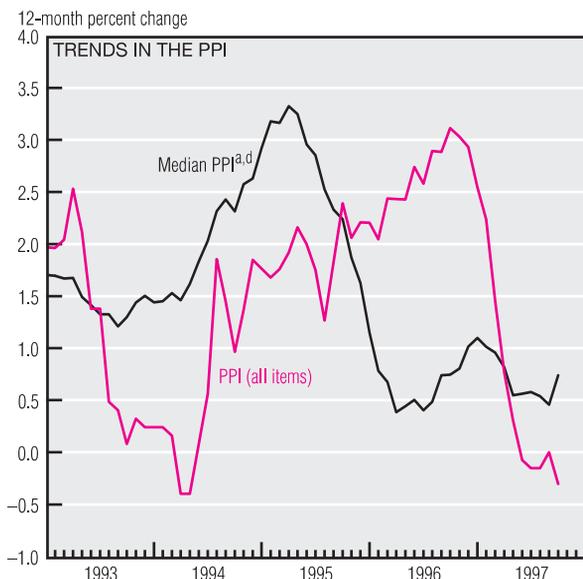
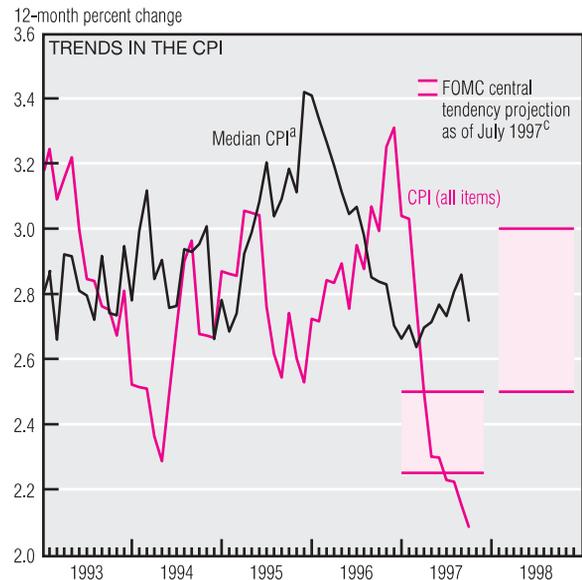


Inflation and Prices

	Annualized percent change, last:				1996 avg.
	1 mo.	3 mo.	10 mo.	5 yr.	
October Price Statistics					
Consumer prices					
All items	2.3	2.5	1.7	2.6	3.3
Less food and energy	2.9	1.9	2.1	2.8	2.6
Median ^a	1.8	2.3	2.8	2.9	2.7
Producer prices					
Finished goods	0.9	3.4	-0.8	1.2	2.9
Less food and energy	0.0	1.4	0.3	1.1	0.7
Commodity futures prices^b					
	7.2	13.3	1.0	3.9	-0.7



a. Calculated by the Federal Reserve Bank of Cleveland.

b. As measured by the KR-CRB composite futures index, all commodities. Data reprinted with permission of the Commodity Research Bureau, a Knight-Ridder Business Information Service.

c. Upper and lower bounds for CPI inflation path as implied by the central tendency growth ranges issued by the FOMC and nonvoting Reserve Bank presidents.

d. Based on the PPI for all items.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; the Federal Reserve Bank of Cleveland; and the Commodity Research Bureau.

The monthly price data continue to point toward only modest inflationary pressure. In October, the Consumer Price Index (CPI) rose at a 2.3% annualized pace, about ½ percentage point above its year-to-date annualized average (1.7%), but a percentage point lower than last year's rate (3.3%). The median CPI increase was only 1.8% for the month, its smallest uptick since August 1996. Still, year to date, the median CPI has risen at a 2.8% annualized rate, nearly identical to both

last year's increase and the average increase since 1992.

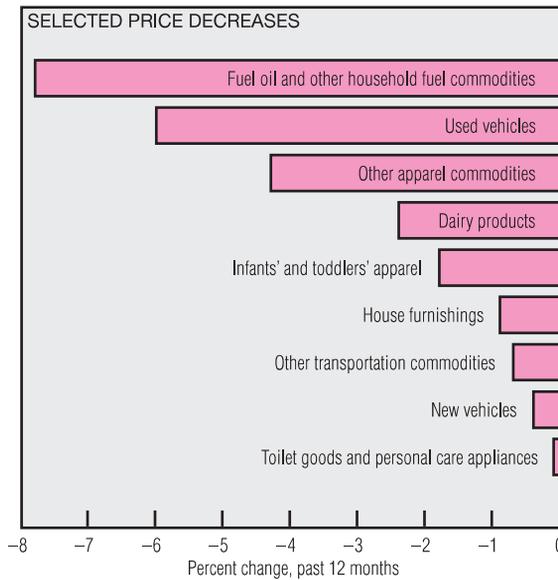
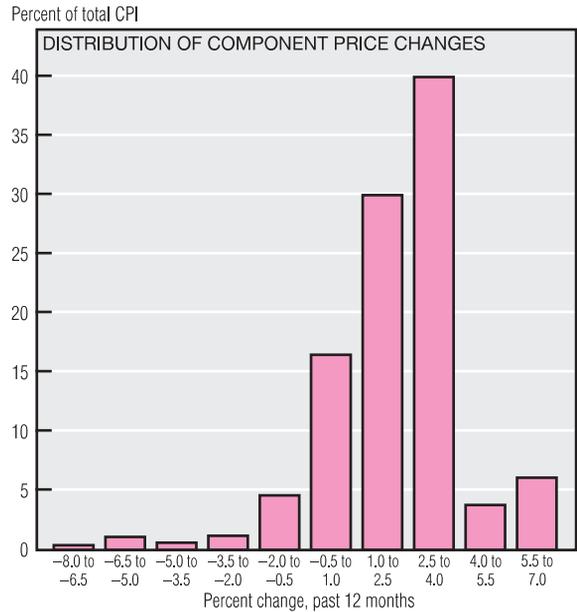
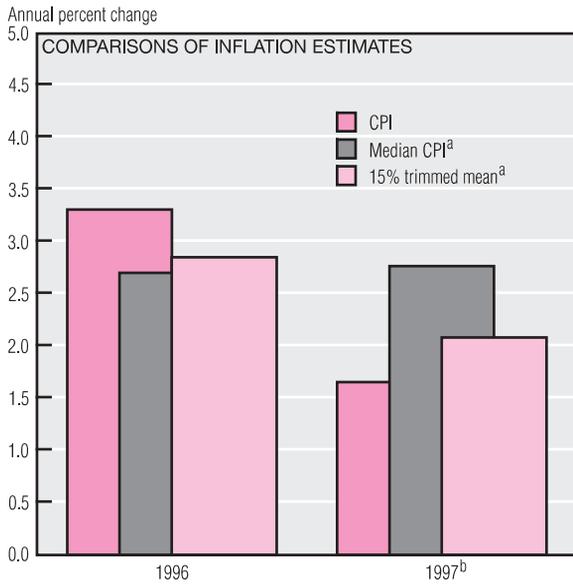
The recent trend in the rate of consumer price increases is now well below the Federal Open Market Committee's (FOMC) 1997 central tendency projection (2¼% to 2½%) and more than ½ percentage point below the midpoint of the group's 1998 projection (2¾%).

Price patterns at the firm level show similar moderation. The Producer Price Index (PPI) for all goods has actually declined about 1% over

the past 12 months and now stands about three percentage points below its 1996 average. The median PPI, however, has shown more steady (and moderate) trends, growing at an average rate of ½% to 1% since February 1996. Reports from purchasing managers suggest some firming in producer prices, but not much. In October, only a slightly greater proportion of the managers surveyed reported prices rising compared to prices falling.

(continued on next page)

Inflation and Prices (cont.)



a. Calculated by the Federal Reserve Bank of Cleveland.
 b. December 1996 through October 1997, annual rate.
 c. Includes sugar and sweets, fats and oils, nonalcoholic beverages, and other prepared food.
 SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and the Federal Reserve Bank of Cleveland.

The relatively large discrepancy between the CPI and the median CPI increases suggests that prices have been rising very unevenly across the various components of consumer spending. While the CPI has fallen sharply this year from last, the median CPI has risen at a nearly identical rate. The 15% trimmed mean (which excludes the highest and lowest 7½% of the price change distribution) lies between these two extremes.

An examination of the distribution of price changes over the past year

shows why these three inflation estimates differ. The largest share of price increases in the CPI (40%) has been in the 2½% to 4% range, much higher than the “average” price increase. That means that there have been some extreme price declines in the CPI that have helped to restrain the index. Among the items showing the largest price declines this year were fuel oil (down nearly 8%), used vehicles (down 6%), miscellaneous apparel (down about 4%), and dairy products (down about 2½%).

A few goods, however, registered substantial price increases over the past 12 months. For example, the price of tobacco and smoking products moved up 6%, and school books/supplies and personal/educational services increased substantially. Moreover, there was a wide range of commodities whose prices rose almost 3%, including shelter, men's and boys' apparel, and entertainment services.