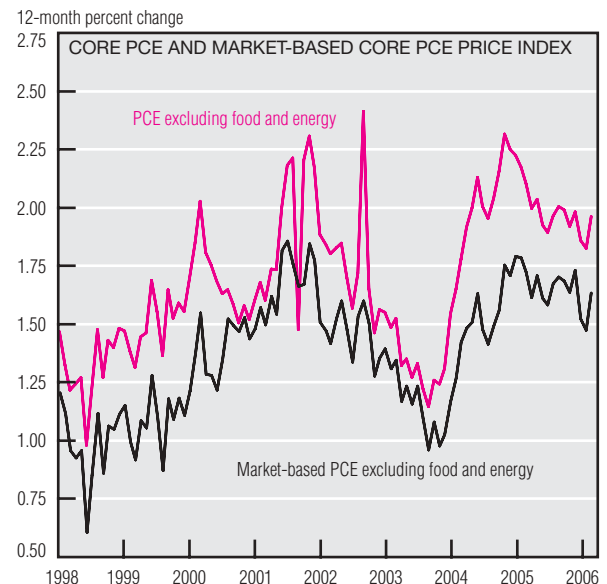
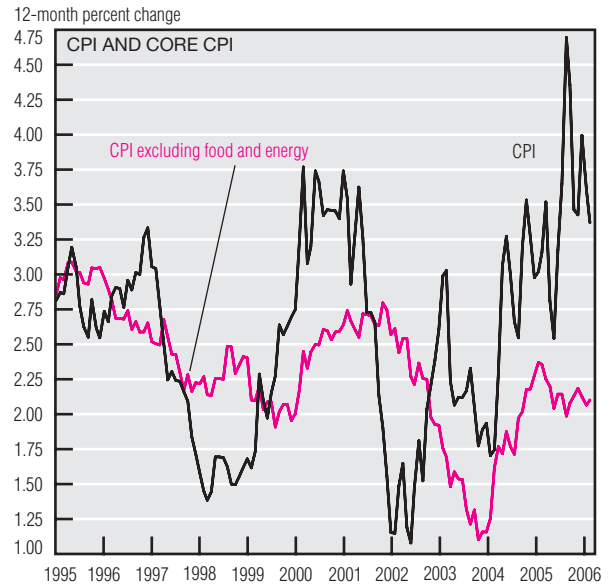


Inflation and Prices

	Percent change, last:				2005 avg.
	1 mo. ^a	3 mo. ^a	12 mo.	5 yr. ^a	
March Price Statistics					
Consumer prices					
All items	4.3	4.3	3.4	2.5	3.6
Less food and energy	4.2	2.8	2.1	2.0	2.2
Median ^b	5.0	3.7	2.7	2.7	2.5
Producer prices					
Finished goods	6.2	-2.5	3.5	2.4	5.8
Less food and energy	1.5	3.1	1.7	1.2	1.7



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.

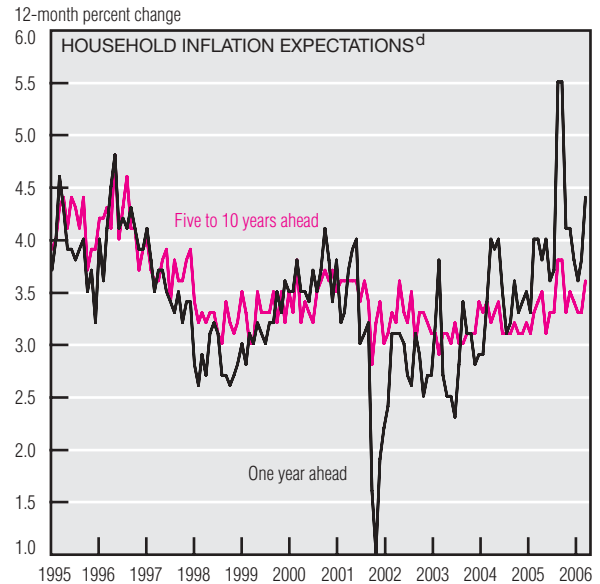
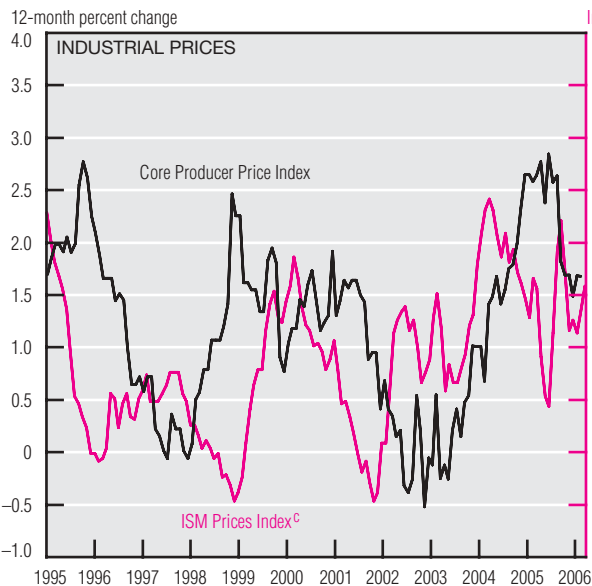
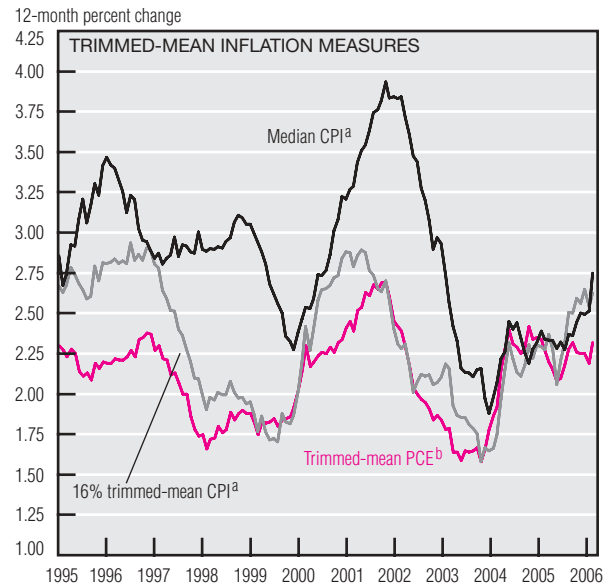
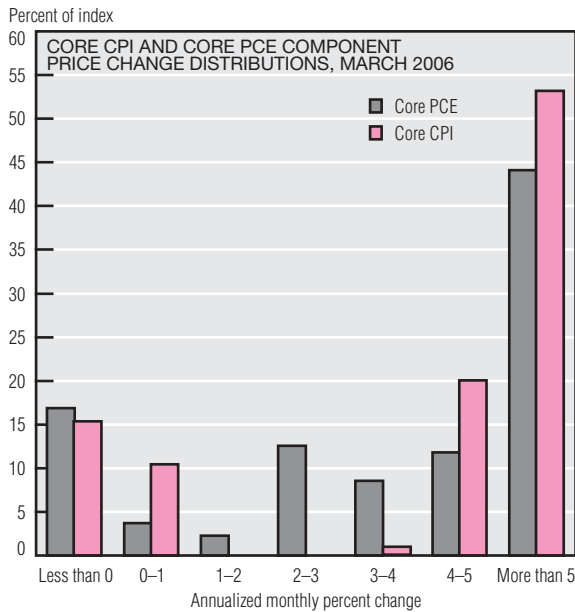
Inflation pressures intensified in March. The Consumer Price Index (CPI) rose at a 4.3% annualized rate, after holding steady in February. However, monthly growth in the core retail price measures was brisk: The CPI excluding food and energy rose 4.2% (annualized), the fastest monthly rate since November 2001. The Bureau of Labor Statistics attributed 70% of the core CPI's monthly rise to an acceleration in apparel and shelter prices. Meanwhile, the median CPI surged 5.0%—its fastest monthly growth rate since February 1994.

The 12-month trend in the CPI decelerated through the first quarter of 2006, while growth in the CPI excluding energy continued to fluctuate between 2% and 2¹/₄%, as it has since mid-2005. Likewise, the longer-term growth rate of the Personal Consumption Expenditure price index (PCE), which measures an alternative market basket of consumer goods, has also decelerated since January, while the PCE excluding food and energy continues to hover around 2.0%—a level that some consider the high end of the range associated with price stability. However, the prices of some items

in the PCE market basket are artificially derived because they cannot be observed directly in the marketplace (charitable donations, for example) or because they are benefits associated with other services provided by retailers (such as certain non-priced services provided by financial institutions). The market-based core PCE, which excludes such items, suggests that price growth has fluctuated around a much lower trend, between 1¹/₂% and 1³/₄%, since the beginning of 2005.

(continued on next page)

Inflation and Prices (cont.)



a. Calculated by the Federal Reserve Bank of Cleveland.

b. Calculated by the Federal Reserve Bank of Dallas.

c. From the Manufacturing ISM Report on Business.

d. 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 Commerce, Bureau of Economic Analysis; University of Michigan; Institute for Supply Management, Federal Reserve Bank of Dallas; and Federal Reserve Bank of Cleveland.

The latest retail price data suggest that acceleration in growth rates for the monthly CPI and PCE resulted from broad-based increases in the indexes' core component prices. The vast majority of CPI and PCE component prices grew at rates well above the indexes' overall longer-term trends. Indeed, the prices of nearly 45% of the core PCE components and nearly 55% of the core CPI components rose more than 5% during the month. However, monthly price data fluctuate widely and may ob-

scure an underlying, more stable inflation trend. Core inflation measures, like the median and 16% trimmed-mean CPI, as well as the trimmed-mean PCE, seek to characterize the inflation trend more accurately by systematically eliminating the more extreme—and presumably most transitory—price changes. The median and 16% trimmed-mean CPI measures suggest that inflation has accelerated since early 2004 and has risen about $\frac{1}{2}$ percentage point more since mid-2005. This may reflect a

pass-through of industrial prices into retail prices.

Meanwhile, household inflation expectations rose in April: Average short-term inflation expectations jumped to their highest level (4.4%) since the months that followed Hurricane Katrina, while average long-term expectations inched upward to reach their highest level (3.6%) since last fall. This is on the high end of the 3%–3½% range in which longer-term inflation expectations have generally fluctuated for nearly a decade.