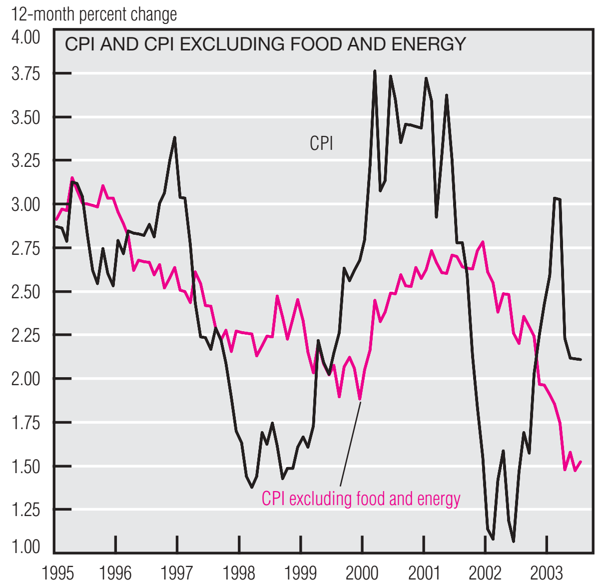
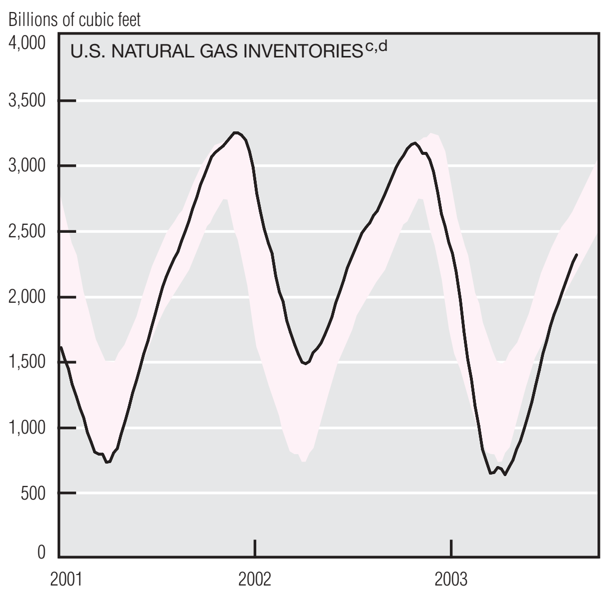
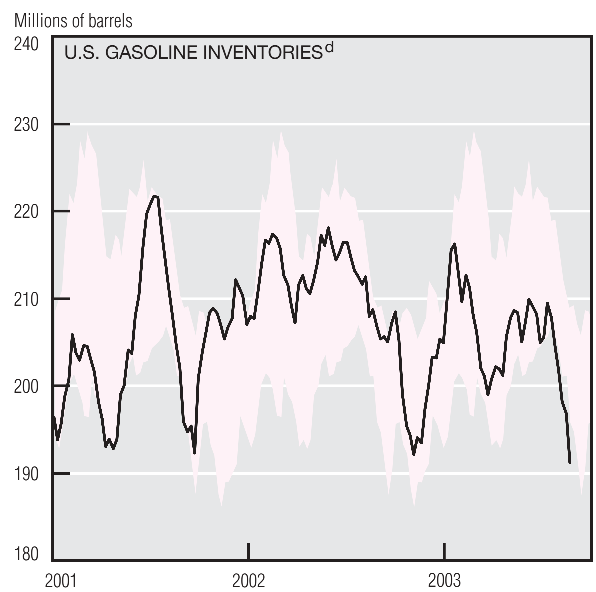
Inflation and Prices

August Price Statistics

	Percent change, last: 1 mo.[a]	3 mo.[a]	12 mo.	5 yr.[a]	2002 avg.
Consumer prices					
All items	2.0	1.3	2.1	2.4	2.4
Less food and energy	2.5	1.9	1.5	2.2	2.0
Median[b]	2.7	2.0	2.1	2.9	3.0
Producer prices					
Finished goods	1.7	1.4	3.0	1.8	1.2
Less food and energy	2.4	0.8	0.2	0.9	–0.5







a. Annualized.
b. Calculated by the Federal Reserve Bank of Cleveland.
c. Working gas in underground storage.
d. The shaded band indicates the range between minimum and maximum values for weekly data from 1998 through 2002.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Energy, Energy Information Administration; and Federal Reserve Bank of Cleveland.

Consumer and wholesale prices rose at an annualized rate of about 2% in July, partly restrained by falling energy costs. Excluding food and energy goods, the Consumer Price Index (CPI) and the Producer Price Index (PPI) each rose about $2\frac{1}{2}$%, both well above their 12-month growth trends.

Despite their restraining influence on the major price statistics in July, energy costs have given a strong upward push to the aggregate price measures over the past year. And several sources indicate that energy costs may continue to exert pressure on consumers' pocketbooks and businesses' income statements in the immediate future. Certainly, spot prices for a wide range of energy goods rose sharply this summer, but over the past month or so, upward pressures have shown signs of relenting.

In June, Federal Reserve Chairman Greenspan testified before the House Committee on Energy and Commerce that "[t]oday's tight natural gas markets have been a long time in coming, and futures prices suggest that we are not apt to return to earlier periods of relative abundance and low prices anytime soon." He noted that unlike the market for crude oil, where "American refiners have unlimited access to world supplies" and can therefore adjust readily to any imbalance between domestic consumption and domestic supply, it is more difficult to meet domestic demand for natural gas by means of imports. Indeed, at the time of Chairman Greenspan's testimony, natural gas prices had risen from a low of $2.55 (per million Btu) in July 2000, to $3.65 in July 2002, and to $6.31 in July 2003.

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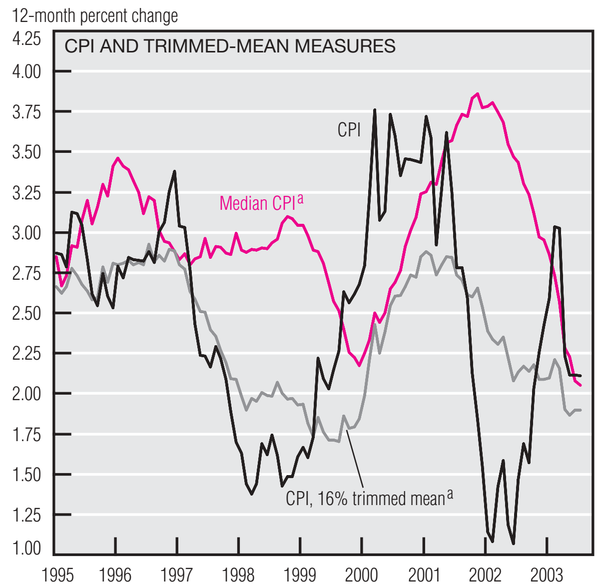
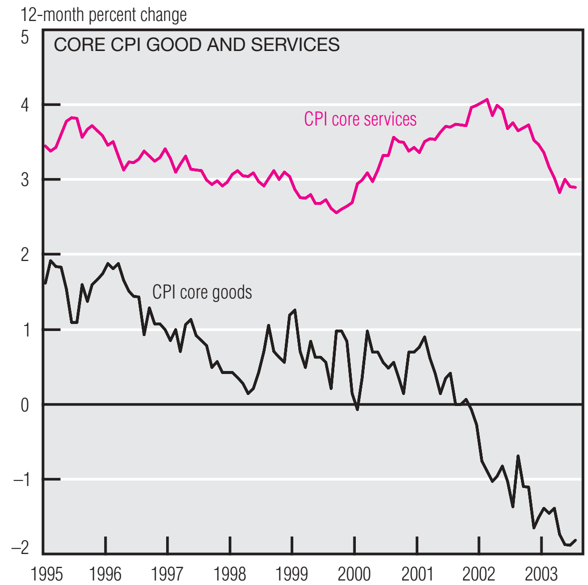
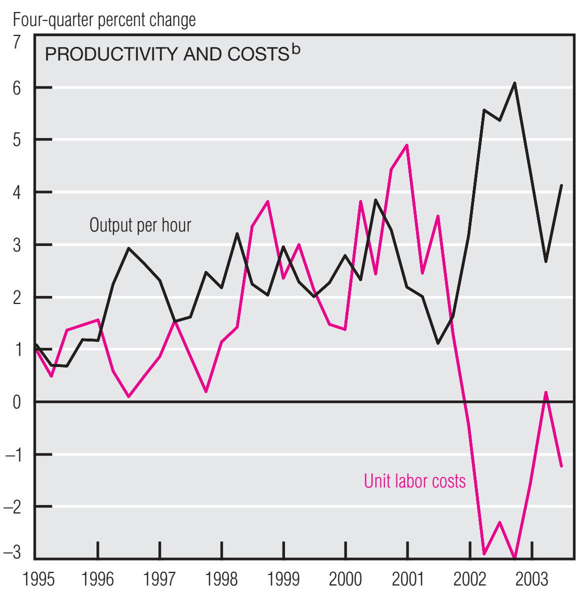
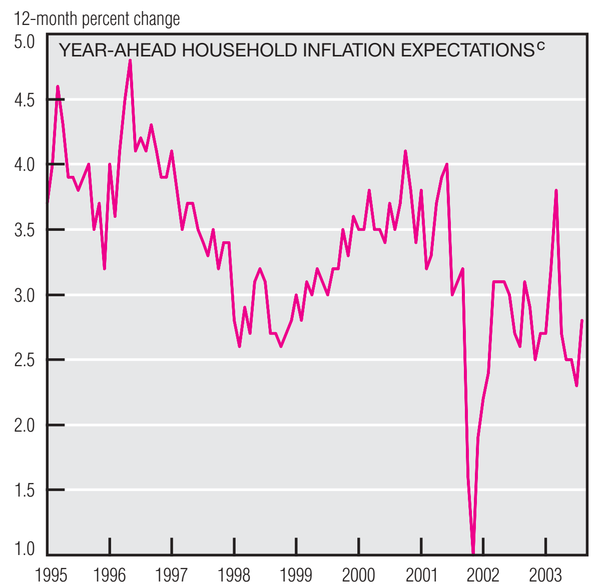
Inflation and Prices (cont.)









a. Calculated by the Federal Reserve Bank of Cleveland.
b. Nonfarm business sector.
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.

Since his testimony, pressures on the natural gas market seem to have eased somewhat; energy companies were reported to be replenishing reserves at a record pace. Natural gas inventories, though still somewhat low, have now come back within their five-year ranges and are more able to meet cold-weather demands.

The market for gasoline has also been feeling some strain recently; U.S. fuel reserves are reportedly near a three-year low. Reduced supplies and the strong summer demand created by increased travel have combined to push gasoline prices up more than 50% between May and August, although futures markets indicate that as much as two-thirds of that rise could reverse itself by the end of the year.

Inflationary patterns remain rather subdued overall but are still quite mixed by category. Goods prices continue to post outright declines, whereas services prices are rising at an annualized pace of about 3%. This large discrepancy between goods and services makes it difficult to discern the economy's underlying inflation trend. A recent surge in U.S. labor productivity, against a backdrop of relatively modest growth in labor compensation, has put substantial downward pressure on the per-unit labor costs of U.S. output. (Unit labor costs have been on the decline for much of the past three years.) Inflationary expectations may also be trending lower, at least according to the University of Michigan's survey data, which show that U.S. households anticipate price increases of about 2¾% over the next 12 months, about one percentage point lower than the rate they expected three years ago.