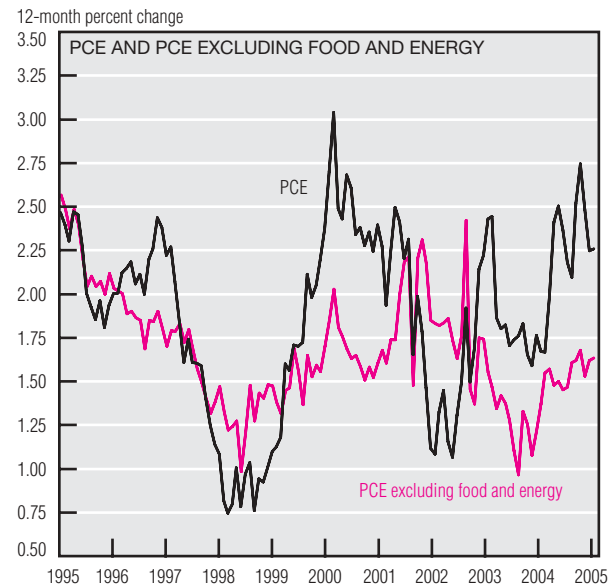
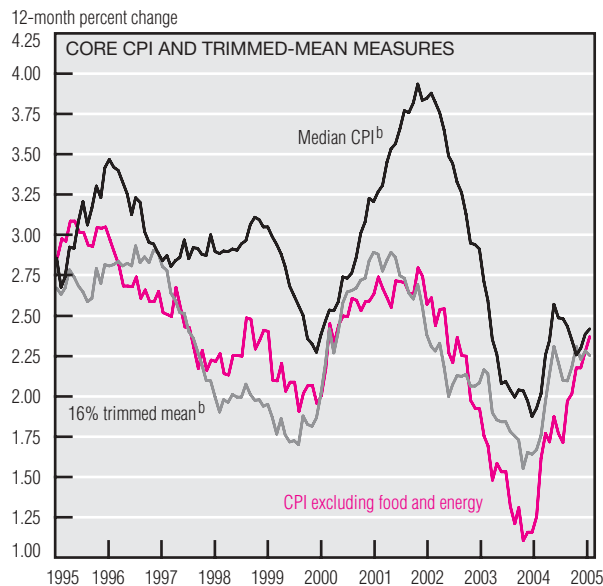
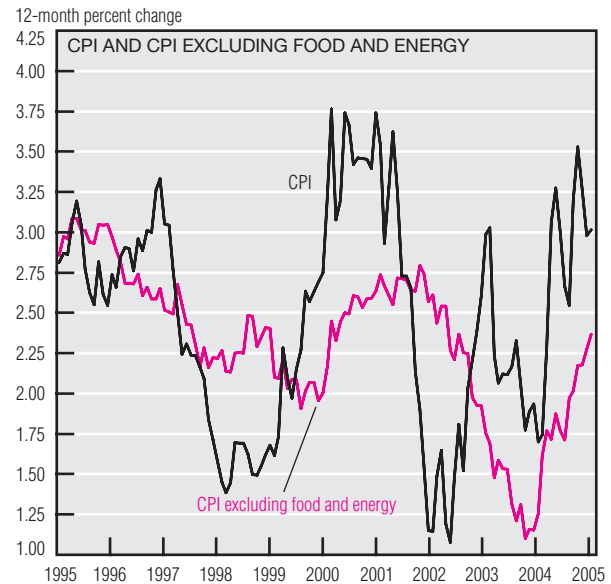


Inflation and Prices

February Price Statistics

	Percent change, last:				2004 avg.
	1 mo. ^a	3 mo. ^a	12 mo.	5 yr. ^a	
Consumer prices					
All items	4.5	1.7	3.0	2.5	3.4
Less food and energy	3.1	2.4	2.4	2.1	2.2
Median ^b	2.7	2.7	2.4	2.8	2.3
Producer prices					
Finished goods	4.8	1.3	4.7	2.2	4.4
Less food and energy	0.8	4.2	2.8	1.1	2.2



a. Annualized.

b. Calculated by the Federal Reserve Bank of Cleveland.

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

The Consumer Price Index (CPI) rose at an annualized rate of 4.5% in February, after a slight (0.6%) rise in January. The Bureau of Labor Statistics attributed virtually all of the monthly acceleration in the CPI growth rate to an annualized 26.8% rise in energy prices. However, the core CPI, which excludes the volatile food and energy prices, rose at a brisk 3.1% (annualized rate), exceeding the 2.2% average monthly growth rate of the previous 12 months. The median CPI, which attempts to control for volatile

monthly price changes by considering the center of the monthly price change distribution, increased 2.7%.

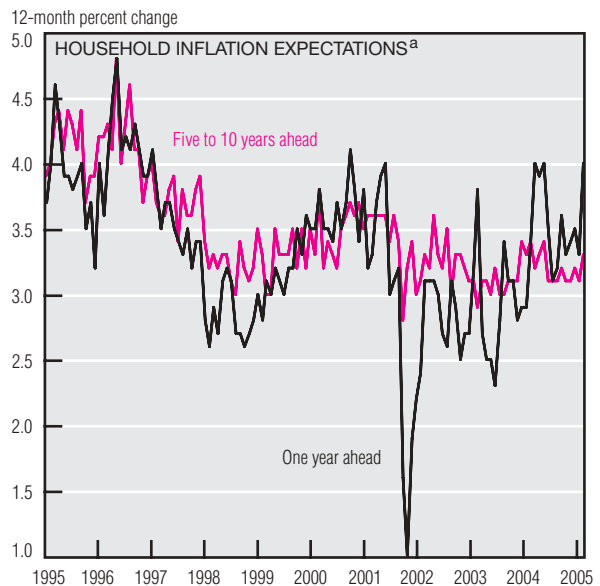
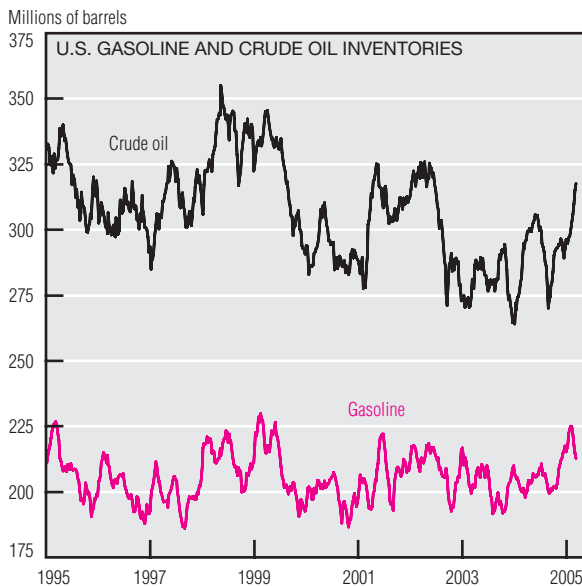
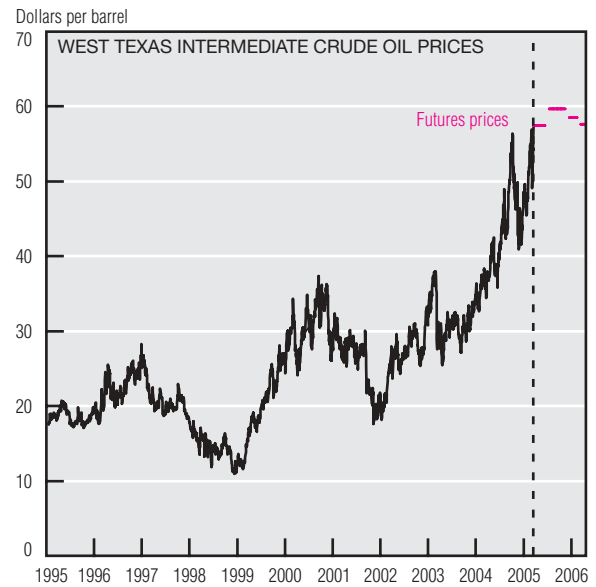
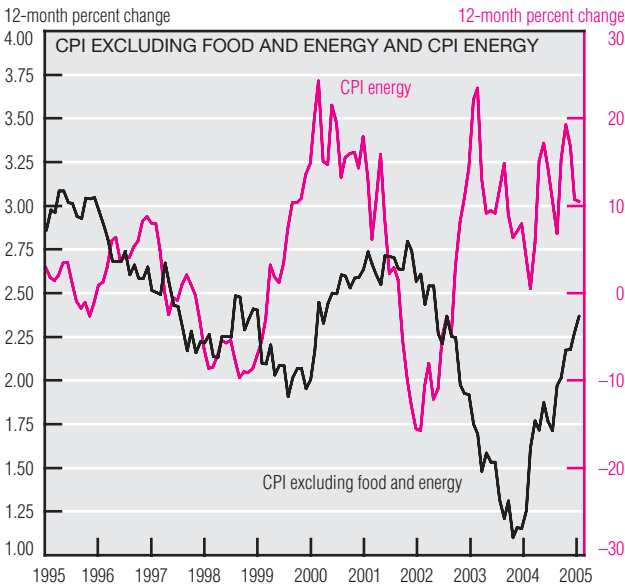
The 12-month inflation rates of the core CPI and median CPI continued to inch up in February; both these retail price measures reached 2.4%. Since late 2003, the core CPI's 12-month growth rate rose about 1.2 percentage points, while the median CPI's 12-month growth rate increased a modest 0.5 percentage point. The 16% trimmed-mean CPI's 12-month growth rate ticked down to 2.2%; this growth

rate has fluctuated between 2.0% and 2.3% for almost a year. The Personal Consumption Expenditure (PCE) price index and the core PCE price index, which measure an alternate consumer market basket, largely mirror the CPI price measures. Core PCE price-index-measured inflation has fluctuated between 1.4% and 1.6% for the past year.

Energy price increases continued at a dramatic pace in February, although they have decelerated over the past four months on a year-to-year basis.

(continued on next page)

Inflation and Prices (cont.)



a. Mean expected change as measured by the University of Michigan's *Survey of Consumers*.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Energy, Energy Information Administration; University of Michigan; and Bloomberg Financial Information Services.

Retail energy prices have risen almost 13.0% (as measured by the CPI Energy Index) since the beginning of 2004. Moreover, with the cost of crude oil continuing to rise at an alarming pace (recently reaching more than \$57.00 a barrel for West Texas intermediate crude, an increase of over 35.0% since the beginning of this year), some reignition of retail energy prices now seems a virtual certainty.

Federal Reserve Chairman Alan Greenspan, speaking before the National Petrochemical and Refiners Association, recently said that "...higher

prices in recent months have slowed the growth of oil demand, but only modestly. The slowdown in the growth of demand coupled with expanded production, which the price firmness has induced, has required markets to absorb an increased pace of inventory investment." Citing futures prices for delivery of Brent and West Texas Intermediate crude oil that suggest prices reaching nearly \$60 a barrel in mid-2005, the Chairman suggested this would "likely support increased inventories of crude oil. If sustained, these market technicals

could encourage enough of an inventory buffer to damp the current price frenzy." Indeed, U.S. crude oil inventories have risen in recent weeks, reaching 317.1 million barrels—the highest level in nearly three years—in early April.

Gasoline prices are also expected to rise this summer: Household inflation expectations from the University of Michigan's Survey of Consumers may reflect fears over rising gasoline prices: Short-term inflation expectations jumped from 3.3% to 4.0% in March, while long-term expectations inched up from 3.1% to 3.3%.