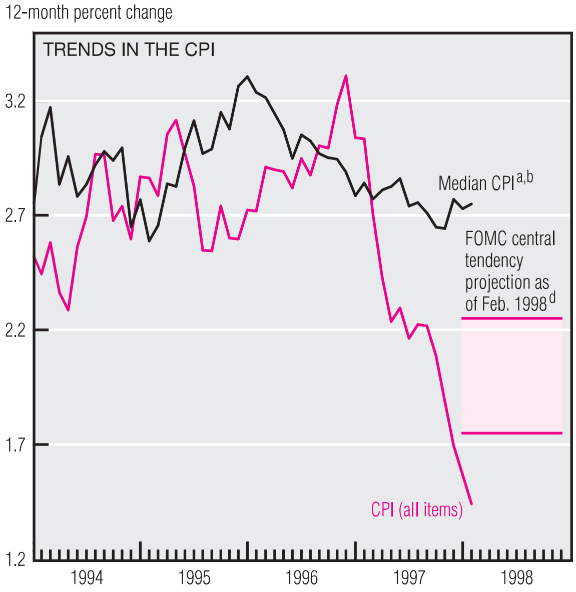
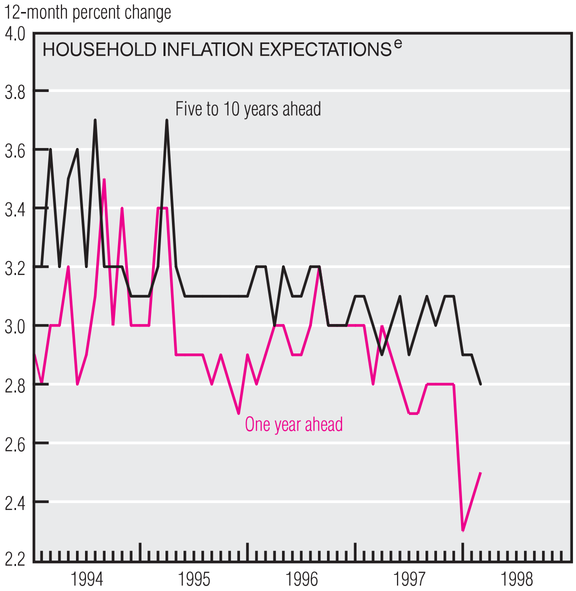
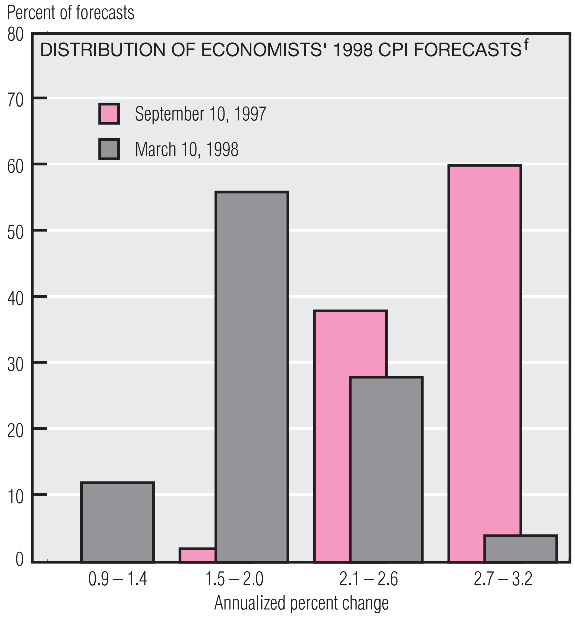
Inflation and Prices

February Price Statistics

	Annualized percent change, last:				1997
	1 mo.	6 mo.	12 mo.	5 yr.	avg.
Consumer prices					
All items	0.7	1.4	1.4	2.5	1.7
Less food and energy	3.6	2.5	2.3	2.7	2.2
Median[a,b]	3.1	2.7	2.7	2.9	2.8
Producer prices					
Finished goods	–0.9	–1.4	–1.7	0.9	–1.5
Less food and energy	1.7	0.4	0.1	1.0	0.0
Commodity futures prices[c]	8.9	–8.4	–3.8	2.7	–3.5







a. Calculated by the Federal Reserve Bank of Cleveland.
b. Revised since January 1993 to reflect new Bureau of Labor Statistics seasonal factors.
c. 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.
d. 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.
e. Median expected change in consumer prices as measured by the University of Michigan's Survey of Consumers.
f. Blue Chip panel of economists.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; the Federal Reserve Bank of Cleveland; the Commodity Research Bureau; the University of Michigan; and *Blue Chip Economic Indicators*, September 10, 1997 and March 10, 1998.

Consumer prices edged up an annualized 0.7% in February, resulting in a 12-month change of only 1.4%, down from the 1997 average of 1.7%. Excluding food and energy components, however, prices rose at a 3.6% annualized rate, well above the five-year average of 2.7%. The median Consumer Price Index (CPI), an alternative inflation measure, advanced 3.1% in February and is tracking close to its five-year average. The CPI for all items remains below the Federal Open Market Committee's (FOMC) central tendency projection, partly because of the continuing slump in energy prices.

Producer prices declined again in February, with the Producer Price Index (PPI) for all items falling at a 0.9% annualized rate. Here, too, a closer look reveals that declining energy prices are responsible for the drop, since the PPI less food and energy climbed at a 1.7% annualized rate during the same period.

Consumer expectations for inflation one year ahead rose this month to 2.5%, the second straight increase in their median response. Over the longer term, consumers continue to

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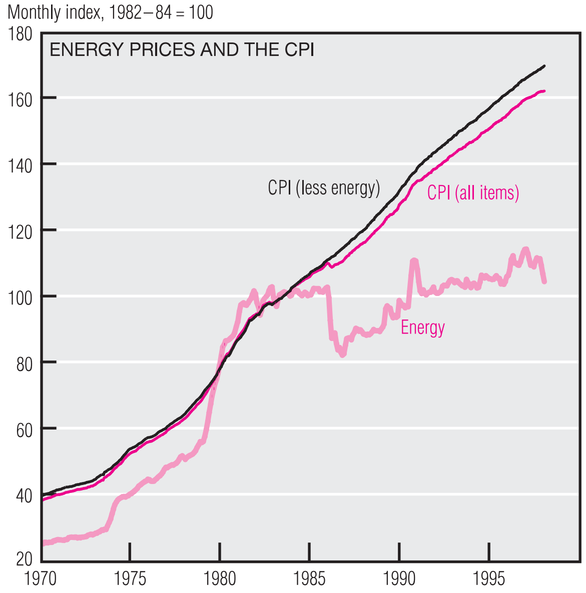
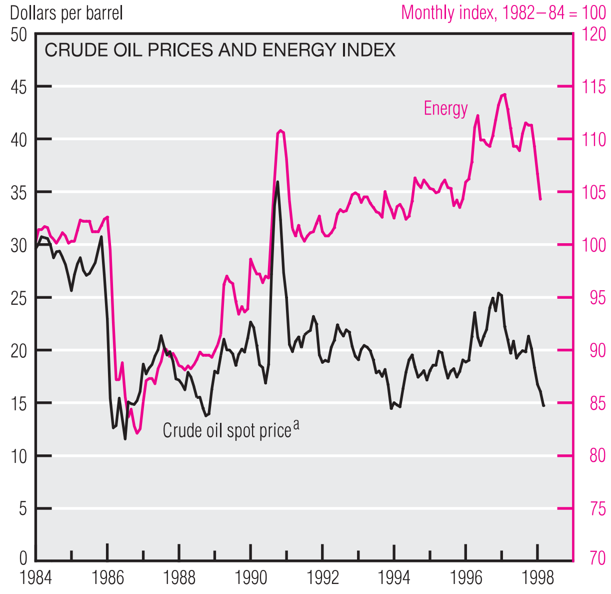
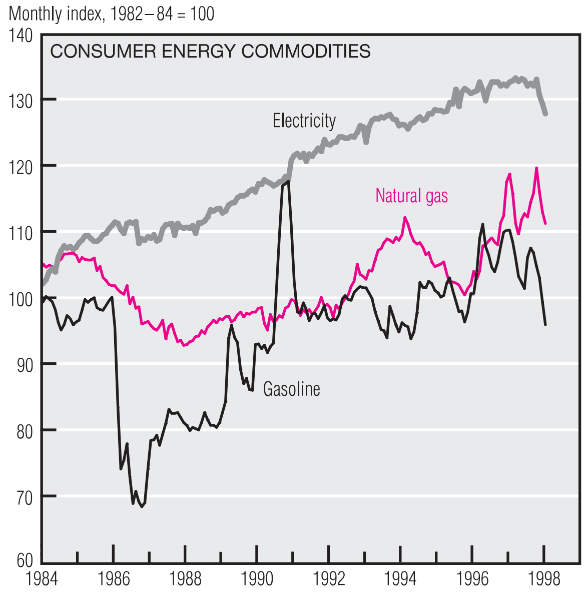
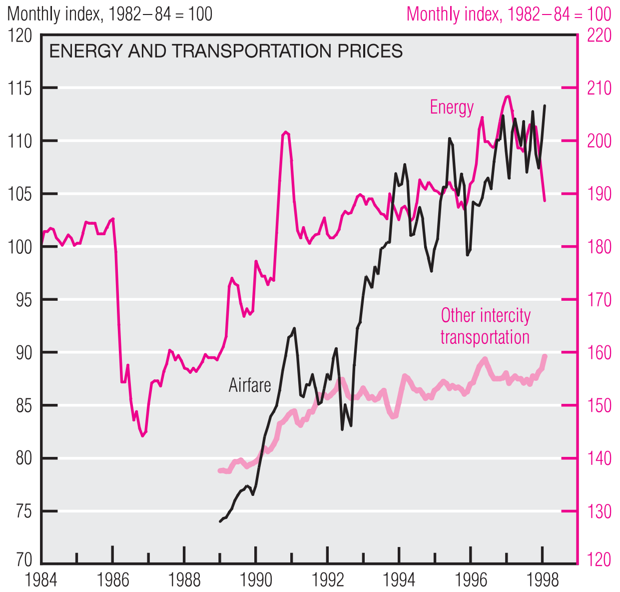
Inflation and Prices (cont.)









a. West Texas Intermediate.
SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

expect a 2.8% rate of inflation, which is roughly the same as the five-year trend in the median CPI. Economists participating in the latest Blue Chip survey revised their 1998 inflation expectations downward for the fourth straight month, with 56% now expecting inflation in the 1.5% to 2.0% range. This represents a drop of more than one full percentage point since September 1997, when 60% of participating economists expected inflation of 2.7% to 3.2%.

Energy prices have restrained increases in the overall CPI since their sharp decline early in 1986. Since December 1997, energy prices have been decreasing monthly.

The energy index of the CPI measures price changes in fuel oil, household fuel commodities, piped gas, electricity, and motor fuel, items that account for 3.3% of the typical consumer's budget. The energy index is heavily influenced by the price of oil. While both the energy index as a whole and the spot price for intermediate crude oil show considerable volatility over time, since 1984 the crude oil spot price has led movements in the energy index, although it does not dictate the trend in energy prices.

Gasoline closely follows the price patterns of intermediate crude oil. Natural gas follows oil prices rather loosely, while electricity is influenced only by large oil price swings.

Other consumer areas, such as transportation services, rely heavily on energy. Although airfares exhibit more variability than the energy index, they often mirror its pattern. Apart from the cost of flying, intercity transportation is only weakly related to the energy index and tends to be relatively stable. While swings in oil prices clearly affect a household's cost of living, they do so mostly through direct purchases of gasoline and other oil products.