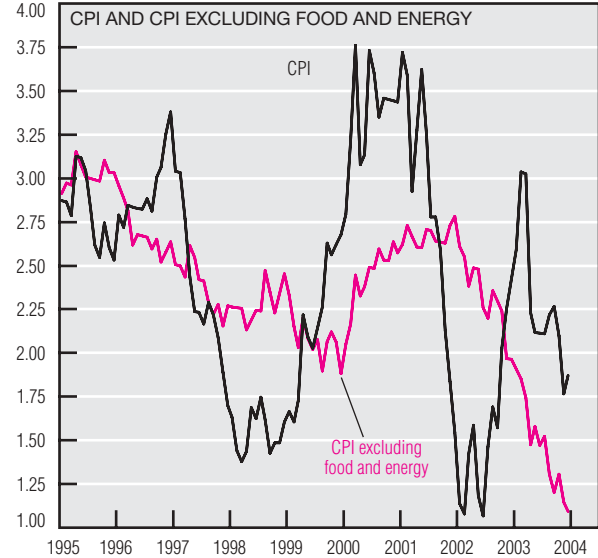


Inflation and Prices

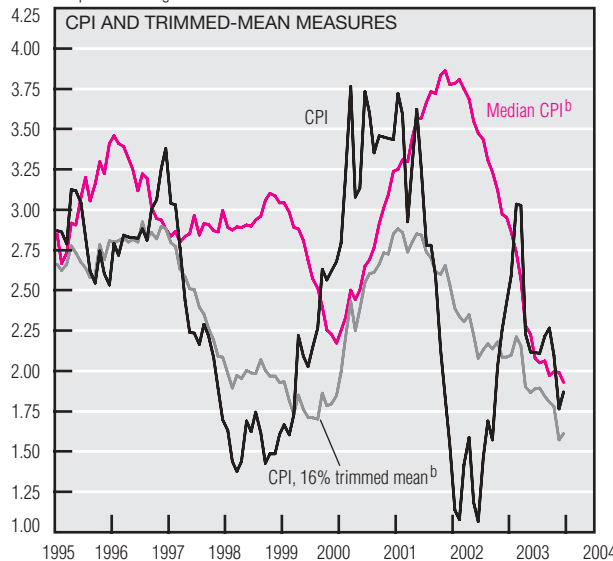
December Price Statistics

	Percent change, last:				2002 avg.
	1 mo. ^a	3 mo. ^a	12 mo.	5 yr. ^a	
Consumer prices					
All items	2.6	0.0	1.9	2.4	1.9
Less food and energy	1.2	1.0	1.1	2.1	1.1
Median ^b	1.6	2.2	1.9	2.8	1.9
Producer prices					
Finished goods	3.4	3.1	4.0	2.0	4.5
Less food and energy	-1.6	1.3	0.9	0.7	1.0

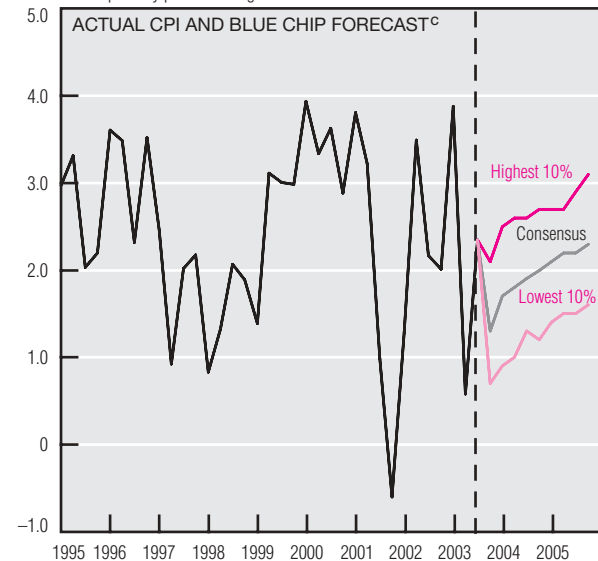
12-month percent change



12-month percent change



Annualized quarterly percent change



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*, January 10, 2004.

The general disinflation trend observed in the year-over-year comparisons continues. The Consumer Price Index (CPI) posted an annualized 2.6% increase in December after a 2.6% annualized *decrease* in November, resulting in an index level consistent with the September and October CPI. Meanwhile, the core CPI, a closely watched measure of inflation that eliminates the CPI's volatile food and energy components, increased at a 1.2% annualized rate—an uptick from last month's uncharacteristic 0.6% decline in the core index. The median

CPI and the 16% trimmed-mean CPI, inflation measures designed to exclude the most extreme price changes, increased at annualized rates of 1.6% and 2.5%, respectively.

The 2003 growth rates for both the core CPI and the median CPI were roughly 1 percentage point less than in 2002—the core CPI rose 1.1% in 2003 compared with a 1.9% rise in 2002, while the median CPI rose 1.9% in 2003 versus a 3.0% rise in 2002.

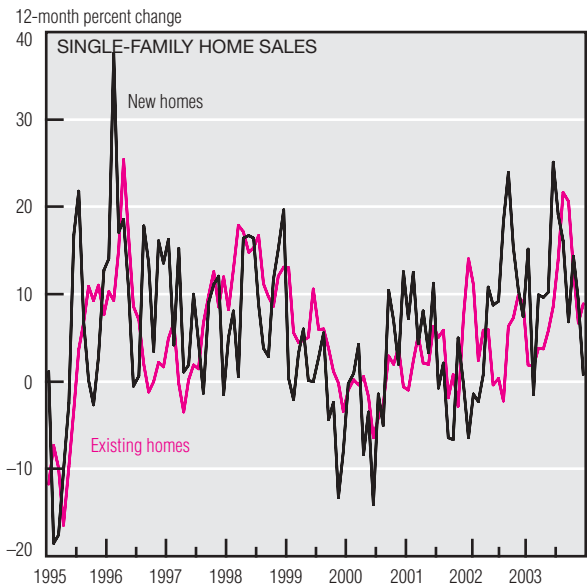
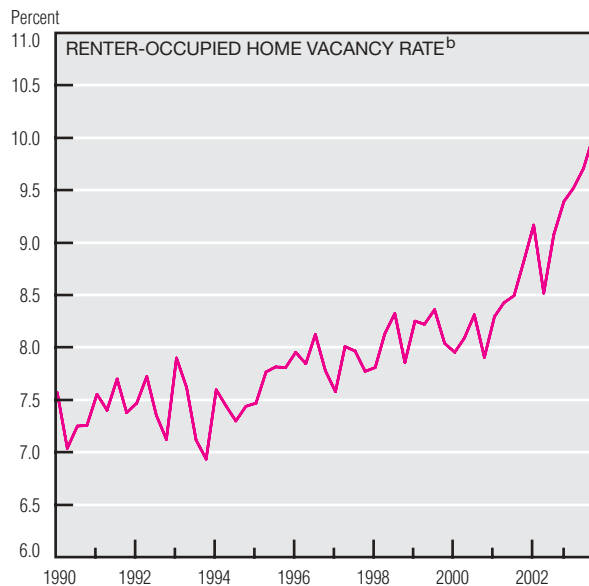
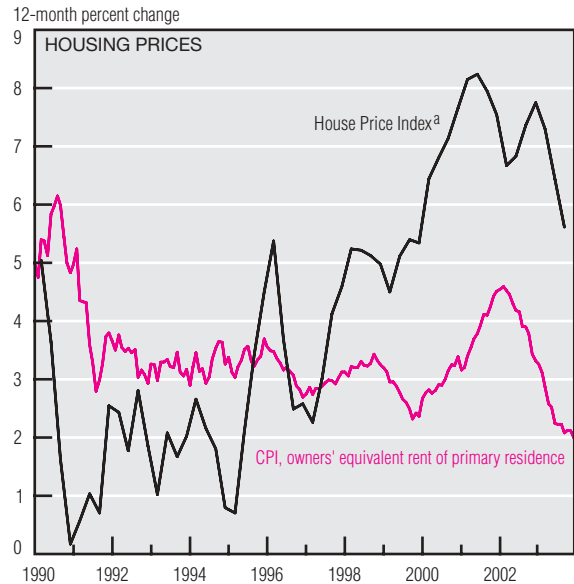
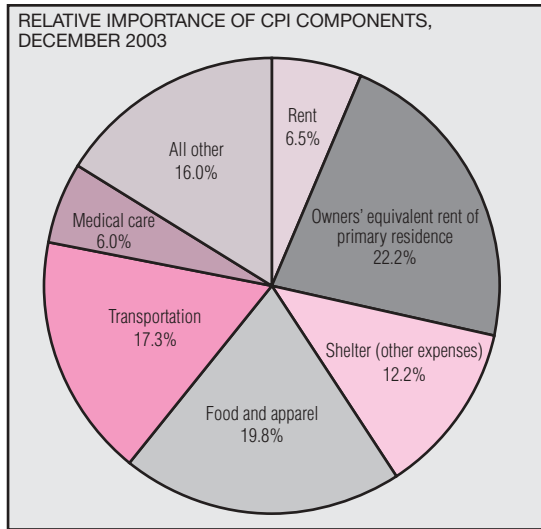
The latest CPI consensus forecast by the Blue Chip panel of economists now predicts an average 1.7% inflation

rate in 2004, compared with 1.9% last month. Although the range of individual panelists' inflation forecasts has widened, both the optimists and the pessimists have generally lowered their quarterly forecasts for 2004, with the optimists predicting a CPI inflation rate of about 1.2% by the end of the year and the pessimists expecting 2.7%. The CPI inflation forecasts for 2005 show consensus expectations of 2.3% by the end of 2005.

The Bureau of Labor Statistics attributes the diminished 2003 core CPI growth rate to a deceleration

(continued on next page)

Inflation and Prices (cont.)



a. Calculated by the Office of Federal Housing Enterprise Oversight.

b. Vacant housing units available for rent year-round divided by the sum of owner-occupied housing units and vacant housing units available for rent year-round.
 SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of the Census; Office of Federal Housing Enterprise Oversight; and National Association of Realtors.

in shelter costs, which increased 2.2% in 2003 compared with the 2002 rise of 3.1%. Shelter costs are the largest CPI component, accounting for over 30% of the index's basket of goods. The owners' equivalent rent of primary residence (OER)—the cost that homeowners would assume if they rented their house instead of owning it—is responsible for 70% of shelter costs and 22.2% of the overall CPI. The OER also decelerated in 2003, rising 2.0% versus 3.3% in 2002. However, the OER may understate

inflationary pressures from the housing market because it is computed using rental prices, which are likely to have been negatively affected by the relative attractiveness of homeownership.

The House Price Index, compiled by the Office of Federal Housing Enterprise Oversight using data provided by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, also reveals disinflating home prices. However, the House Price

Index still maintains a 5.6% growth rate, 3.5 percentage points higher than OER growth. The discrepancy between the growth rate of house prices and the OER results from a combination of strong home sales and a related increase in rental vacancies. In September 2003, rental vacancies reached 10% (the highest since at least 1965, when the rate was first computed), and existing one-family home sales reached near-peak growth rates, increasing 20.6% on a year-over-year basis.