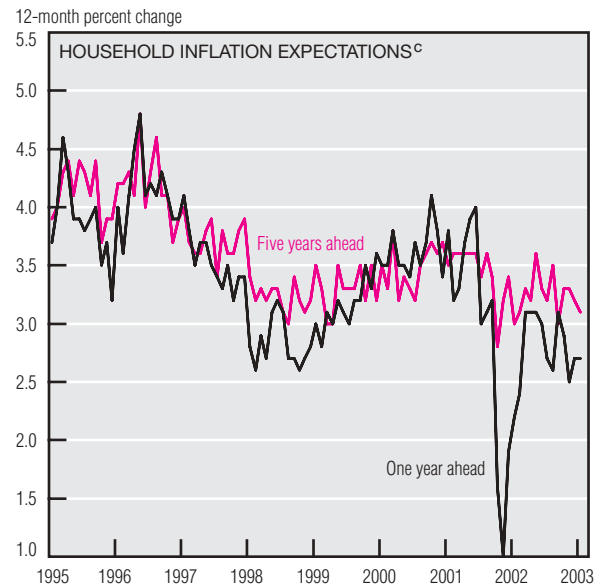
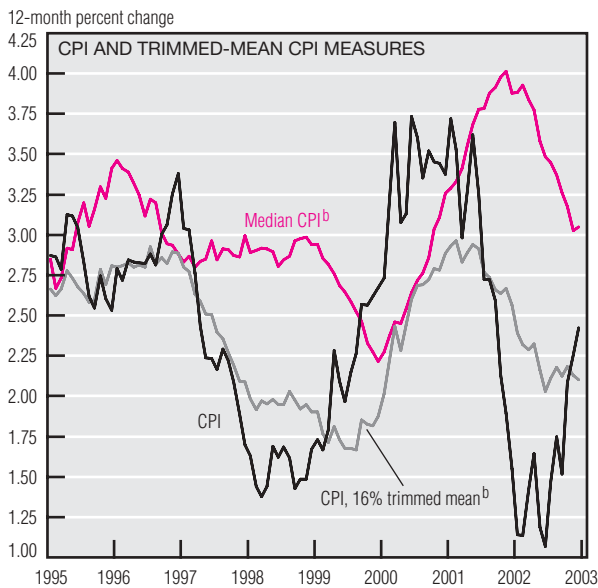
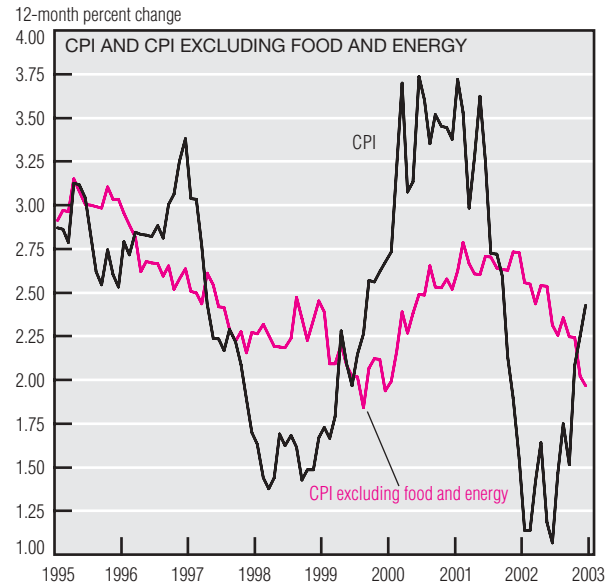


# Inflation and Prices

	Percent change, last:				2001 avg.
	1 mo. <sup>a</sup>	3 mo. <sup>a</sup>	12 mo.	5 yr. <sup>a</sup>	
<b>Consumer prices</b>					
All items	0.7	1.8	2.4	2.3	1.5
Less food and energy	0.6	1.5	2.0	2.3	2.7
Median <sup>b</sup>	2.3	2.4	3.1	3.1	3.9
<b>Producer prices</b>					
Finished goods	0.0	2.6	1.2	1.2	-1.7
Less food and energy	-3.9	-0.5	-0.4	1.0	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 major inflation statistics slowed to a virtual standstill in January, as retail prices (measured by the Consumer Price Index) as well as wholesale prices (measured by the Producer Price Index), grew at an annualized rate of less than 1%. For the CPI, the January data add to a string of fairly moderate cost-of-living reports dating back to last fall. These recent numbers follow the downward inflation trajectory that has been suggested by the so-called "core" inflation statistics (the CPI excluding food and energy items and the median CPI) for about a year.

While the various CPI measures still differ rather widely in their readings for the past 12 months, a growing consensus among them seems to point to an inflation trend in the 2%–3% range. For the median CPI, produced by the Federal Reserve Bank of Cleveland, this represents a decline of about a percentage point from last January's reading; over the same period, the growth of the overall CPI has risen by a similarly large amount.

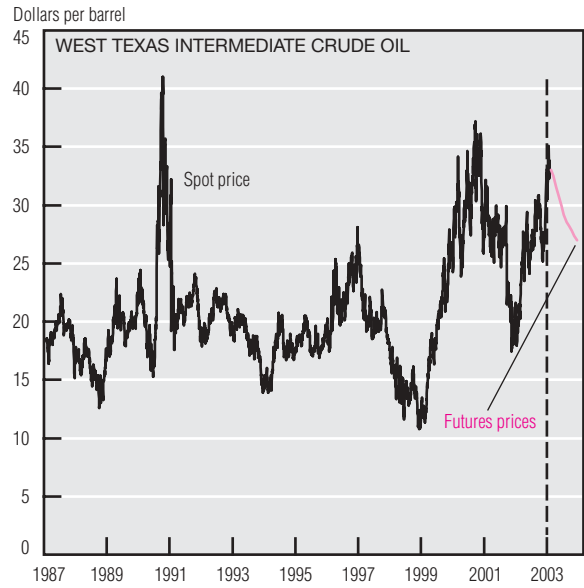
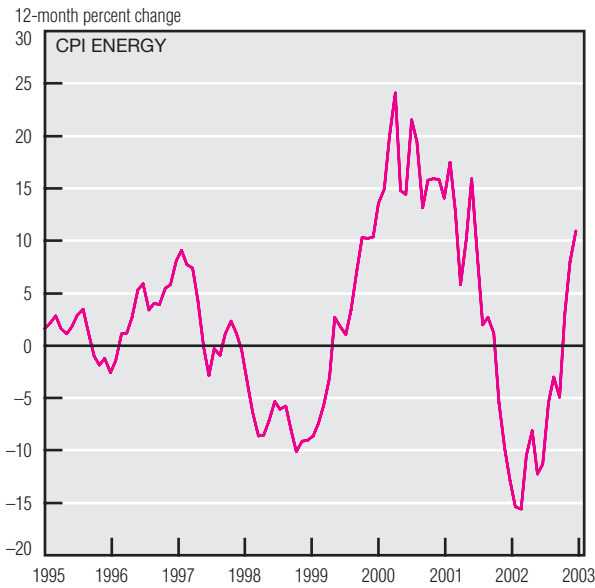
Economists' inflation outlook is fairly sanguine, with CPI forecasts mostly in the 2%–3% range over the

next few years—and a consensus view that the inflation measure will stay at the lower end of that range. This projection generally conforms to households' inflation expectations. The University of Michigan's survey shows that U.S. consumers expect prices to rise slightly more than 2½% over the next 12 months and to remain at (or slightly above) the 3% level for the next five years.

Over the near term, the price outlook is unclear. U.S. households' budgets have been whipsawed in recent years by wide fluctuations in energy

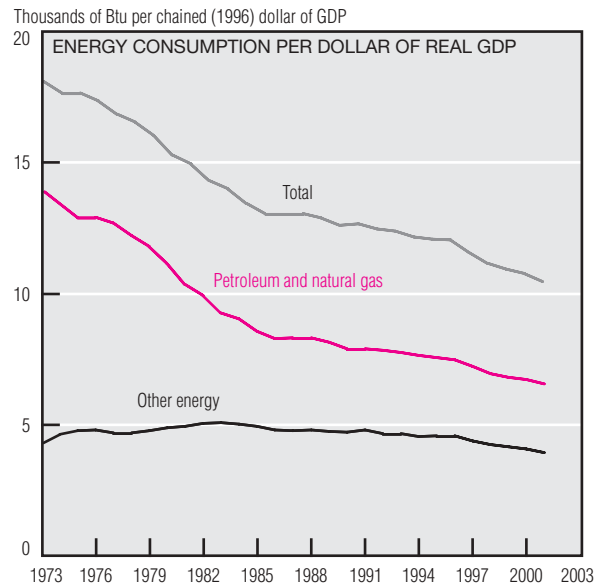
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## Inflation and Prices (cont.)



**OPEC Crude Oil Production, February 2003**  
(thousands of barrels per day)

	February 2003, estimated	Change from production in November 2002	Spare capacity
Venezuela	600	-2,305	0
Saudi Arabia	8,700	600	1,550
Iran	3,700	200	50
Nigeria	2,225	215	75
United Arab Emirates	2,200	190	300
Kuwait	2,125	185	75
All other OPEC countries (excluding Iraq)	4,185	95	200



SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Energy, Energy Information Administration; Dow Jones Energy Service; and Bloomberg Financial Information Services.

prices, particularly petroleum products; that rather extreme volatility may continue this year as well. The CPI's energy price index leaped at double-digit rates in 2000 and much of 2001, but fell with nearly equal intensity last year. Recently, households' budgets have felt the pinch of energy price increases once again as the cost of crude oil has steadily climbed in tandem with tensions concerning Iraq.

Anxiety over rising energy prices has been further heightened by an oil workers' strike in Venezuela. Between November and January, this OPEC

member's production fell from an estimated 2.9 million barrels per day to only 600,000. About two-thirds of that production shortfall apparently was made up by expanded production by other members of the oil cartel, particularly Saudi Arabia, which boosted production by about 600,000 barrels daily over the three-month period. The rather large excess capacity of Saudi Arabia (among others) and expectations that Venezuelan oil production may soon rebound have probably contributed to the downward slide in futures markets' projected oil prices. The markets recently

priced a barrel of West Texas intermediate crude oil at \$35; this is expected to fall to about \$29 by summer.

Certainly energy consumption per dollar of U.S. production has fallen over time, indeed by roughly 40% in the past 30 years. This trend obviously mitigates the severity of energy price fluctuations on economic performance and households' cost of living. Nevertheless, large, unexpected fluctuations in energy prices are still an important unknown in assessing the outlook for the economy's performance, particularly retail prices.