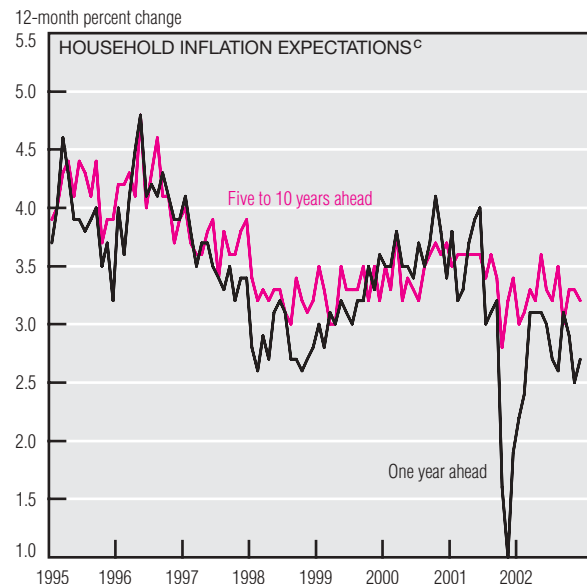
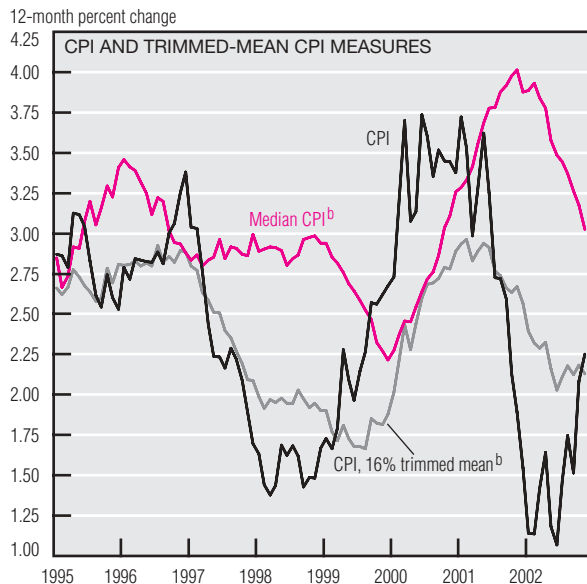
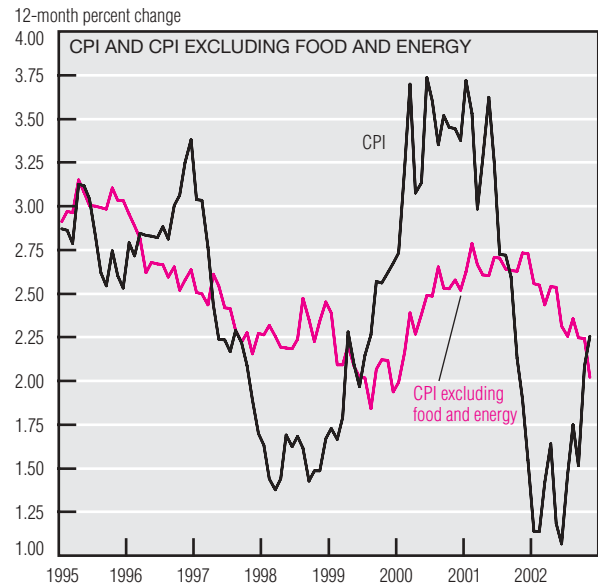


Inflation and Prices

November Price Statistics

	Percent change, last:				2001 avg.
	1 mo. ^a	3 mo. ^a	12 mo.	5 yr. ^a	
Consumer prices					
All items	1.3	2.2	2.3	2.3	1.5
Less food and energy	1.9	1.7	2.0	2.4	2.7
Median ^b	1.7	2.6	3.0	3.1	3.9
Producer prices					
Finished goods	-5.0	2.9	0.9	1.2	-1.7
Less food and energy	-3.1	1.1	0.1	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 only 0.1% (1.3% annual rate) in November. After increasing sharply over the last several months, energy prices fell for the first time in six months. However, the index for food and beverages advanced more rapidly in the most recent report: After October's 0.1% increase, food and beverage prices rose 0.3% in November. According to the Labor Department, upturns in the indexes for fruits and vegetables and for meats, poultry, fish, and eggs were partly responsible.

In November, the CPI excluding food and energy rose at the same

rate as in October—0.2% (1.9% annualized). Among the major categories apart from food and energy, the indexes for apparel and transportation declined in November, while the indexes for recreation and education and communication remained unchanged. Inflation in the housing component of the CPI decelerated slightly in November, whereas the inflation rate for the medical care component (0.6%) was unchanged from October.

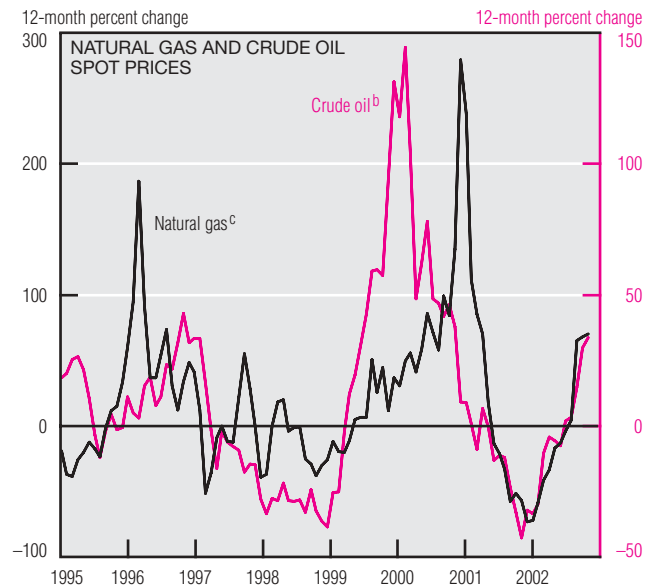
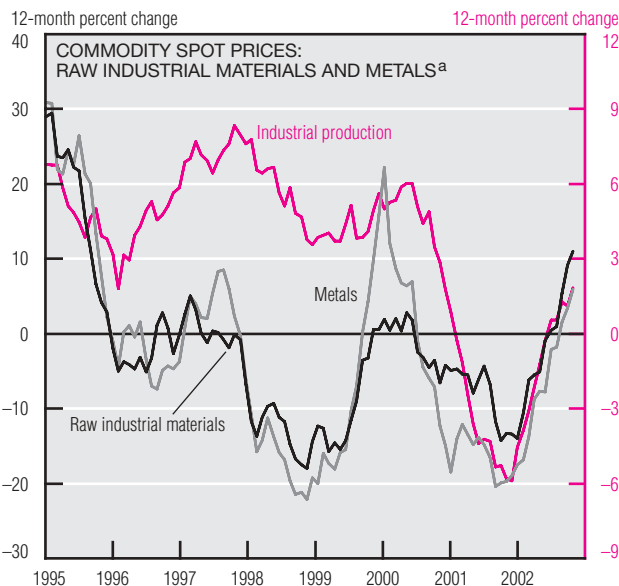
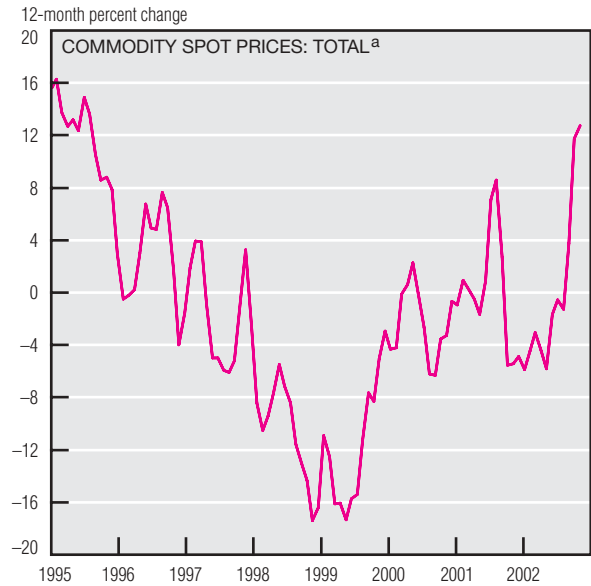
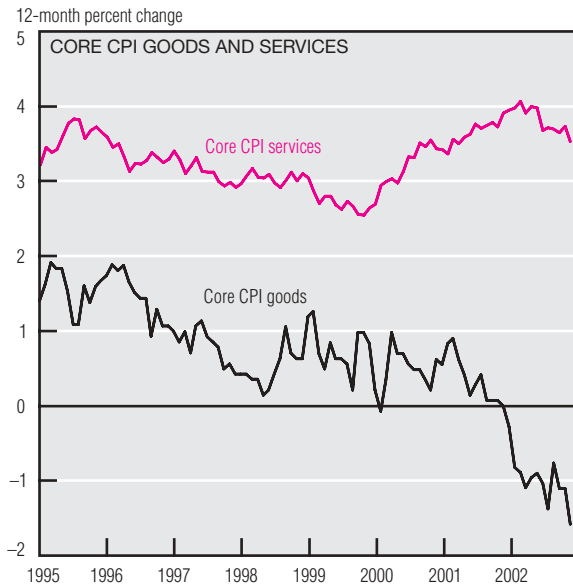
Over the past 12 months, the CPI rose at a 2.3% rate, and the CPI excluding food and energy rose at a 2.0%

rate. Although the two measures' year-over-year rates of change are similar, they followed different trajectories over the course of 2002. The CPI excluding food and energy drifted steadily down during the year, as did trimmed-mean measures of the CPI. The year-over-year rate of change in the median CPI has fallen one percentage point in the last 12 months; the CPI's 16% trimmed mean has fallen about half a percentage point over the same period.

The improving trend implied by some inflation measures has almost

(continued on next page)

Inflation and Prices (cont.)



a. Commodity Research Bureau, Spot Commodity Price Indexes.

b. West Texas intermediate.

c. Henry Hub.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; Dow Jones Energy Service; and Commodity Research Bureau.

certainly helped keep households sanguine about the inflation outlook, and their expectations remain near historically low levels. After converging in September, households' short- and long-run inflation expectations diverged, but both remain at about 3%. Households surveyed in September expected inflation to average about 2.7% in the coming year and about 3.2% over the next five to 10 years.

The gap between inflation rates for goods and services continues to widen. Inflation in core CPI services prices remains at about 4% on a year-

over-year basis, while prices for core CPI goods continue to decline more and more rapidly. What may be even more surprising is that core CPI goods prices have continued to decline even as the year-over-year rate of change in commodity prices has risen. Labor accounts for a significant share of service providers' costs; similarly, raw materials represent a significant share of goods providers' costs. So it seems reasonable to expect that rising inflation rates for commodities might result in increasing goods price inflation, but so far this has not happened.

The increase in commodity price inflation probably was caused in part by higher rates of industrial production. Although the amount of industrial production has yet to return to its 2000 peak, its year-over-year rate of increase rose steadily throughout 2002. The attendant increase in demand for industrial inputs in recent months is reflected in rising prices for raw industrial materials and metals. Not surprisingly, energy prices followed a similar pattern, rising in response to higher rates of industrial production.