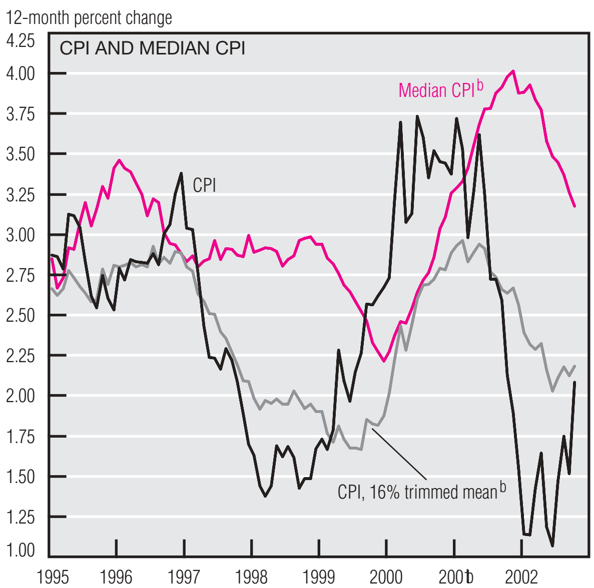
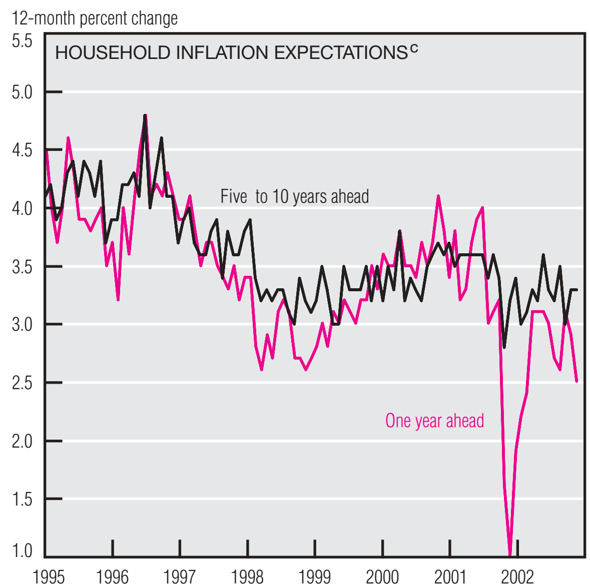
Inflation and Prices

October Price Statistics

	Percent change, last: 1 mo.[a]	3 mo.[a]	12 mo.	5 yr.[a]	2001 avg.
Consumer prices					
All items	3.4	3.1	2.1	2.3	1.5
Less food and energy	1.9	2.3	2.2	2.3	2.7
Median[b]	3.4	3.2	3.2	3.1	3.9
Producer prices					
Finished goods	13.8	4.7	0.6	1.2	–1.7
Less food and energy	5.7	1.6	0.5	1.1	0.9







a. Annualized.
b. Calculated by the Federal Reserve Bank of Cleveland.
c. Mean expected change in consumer prices as measured by the University of Michigan's *Survey of Consumers*.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; Federal Reserve Bank of Cleveland; and University of Michigan.

The consumer price index (CPI) rose 0.3% (3.4% annual rate) in October; according to the Labor Department, rising energy prices accounted for about half of this increase. Energy prices have been going up at an accelerating rate, advancing at a monthly rate of 0.4% in July, 0.6% in August, and 0.7% in September, then jumping at a rate of nearly 2.0% in October. By contrast, inflation in food prices over the last six months has been almost nil.

Excluding food and energy prices, the CPI rose 0.2% (1.9% annual rate). Among the major CPI categories that showed accelerating inflation in the October report were shelter, transportation, medical care, and recreation. Prices for tobacco and smoking products, though, fell sharply during the month.

On a year-over-year basis, the CPI had advanced 2.1% as of October, the first time in a year that this figure climbed above 2%. The CPI's 16% trimmed mean has also been trending upward, albeit more modestly; in the past four months, it has risen from 2.0% to 2.2%. By contrast, the median CPI continues the downward trend it began at the end of last year. Since then, its year-over-year rate of change has dropped more than 3/4 of a percentage point. However, the median remains nearly a percentage point higher than the trimmed mean.

Households' short- and long-run expectations of inflation have been drifting apart since converging at about 3% in September; the reason was a drop in short-run expectations. Households now expect slightly less inflation in the next year (2.5%) than in the next five to ten years (3.3%). Both long- and short-run inflation expectations by households remain

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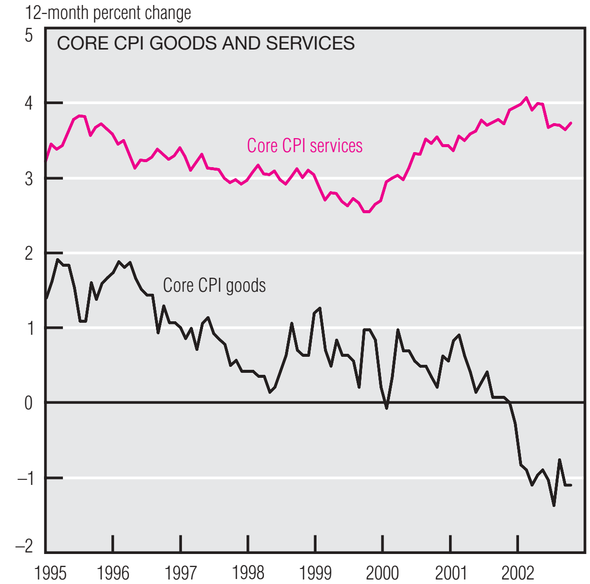
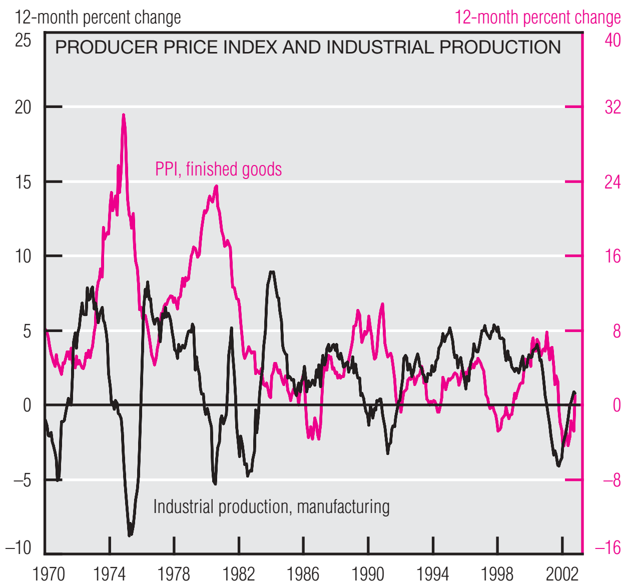
Inflation and Prices *(cont.)*





Changes in PPI and IP, by Industry

	24-month percent change	
	Producer Price Index	Industrial production
Printing and publishing	4.81	–10.86
Foods	2.25	–0.53
Stone, clay and glass products	2.23	–1.85
Furniture and fixtures	2.09	–10.36
Fabricated metal products	1.15	–5.33
Rubber and plastics products	0.80	–3.0
Transportation equipment	0.58	–5.47
Chemicals and products	0.57	0.0
Apparel products	0.0	–12.88
Lumber and products	–0.13	–3.02
Industrial machinery and equipment	–0.77	–10.82
Textile mill products	–1.03	–9.97
Primary metals	–2.16	–8.44
Electrical machinery	–2.69	–7.49
Petroleum products	–3.45	–2.68

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and Board of Governors of the Federal Reserve System.

near historically low levels. A look at the labor market seems to support households' optimism about the near-term inflation outlook. On a year-over-year basis, unit labor costs have fallen in four consecutive quarters, reflecting increases in workers' productivity amid decreases in workers' compensation

One reason for the sanguine near-term inflation expectations may be declining goods prices. On average, prices of core CPI goods, that is, goods in the CPI market basket excluding energy, have been falling for an unprecedented 11 consecutive months. Core CPI goods prices have not fallen for any prolonged period in more than 40 years and then for only seven straight months.

To understand what might be driving down goods prices, it might be instructive to look at producer prices. Consider that in the past, changes in the Producer Price Index (PPI) and industrial production in the manufacturing sector (IP) have tended to move in opposite directions. This suggests that historically, the prices of industrial products have been most affected by supply factors; temporary declines in output have been associated with upward pressure on prices.

Recently, however, these economic time series have begun to move in the same direction, suggesting that in the aggregate, these changes may be driven by waning demand. However, the industry-level data present a murkier picture. Certainly, some industries have seen significant declines in production, coupled with falling prices. But in other industries, particularly those tied to the automotive sector, prices have continued to rise even as production has declined.