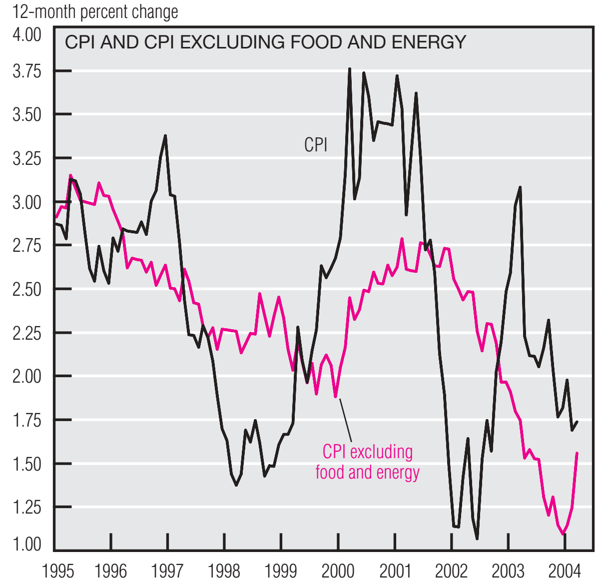
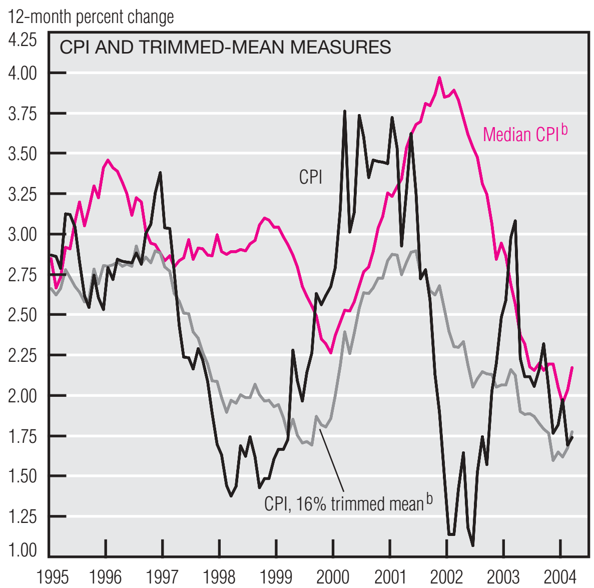
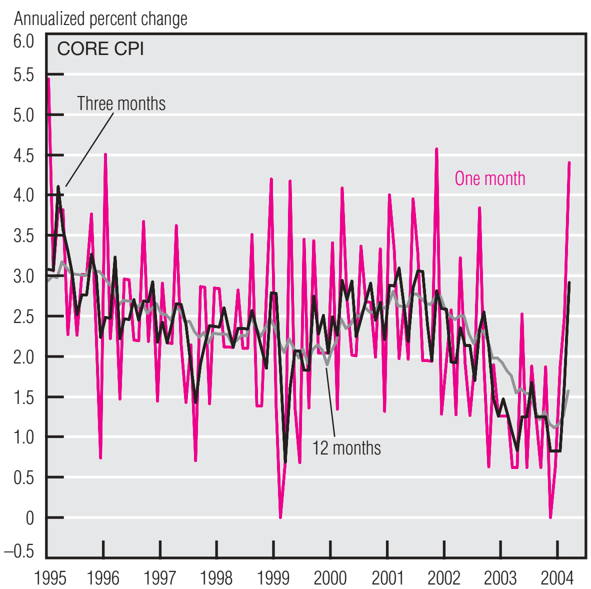
Inflation and Prices

March Price Statistics

	Percent change, last: 1 mo.[a]	3 mo.[a]	12 mo.	5 yr.[a]	2003 avg.
Consumer prices					
All items	6.0	5.1	1.7	2.6	1.9
Less food and energy	4.4	2.9	1.6	2.2	1.1
Median[b]	3.3	2.6	2.2	2.9	2.1
Producer prices					
Finished goods	6.8	5.1	1.4	2.2	4.4
Less food and energy	2.4	2.1	0.7	0.9	1.1







a. Annualized.
b. Calculated by the Federal Reserve Bank of Cleveland.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and Federal Reserve Bank of Cleveland.

March data reflect seemingly broad-based increases in retail prices. The Consumer Price Index (CPI) rose an additional 6.0% in March, significantly exceeding its 12-month growth rate of 1.7%. The core CPI (which excludes food and energy) surged an annualized 4.4% in March, its largest monthly increase since November 2001, while the median CPI was up an annualized 3.3%, its largest monthly increase in more than a year.

Because monthly retail price measures are extremely volatile, it is often difficult to extrapolate an accurate inflation trend from just a few months' data. But all of the 12-month CPI growth rates are trending upward: the core rate by 1.6%, the median by 2.2%, and the trimmed mean by 1.8%. The core CPI also reveals substantial price acceleration over the past three months.

One pertinent question is whether the CPI's recent rise reflects an increase in the prices of particular, perhaps isolated, components or a broad-based shift in the inflation trend. CPI variance measures the dispersion of consumer price changes: The relatively low variance across the CPI market basket over the past two months is a sign of the broad-based nature of recent retail price changes.

Indeed, prices for core services and core goods have both contributed to acceleration in the core

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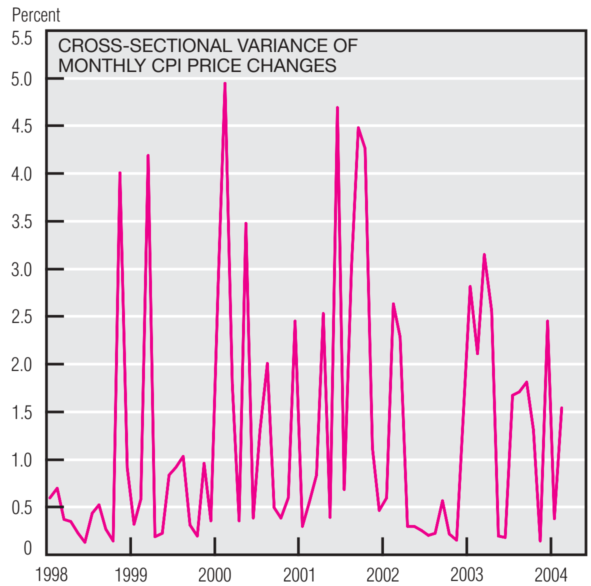
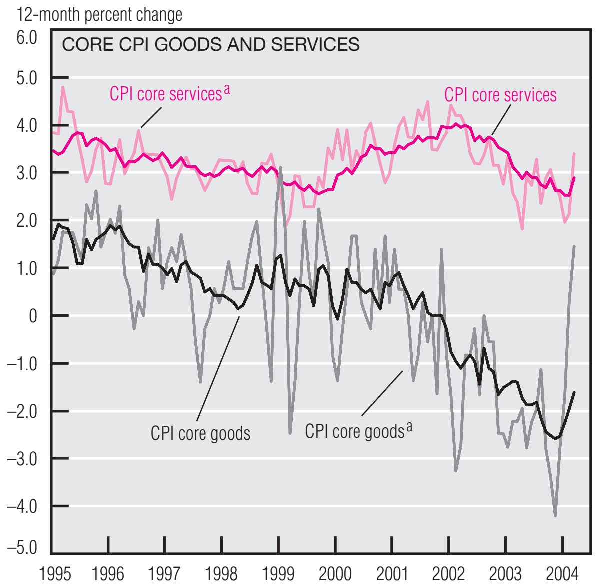
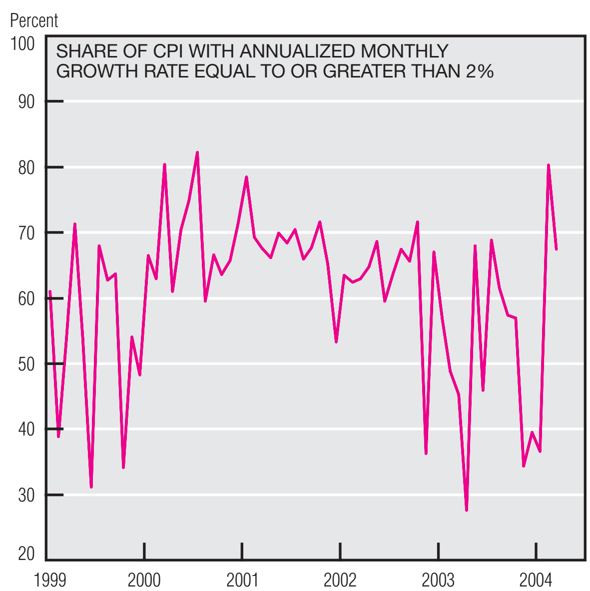
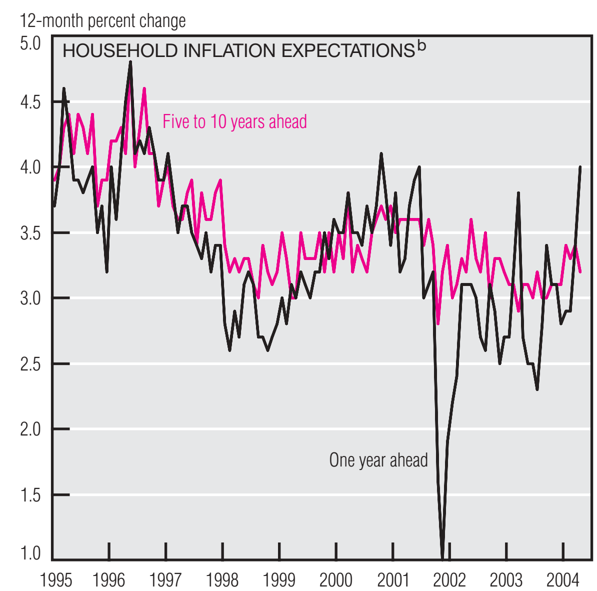
Inflation and Prices (cont.)









a. Three-month annualized.
b. 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; University of Michigan; and Federal Reserve Bank of Cleveland.

CPI. The year-over-year deflation in core goods prices has slowed since December, perhaps because the weaker dollar created upward pressure on consumer import prices. However, core goods prices have increased over the past three months. There has also been a recent acceleration of core service prices, which account for more than half of all CPI components. In fact, in the past month, about two-thirds of the total CPI (four-fifths in February) rose 2% or more, another sign of how broad-based recent price increases are. These readings are similar to 2000, when year-over-year CPI inflation averaged about 3.4%, (the highest rate since the early 1990s).

Meanwhile, the University of Michigan's Survey of Consumers reveals that inflation expectations for the next year have substantially increased to 4.0%. This outlook anticipates the highest inflation rate since mid-2001. However, long-term inflation expectations remain steady, with households anticipating a $3\frac{1}{4}$% rise in prices over the next five to 10 years, perhaps an expression of their confidence in the maintenance of long-run price stability.