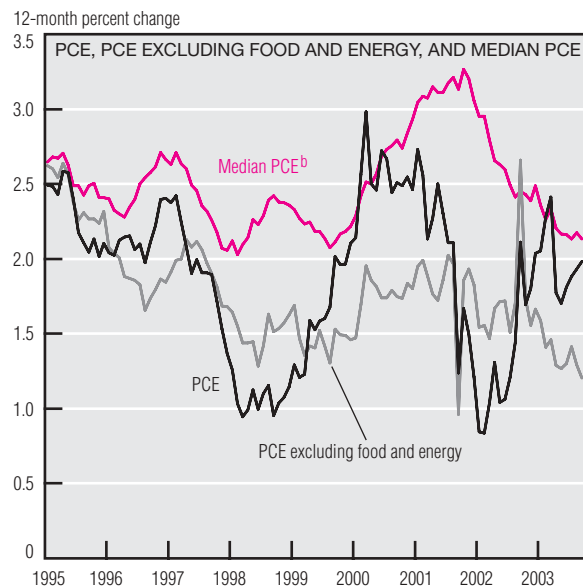
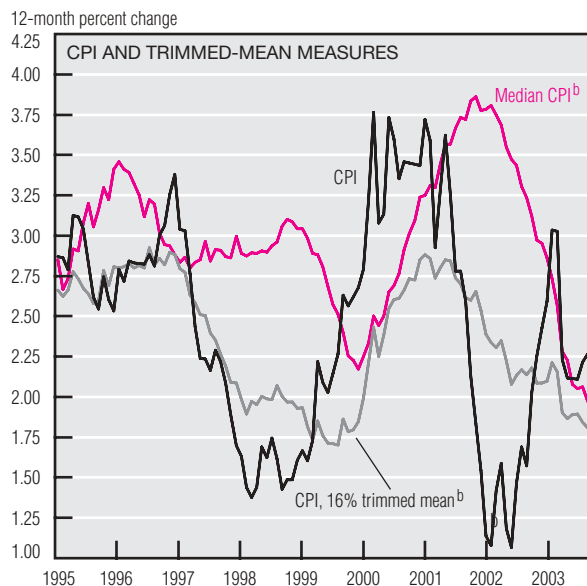
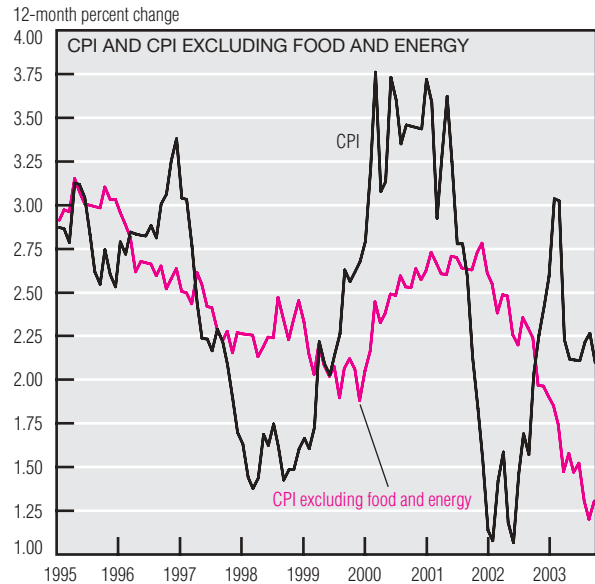


Inflation and Prices

	Percent change, last:				2002 avg.
	1 mo. ^a	3 mo. ^a	12 mo.	5 yr. ^a	
Consumer prices					
All items	0.0	2.4	2.1	2.5	2.4
Less food and energy	2.5	1.5	1.3	2.2	2.0
Median ^b	3.3	2.6	2.0	2.8	3.0
Producer prices					
Finished goods	9.6	6.0	3.4	2.1	1.2
Less food and energy	6.6	2.7	0.4	1.0	-0.5



a. Annualized.

b. Calculated by the Federal Reserve Bank of Cleveland.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of Economic Analysis; and Federal Reserve Bank of Cleveland.

The Consumer Price Index (CPI) was unchanged in October after increasing an annualized 3.3% in September. Energy prices declined 3.9%, a distinct departure from their upward trend over the preceding four months, with increases of 2.7% in August and 3.0% in September. The Labor Department attributed the energy price decline primarily to petroleum-based energy prices, which fell 6.6% in the month.

Eliminating the CPI's volatile energy and food components reveals that the price level rose in October. The CPI

excluding food and energy, traditionally called the core CPI, increased at a 2.5% annualized rate. The median CPI and the 16% trimmed-mean CPI, alternative inflation measures designed to exclude the most extreme price changes, rose at annualized rates of 3.3% and 2.2%, respectively. However, the downward trend in year-over-year comparisons within the core and alternative CPI inflation measures continues.

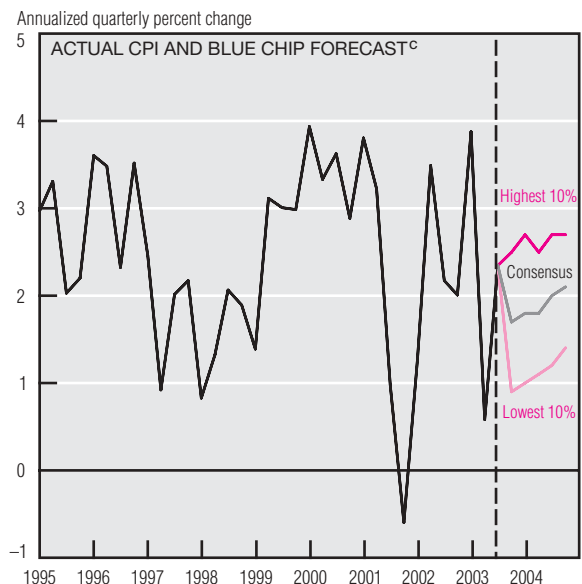
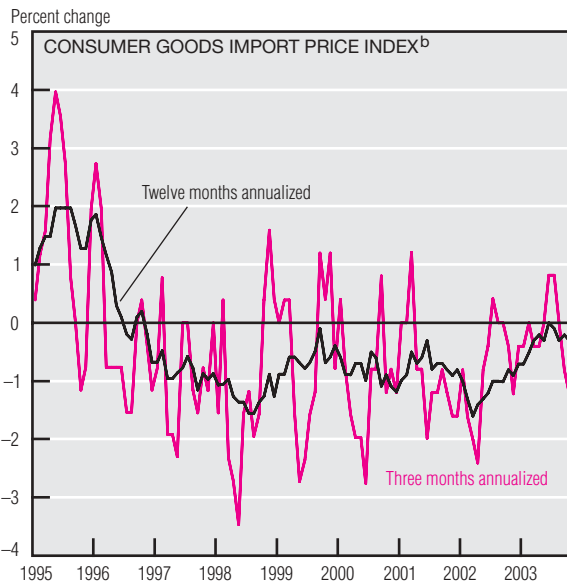
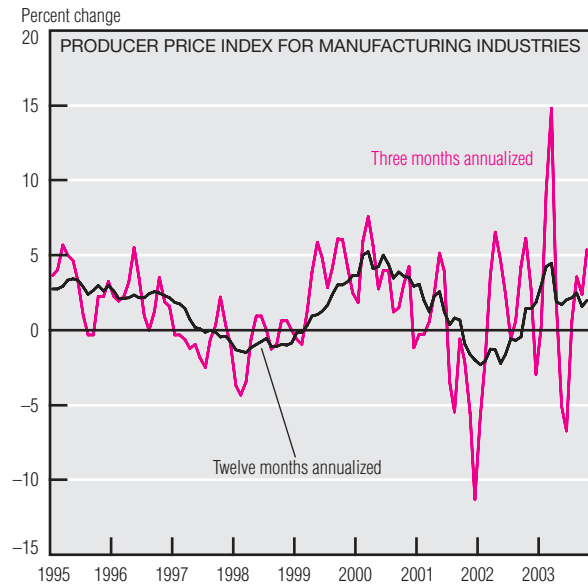
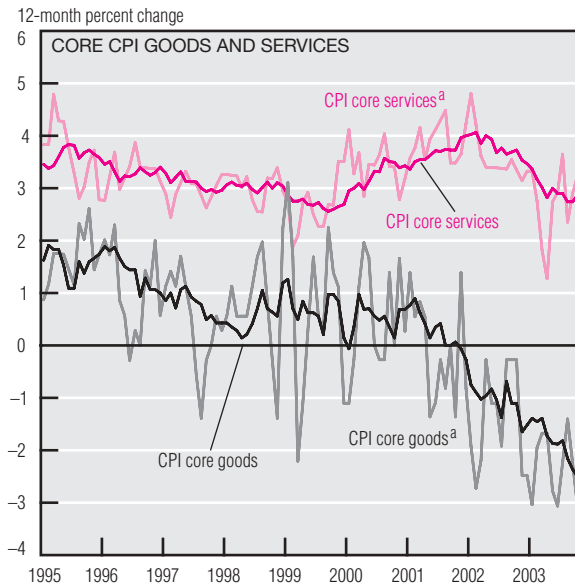
Similar to the year-over-year trends observed in the CPI, the Personal

Consumption Expenditures (PCE) Price Index, which measures prices in an alternative consumer goods market basket, also displays a recent increase in prices. However, the year-over-year changes in the price indexes for PCE excluding food and energy (core PCE) and the median PCE reflect a declining trend in personal consumption expenditure prices similar to that seen in the alternative CPI measures.

Although there has been an overall disinflation pattern, it has been much more pronounced in goods than in

(continued on next page)

Inflation and Prices (cont.)



- a. Three months annualized.
 b. Excluding automotive.
 c. Blue Chip panel of economists.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and *Blue Chip Economic Indicators*, November 10, 2003.

services. The gap between these two price categories has been widening and the deflation of goods prices continues to accelerate. The decline of core goods prices results primarily from a continuing drop in apparel prices and an accelerated rate of decline for household furnishing and new vehicle prices. Curiously, goods price deflation continues despite the more modest decrease in import prices and the recent increase in manufacturing prices.

The PPI for manufacturing industries reveals that manufactured goods

prices have been increasing modestly on a year-over-year basis since late 2002 and have recently accelerated. Over the last three months, the manufacturing industries' PPI has increased at a 5.4% annualized rate. Likewise, although deflation in import prices has continued throughout the past seven years, the consumer goods import price index has recently moderated its descent.

Although measures of core CPI inflation and alternative inflation indicate continued disinflation on a year-over-year basis, the Blue Chip panel

of economists' CPI forecast continues to suggest that CPI-measured inflation will show an annualized rate of approximately 2% through the next five quarters—an estimate that does not represent much deviation from the current CPI growth trend. Individual panelists' forecasts continue to lie within a range of 1.5 percentage points, with the optimists predicting a CPI inflation rate of approximately 1.4% by the end of 2004 and the pessimists expecting a 2.7% CPI inflation rate.