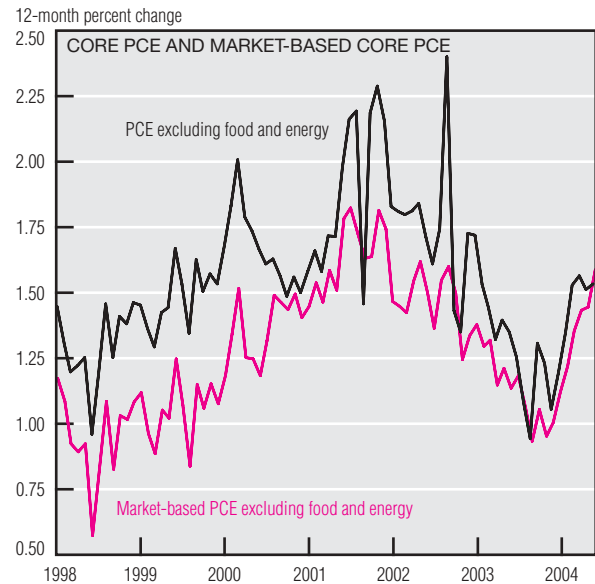
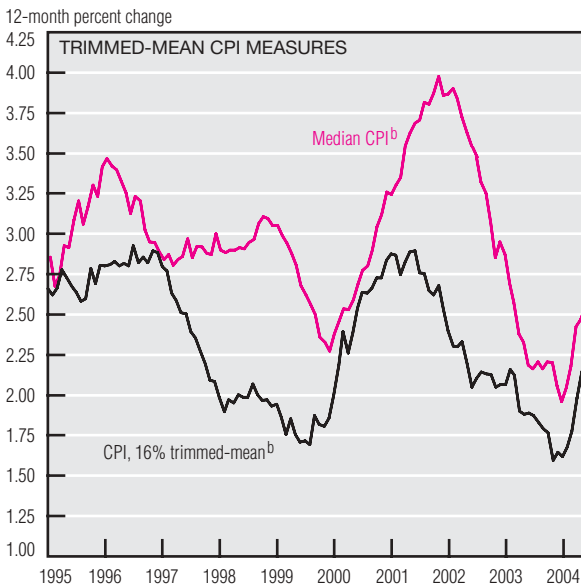
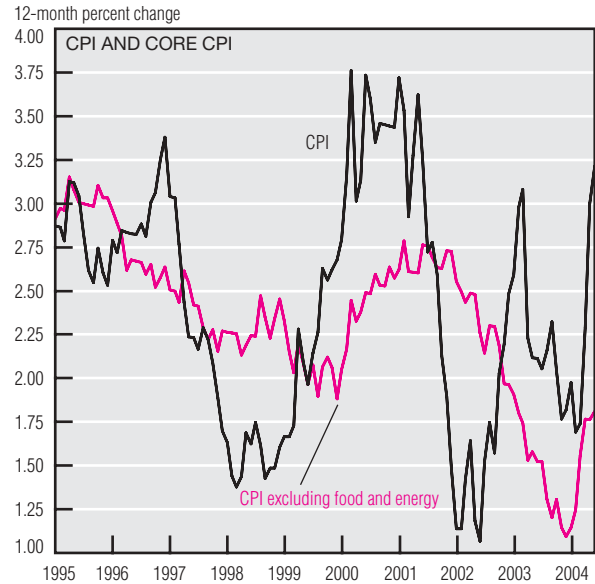


# Inflation and Prices

## June Price Statistics

	Percent change, last:				2003 avg.
	1 mo. <sup>a</sup>	3 mo. <sup>a</sup>	12 mo.	5 yr. <sup>a</sup>	
<b>Consumer prices</b>					
All items	3.9	4.8	3.2	2.7	1.9
Less food and energy	1.2	2.3	1.8	2.2	1.1
Median <sup>b</sup>	2.2	3.0	2.5	2.9	2.1
<b>Producer prices</b>					
Finished goods	-3.2	5.0	4.0	2.3	4.4
Less food and energy	2.4	2.9	1.9	1.0	1.1



a. Annualized.

b. Calculated by the Federal Reserve Bank of Cleveland.

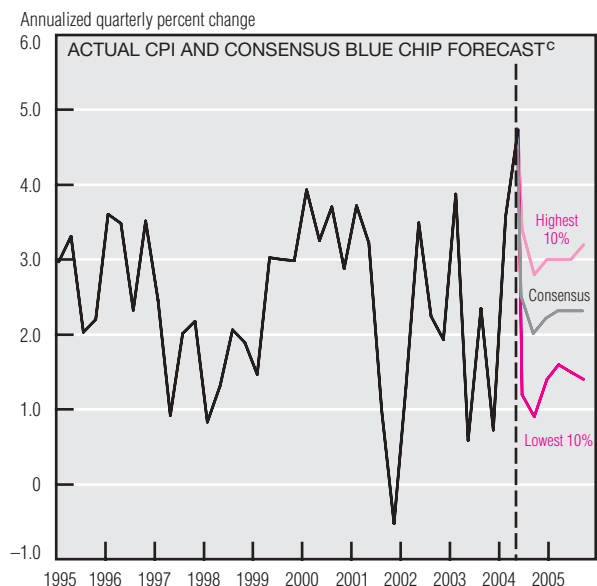
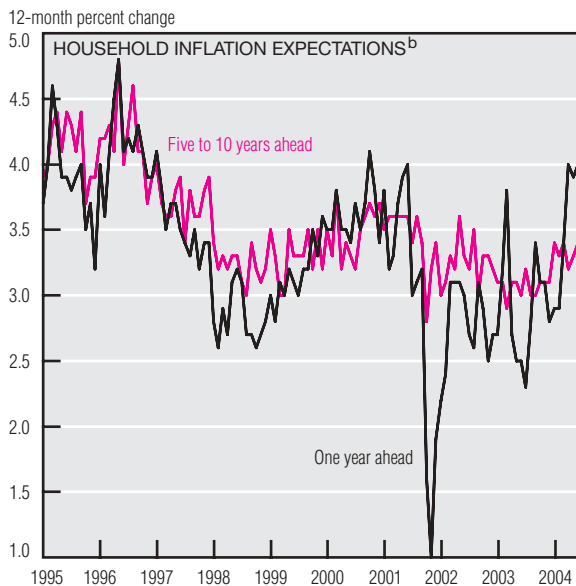
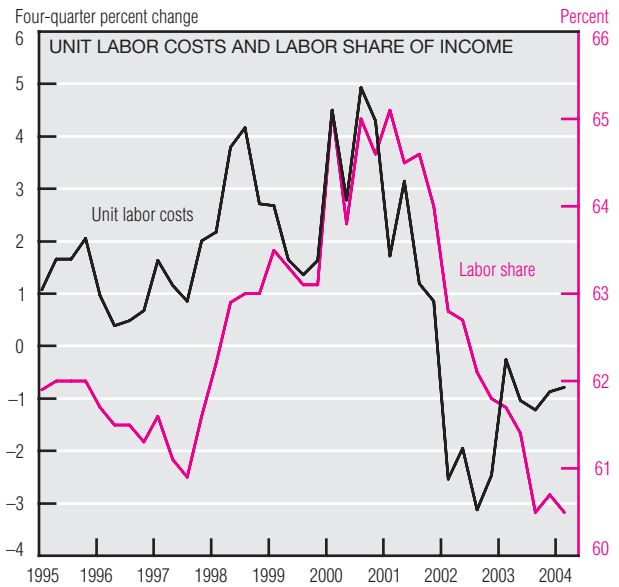
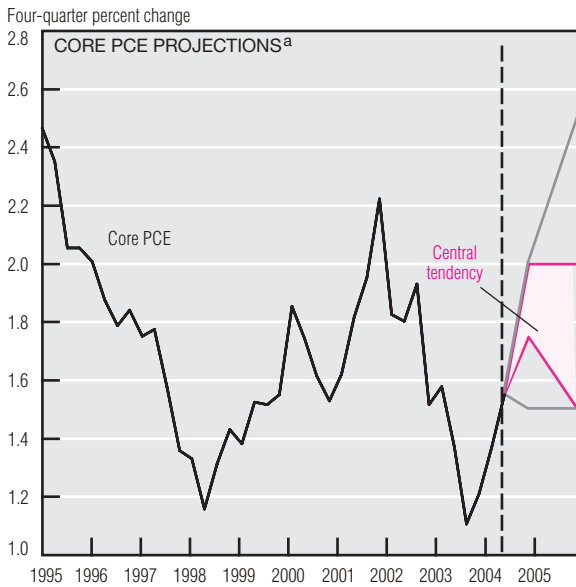
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; Federal Reserve Bank of Cleveland; and Bureau of Economic Analysis.

The Consumer Price Index (CPI) rose sharply again in June, moving up at a 3.9% annualized rate following an 8.0% annualized jump in May. The index continues to be pushed upward by higher energy prices, which contributed about two-thirds of June's price increase (energy prices rose 2.6% in that month alone). Inflation measures that exclude the volatile food and energy components, however, showed some moderation in the month—the core CPI rose only 1.2%, its smallest monthly advance this year, while the median CPI rose 2.2%.

Longer-term inflation patterns, though in some instances still inching up in June, appear to have stabilized somewhat. The CPI posted a 12-month growth rate of 3.2% in June after May's 3.0% rate, while the core CPI and median CPI 12-month growth rates remained nearly steady at their highest levels in more than a year (1.8% and 2.5%, respectively). The 12-month increase in the core Personal Consumption Expenditures (PCE) Price Index, which excludes food and energy items, held at 1.5% in June, the same pace as in May. Compared to the CPI, the PCE-based

inflation measure uses a slightly modified consumer goods market basket; it employs a different survey to measure household expenditures, and includes some goods and services that are provided to individuals by their employers. In addition, some prices in the PCE market basket are artificially derived, either because they cannot be observed directly in the marketplace (donations to places of worship, for example) or are embedded in the benefits provided by retailers (like certain services provided by financial institutions). An alternative  
*(continued on next page)*

## Inflation and Prices (cont.)



a. Projections by the Board of Governors of the Federal Reserve System and Reserve Bank Presidents.

b. Mean expected change in consumer prices as measured by the University of Michigan's *Survey of Consumers*.

c. Blue Chip panel of economists.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; Board of Governors of the Federal Reserve System, *Monetary Report to the Congress*; University of Michigan; and *Blue Chip Economic Indicators*, July 10, 2004.

inflation measure, the core “market-based” PCE, attempts to get a more accurate inflation reading by excluding certain derived items from the consumer market basket. By this measure, inflation was still inching higher on a year-over-year basis in June (1.6% versus 1.5% in May.)

In its semiannual Monetary Policy Report to the Congress, the Board of Governors of the Federal Reserve System reported the recent projections by voting and nonvoting members of the Federal Open Market Committee, showing inflation inching just a bit higher this year: The central tendency

of the group’s projection for the core PCE Price Index in 2004 is between 1<sup>3</sup>/<sub>4</sub>% and 2% on a fourth-quarter to fourth-quarter basis. The group projects that this inflation measure will hold near that range (or slightly lower) in 2005. In describing inflation prospects in his congressional testimony, Chairman Greenspan noted that “the modest upward path of unit labor costs does not appear to threaten longer-term price stability, especially if current exceptionally high profit margins begin to come under more intense competitive pressures at home and from abroad.”

The inflation outlook of households has also moderated recently. According to the University of Michigan’s *Survey of Consumers*, households expect inflation in the year ahead to be around 3<sup>1</sup>/<sub>2</sub>% (down from 4% in June.) Their long-run inflation expectations also fell. However, the Blue Chip survey released in early July indicates that economists raised their CPI inflation predictions slightly. The consensus forecast anticipates that CPI inflation will average between 2% and 2<sup>1</sup>/<sub>2</sub>% throughout 2005.