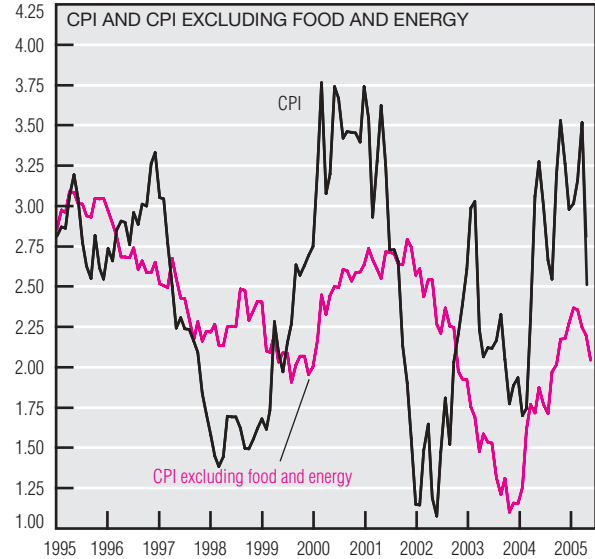


Inflation and Prices

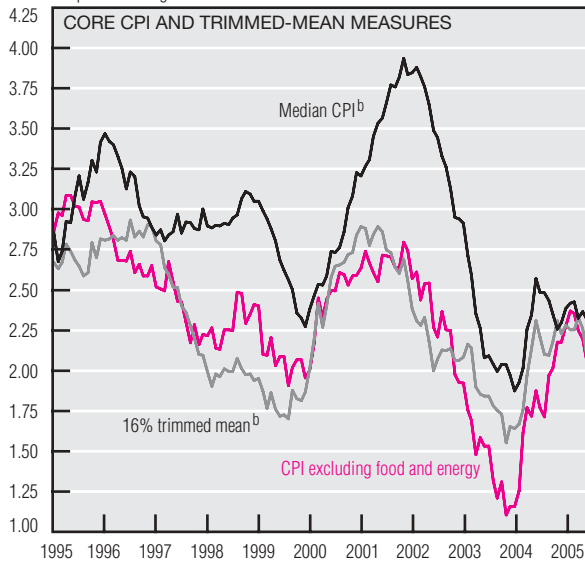
June Price Statistics

	Percent change, last:				2004 avg.
	1 mo. ^a	3 mo. ^a	12 mo.	5 yr. ^a	
Consumer prices					
All items	0.0	1.9	2.5	2.4	3.4
Less food and energy	1.2	1.2	2.0	2.1	2.2
Median ^b	2.1	2.5	2.3	2.8	2.3
Producer prices					
Finished goods	0.0	-0.3	3.6	2.1	4.4
Less food and energy	-0.8	1.0	2.2	1.1	2.2

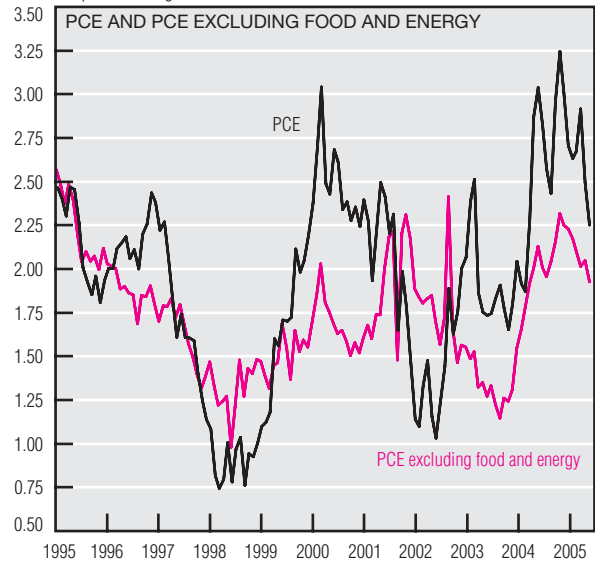
12-month percent change



12-month percent change



12-month percent change



a. Annualized.

b. Calculated by the Federal Reserve Bank of Cleveland.

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

Growth in retail prices was subdued in June. After falling 0.6% in May, the Consumer Price Index remained unchanged. There were modest increases in the core CPI, which excludes volatile food and energy prices (1.2%), and the median CPI, which controls for volatile monthly price changes by considering only the center of the monthly price-change distribution (2.1%).

Longer-term inflation trends declined slightly during the month. The CPI's 12-month growth rate fell

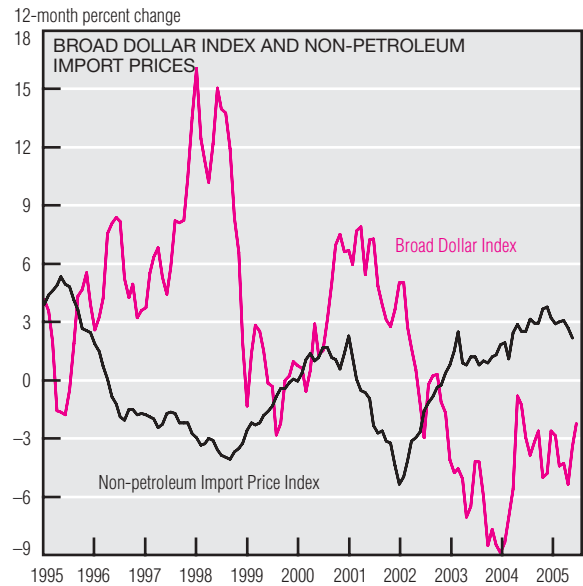
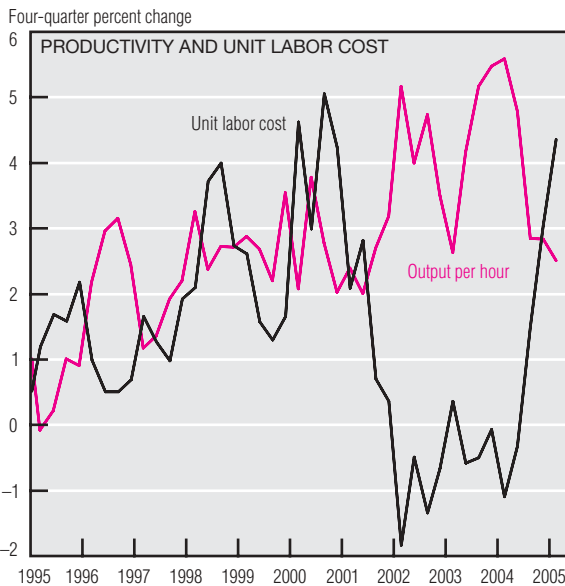
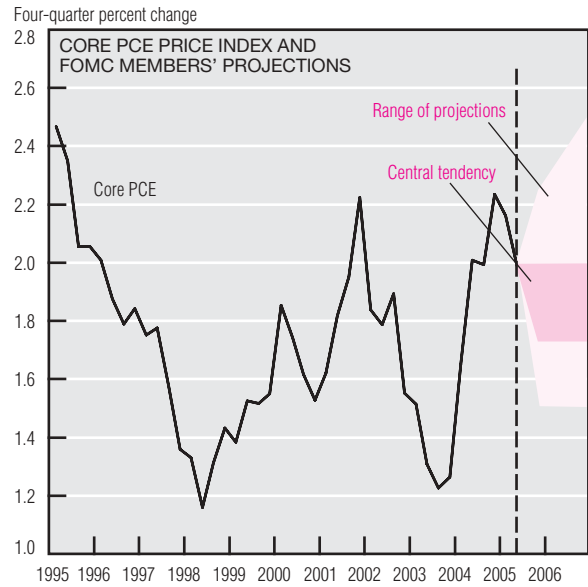
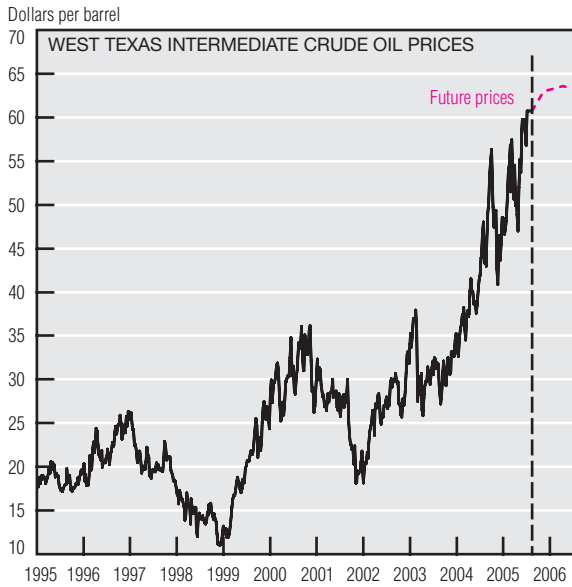
from 2.8% to 2.5%. Declines in the 12-month growth rates of the core CPI measures were likewise moderate: The core CPI, median CPI, and 16% trimmed-mean CPI all declined 0.1 to 0.2 percentage points (pp) between May and June. Nevertheless, growth in the retail price measures has increased since late 2003, with the core CPI's 12-month growth rate rising about 1 pp since January 2004.

Patterns in the Personal Consumption Expenditure (PCE) price index and the core PCE price index, which

measure an alternative consumer market basket, largely mirror trends in CPI price measures. While the core PCE declined from 2.3% in November 2004 to 1.9% in June 2005, it remains 1¹/₄ pp above its late-2003 growth rate. One aggregating factor in the run-up of overall retail prices has been the rather dramatic rise in oil prices, which have nearly doubled since early 2004. However, recent readings of futures prices suggest that the price of a barrel of oil may settle at around \$63.

(continued on next page)

Inflation and Prices (cont.)



SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System, *Monetary Report to the Congress* and "Foreign Exchange Rates," *Federal Reserve Statistical Releases*, H.10; and *Wall Street Journal*.

In its semiannual Monetary Policy Report to Congress, the Board of Governors of the Federal Reserve System reported recent economic projections by the Federal Open Market Committee (and nonvoting Federal Reserve Bank presidents). They showed inflation holding steady or declining slightly: The central tendency of the group's projection for the core PCE price index in 2005 and 2006 is between 1³/₄% and 2% on a fourth-quarter over fourth-quarter

basis, about ¹/₄ pp above its projection last February.

In presenting the Monetary Policy Report to Congress, Chairman Greenspan emphasized that the inflation outlook would be "influenced importantly" by unit labor cost trends and productivity developments. Growth in unit labor costs, which reflects the difference between compensation growth and productivity growth, has accelerated rather sharply in the past year. After

falling 1.1% from 2003:1Q to 2004:1Q, unit labor costs jumped 4.3% over the four quarters ending in 2005:1Q.

Pressures stemming from rising unit labor costs and higher energy prices have been moderated by the softening in crude and intermediate goods prices that seems to have accompanied the slowdown in U.S. manufacturing activity last spring. Import prices, however, remain somewhat elevated.