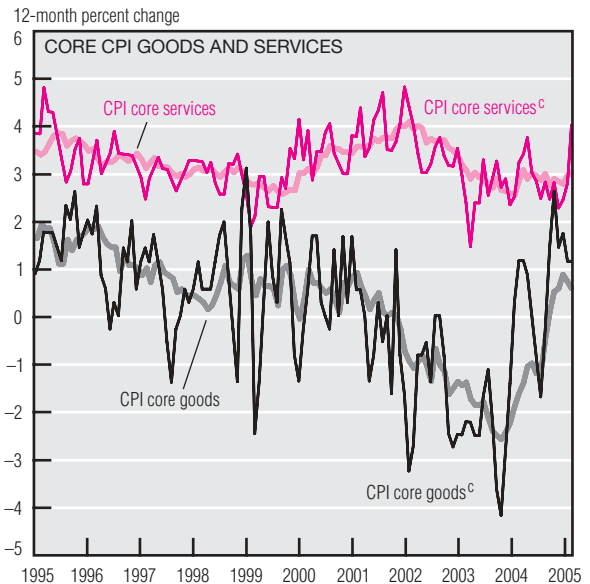
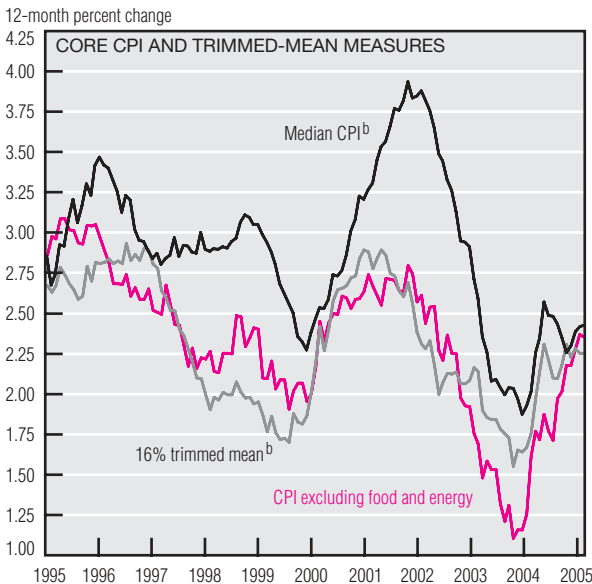
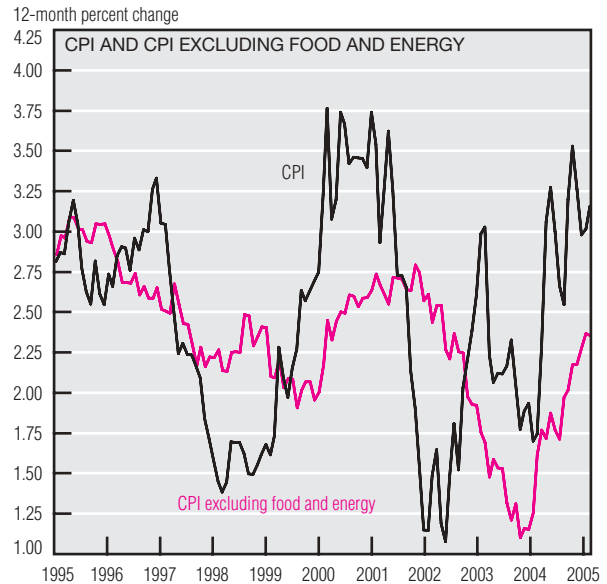


Inflation and Prices

	Percent change, last:				2004 avg.
	1 mo. ^a	3 mo. ^a	12 mo.	5 yr. ^a	
Consumer prices					
All items	7.8	4.3	3.1	2.5	3.4
Less food and energy	4.3	3.3	2.3	2.1	2.2
Median ^b	2.8	2.9	2.4	2.8	2.3
Producer prices					
Finished goods	9.0	5.7	4.9	2.3	4.4
Less food and energy	0.8	3.7	2.6	1.1	2.2



a. Annualized.

b. Calculated by the Federal Reserve Bank of Cleveland.

c. Three-month annualized percent change.

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

In March, retail prices jumped but longer-term inflation trends held steady. The Consumer Price Index (CPI) rose 7.8%, following a 4.5% rise in February. The core CPI, which excludes the volatile food and energy prices, also surged ahead (4.3% at an annualized rate, its highest monthly growth rate since August 2002). However, the median CPI, which attempts to control for volatile monthly price changes by considering the center of the monthly price change distribution, increased a more moderate 2.8%.

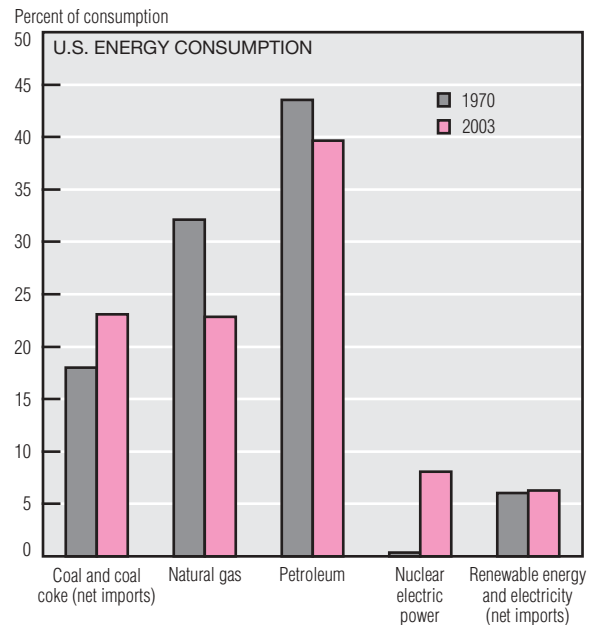
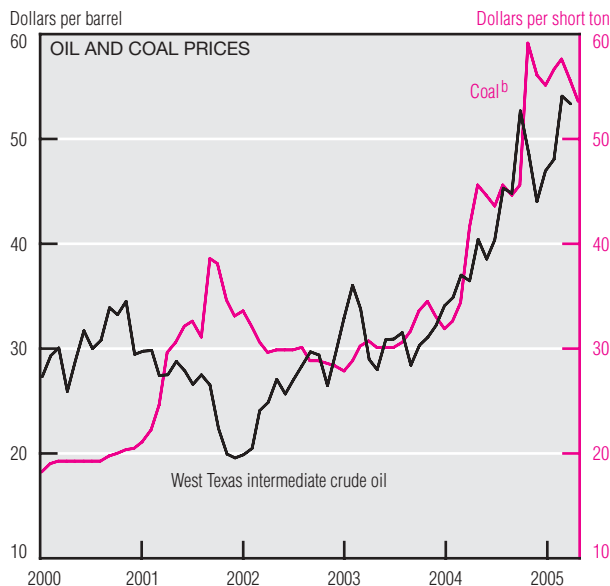
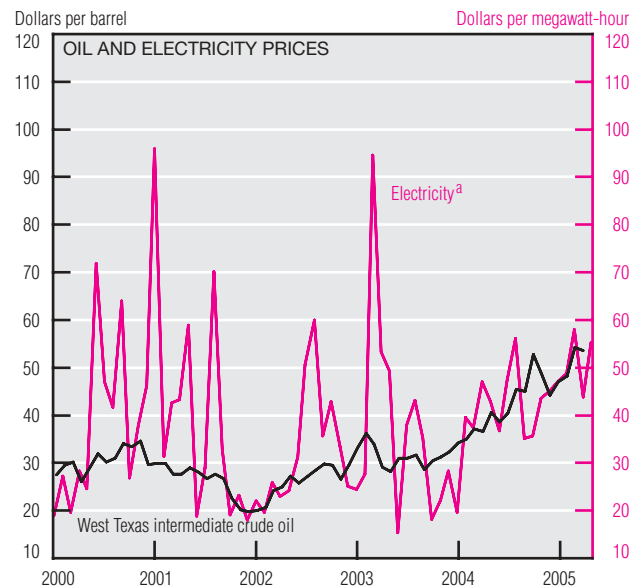
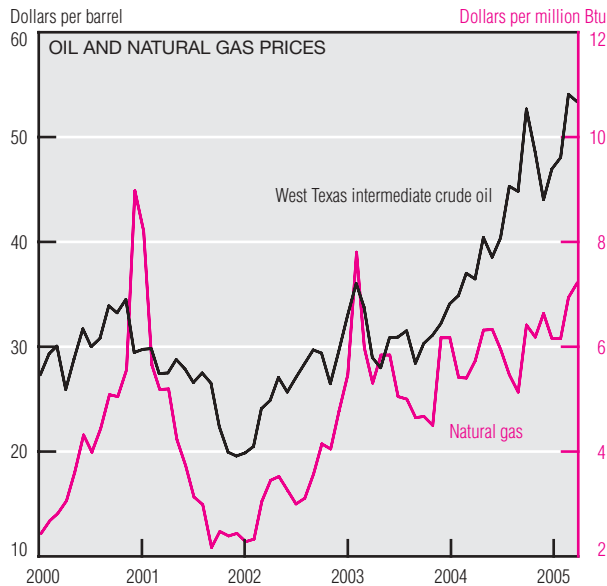
Meanwhile, longer-term inflation trends in the various retail price measures remained stable in March. The core CPI's 12-month growth rate ticked downward from 2.4% to 2.3%. The 16% trimmed mean and the median CPI's 12-month growth rates held steady at 2.2% and 2.4%, respectively. And the CPI's 12-month growth rate only ticked upward from 3.0% to 3.1%. However, the core CPI has risen nearly 1.5%, the median CPI 0.6%, and the 16% trimmed-mean CPI about 0.7% since late 2003, when retail prices began trending upward.

The increased inflation rates are partly the result of rising core goods prices. Core service price growth has remained relatively steady for nearly two years (roughly in the 2½%–3% range); however, core goods price deflation has stopped. Core goods prices have risen on a year-to-year basis since October 2004. These trends may reflect the upward pressure on import prices caused by the dollar depreciation that occurred in 2004.

Increasing pressure on retail prices may also reflect producers' attempts to recoup some of their dramatically

(continued on next page)

Inflation and Prices (cont.)



a. Cinergy, on-peak day-ahead electricity spot price.

b. Pennsylvania railcar seam coal spot price.

SOURCES: U.S. Department of Energy, Energy Information Administration; Bloomberg Financial Information Services, and *Wall Street Journal*.

rising energy costs. Recent crude oil prices have receded slightly but the cost of crude oil, which accounts for nearly 40% of U.S. energy consumption, has continued to rise at an alarming pace, reaching more than \$50.00 a barrel for West Texas intermediate crude in April. This is an increase of nearly 57.0% since the beginning of 2004 and nearly 14% since the beginning of this year.

Rising crude oil prices appear to be affecting costs for energy that is not based directly on petroleum. The

price of natural gas, which accounts for about 23% of U.S. energy consumption, has increased at a slower pace than crude oil, rising about 17% since the beginning of 2004. However, since the beginning of 2002, the rate of increase in natural gas prices is nearly 1.3 times that of crude oil prices. Electricity accounts for about 6% of energy consumption and 2½% of the CPI. Although it is more volatile than other energy prices, it also has trended upward since 2004, rising about 40% since January 2004.

Finally, coal and coal coke account for about 23% of U.S. energy consumption. Coal price increases have generally kept pace with the spectacular rise in crude oil prices, jumping nearly 65% since the beginning of 2004. Although natural gas and petroleum consumption as a share of total energy consumption has declined over the past 33 years, reliance on coal and nuclear energy has increased. Renewable energy's share of consumption has remained stable over the past 33 years.