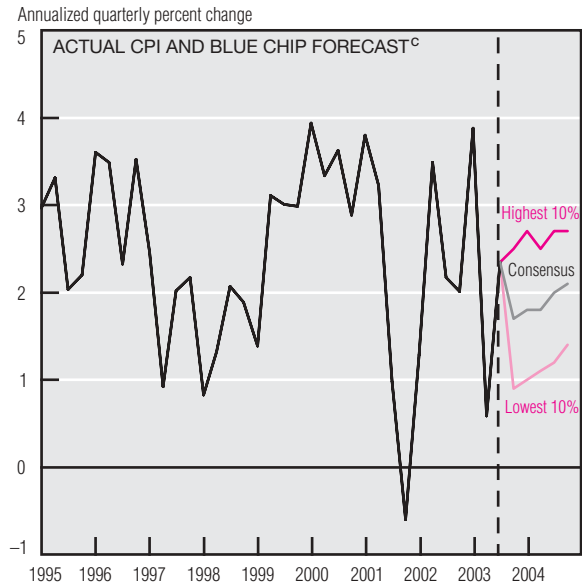
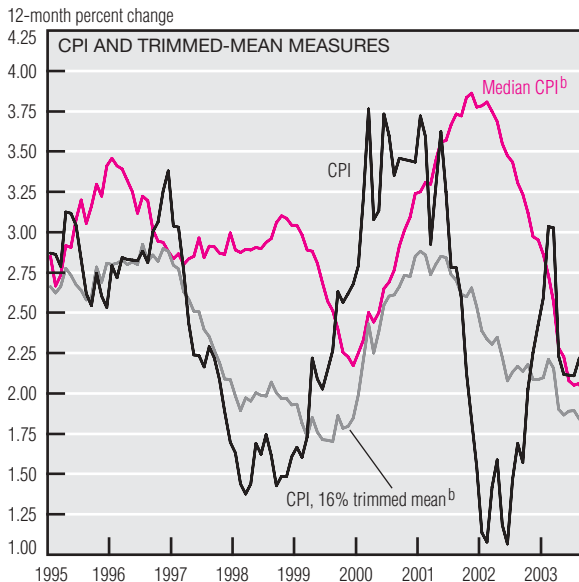
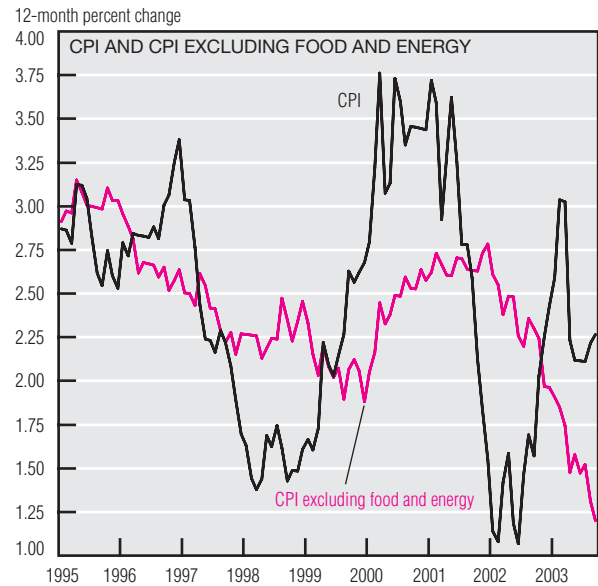


Inflation and Prices

	Percent change, last:				2002 avg.
	1 mo. ^a	3 mo. ^a	12 mo.	5 yr. ^a	
September Price Statistics					
Consumer prices					
All items	3.3	3.1	2.3	2.5	2.4
Less food and energy	0.6	1.5	1.2	2.1	2.0
Median ^b	1.6	2.4	2.0	2.8	3.0
Producer prices					
Finished goods	3.4	3.4	3.5	2.0	1.2
Less food and energy	0.0	1.3	0.2	0.9	-0.5



a. Annualized.

b. Calculated by the Federal Reserve Bank of Cleveland.

c. Blue Chip panel of economists.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; Federal Reserve Bank of Cleveland; and *Blue Chip Economic Indicators*, October 10, 2003.

The Consumer Price Index (CPI) rose at an annualized rate of 3.3% in September, down from August's 4.0% annualized increase. Energy prices continued their steep ascent: After rising 2.7% in August, the CPI's energy index increased 3.0% in September. The Labor Department attributed this primarily to gasoline prices, which spiked up 6.3% in the month.

Eliminating the volatile energy and food components from the CPI, however, suggests that price pressures

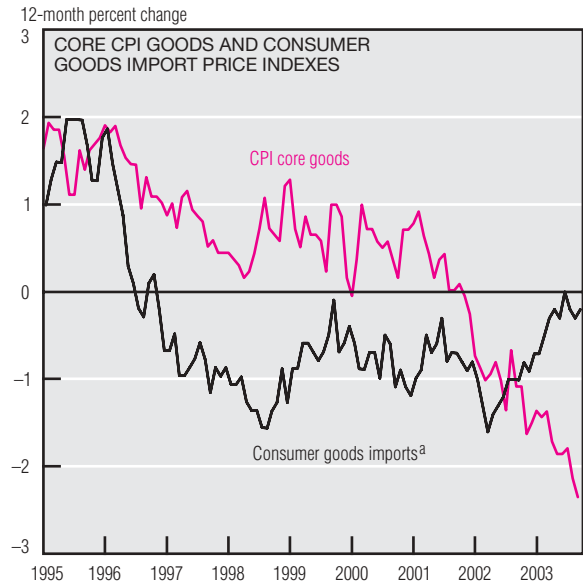
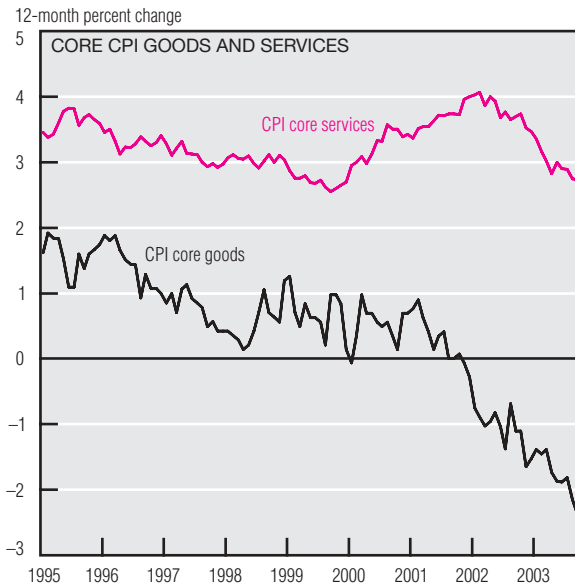
remain subdued in September. The CPI excluding food and energy, or core CPI, increased at a 0.6% annualized rate. The median CPI and 16% trimmed-mean CPI, measures of inflation that exclude the most extreme price changes, also rose modestly, at annualized rates of 1.6% and 1.7%, respectively. In contrast to the unadjusted CPI, all three of these measures, on a year-over-year basis, have trended downward throughout 2003.

The Blue Chip panel of economists' CPI forecast suggests that prices will continue to rise at an annualized rate of about 2% through the next five quarters. Individual panelists' forecasts fall within a range of about 1.5 percentage points: The most optimistic expect the CPI inflation rate to be approximately 1.4% by the end of 2004, while the most pessimistic expect it to be about 2.7%.

Core CPI inflation has been falling for about two years. Dividing the core

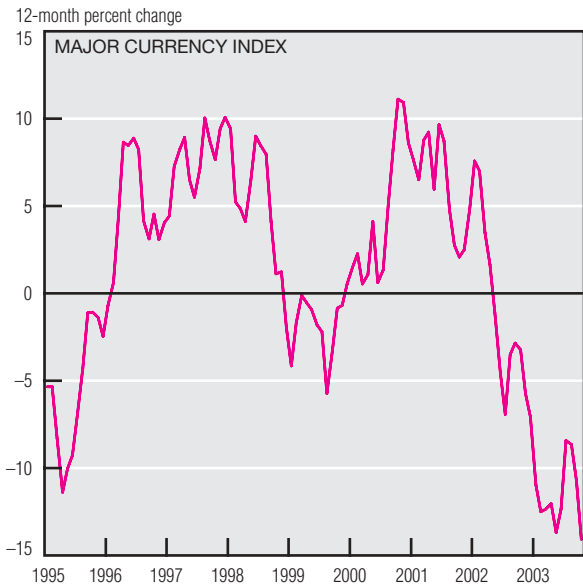
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Inflation and Prices (cont.)



Prices of Consumer Goods Imports^a

	Share, percent	Percent change, last		
		3 mo. ^b	12 mo.	36 mo. ^b
Nondurables	48.5	-0.40	0.20	-0.03
Apparel and footwear	31.9	0.0	0.71	-0.23
Other	16.6	-1.18	-0.79	0.27
Durables	46.2	-1.24	-0.62	-1.18
Household goods	20.3	-0.82	0.0	-0.81
Recreational	10.8	0.41	-0.10	-0.97
Home entertainment	10.6	-2.65	-4.31	-3.65
Other	4.5	-3.74	4.01	2.42
All other	5.5	-0.88	-0.28	-1.41



a. Excluding automobiles.

b. Annualized.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and Board of Governors of the Federal Reserve System, "Foreign Exchange Rates," H.10, *Federal Reserve Statistical Releases*.

CPI into goods and services shows that both components, like the overall index, have undergone disinflation since early in 2002. However, rates for core goods versus core services prices have diverged during the last two years: Disinflation has been even more pronounced for core goods prices than for core services prices. In fact, whereas core services prices have merely risen more slowly throughout this period, core goods prices have actually fallen.

Part of this deflation in core CPI goods prices can be traced to the prices of imported consumer goods, which have been falling for more than six years. In general, the prices of durable goods such as home entertainment items have declined more dramatically during this period than the prices of nondurable goods such as apparel and footwear. However, these declines have been more modest in recent months; indeed, the rate of deflation in imported consumer

goods prices has been lessening for almost two years.

Import prices depend partly on the value of the dollar: When its value falls, the dollar prices of imported goods rise. The Major Currency Index, a trade-weighted average of the dollar's foreign exchange value against a basket of the currencies of our major trading partners, indicates that, on a year-over-year basis, the dollar has depreciated since early 2002.