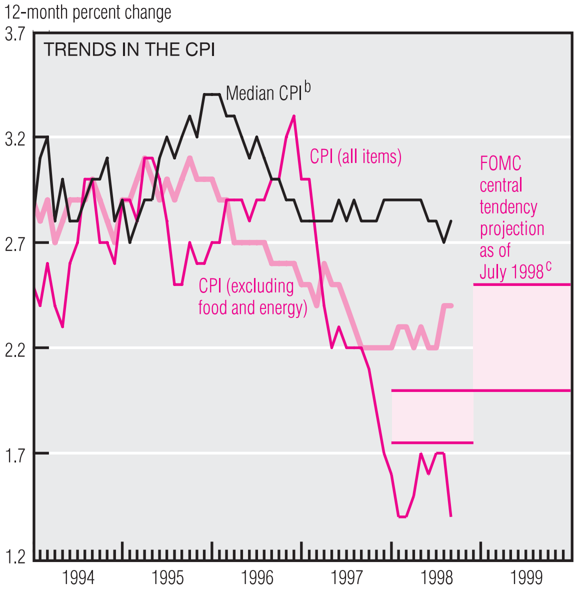
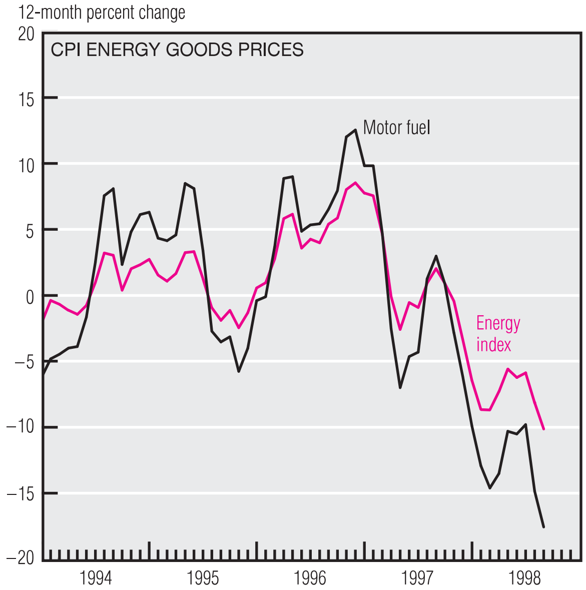
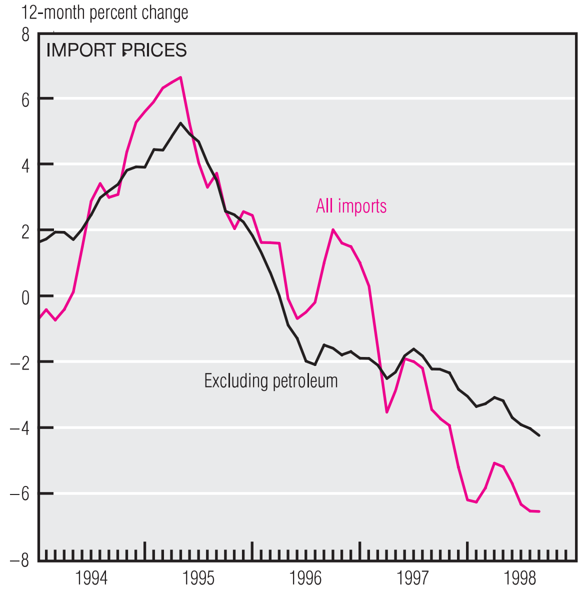
Inflation and Prices

September Price Statistics

	Percent change, last:				
	1 mo.[a]	3 mo.[a]	12 mo.	5 yr.	1997 avg.
Consumer prices					
All items	0.0	1.5	1.4	2.4	1.7
Less food and energy	2.1	2.3	2.4	2.7	2.2
Median[b]	3.2	2.9	2.8	3.0	2.9
Producer prices					
Finished goods	3.7	0.6	–0.9	1.0	–1.2
Less food and energy	5.1	3.0	1.0	1.3	0.0







a. Annualized.
b. Calculated by the Federal Reserve Bank of Cleveland.
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.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and the Federal Reserve Bank of Cleveland.

The Consumer Price Index (CPI) remained unchanged on average in September and has increased a mere 1.4% over the past 12 months. However, alternative measures of "core" inflation—the CPI excluding food and energy and the median CPI—suggest that underlying inflation is currently running a full percentage point higher than the CPI including all items. (The CPI excluding food and energy has increased 2.4% over the past 12 months, while the median CPI shows inflation of 2.8% over the same period.)

If we compare the two inflation measures published by the Bureau of Labor Statistics (BLS)—the CPI and the CPI excluding food and energy—it becomes clear that the volatile food and energy components have restrained the overall CPI. Specifically, the BLS's energy index is down 10% for the 12 months ending in September, mostly as a result of declining petroleum prices. Indeed, the gasoline component of the CPI has dropped 17.5% over the past 12 months. Import prices, which have fallen 6.5% over that period, are also subduing retail price growth. Even when the energy component is excluded, import prices are down 4.2% over the 12 months ending in September.

Sharp downward pressure on import prices may be having a considerable impact on the measured inflation rate. One well-known feature of the recent slowing in the

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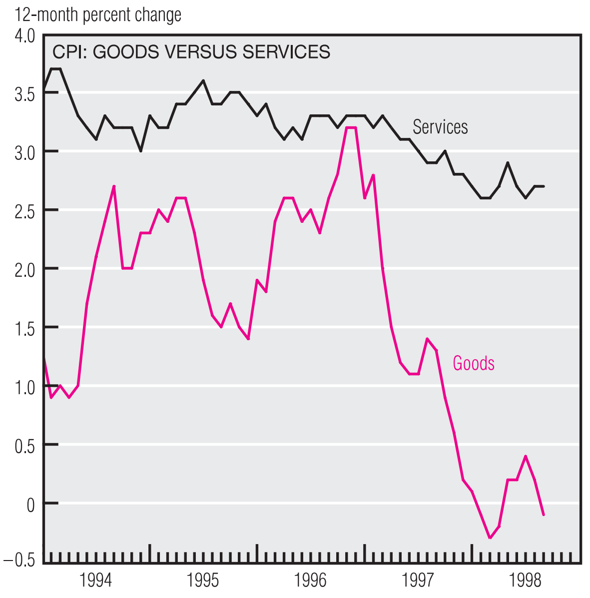
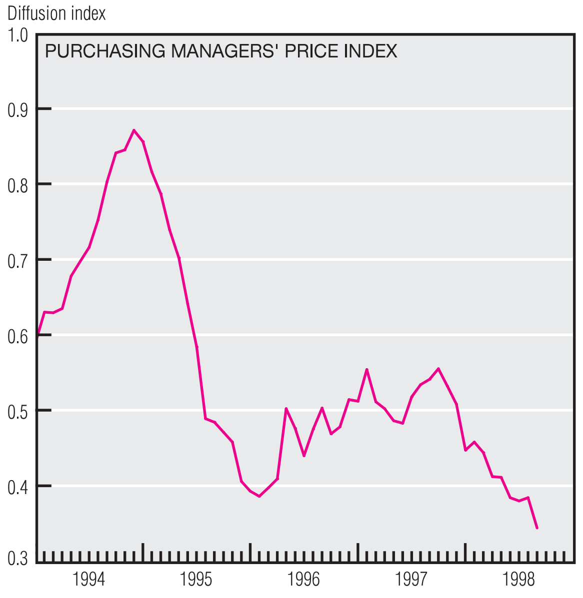
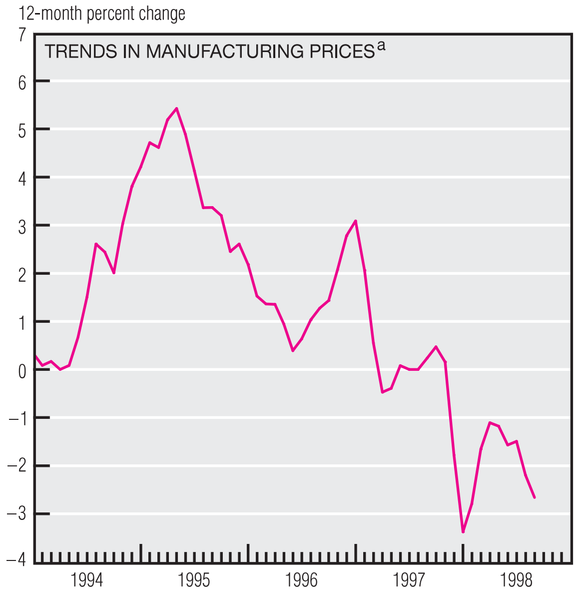
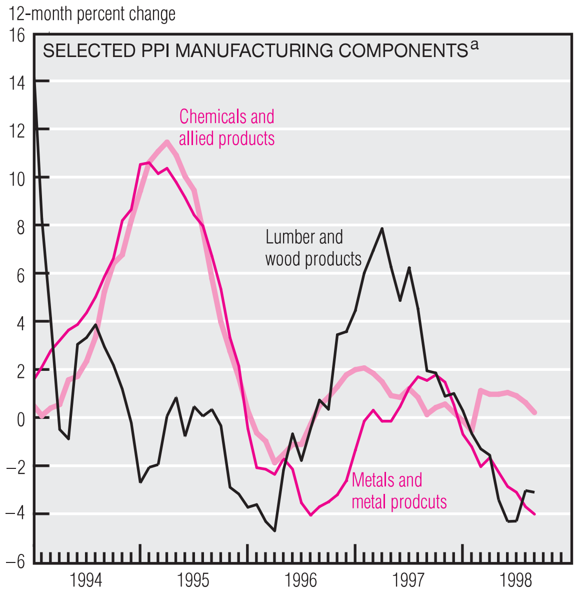
Inflation and Prices (cont.)









a. From the Producer Price Index.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and the National Association of Purchasing Management.

CPI is that it has occurred predominantly in goods, which are much more likely than services to be imported. Over the past 12 months, retail goods prices have shown no net increase, while retail service prices are continuing to rise at a rate between 2½% and 3%.

Steady goods prices at the retail level actually mask large declines in the cost of producing goods. Survey data show that since the end of last year, the share of purchasing managers who have seen prices rise has been smaller than the share who have seen them fall. Thus, declining input costs are likely to have been exerting downward pressure on the prices of manufactured goods. Indeed, those prices have been on a downward trajectory all year and are now about 2½% below their September 1997 level.

Basic materials lead the list of manufactured goods whose prices have fallen. Lumber and wood prices have dropped about 3% over the past 12 months, while metals and metal product prices are down about 4%. These decreases too may result from the weakness of foreign economies, which have flooded U.S. markets with lumber and steel in the last year. In fact, recent months have brought accusations from domestic steel manufacturers that imported steel is being “dumped” on the U.S. economy at prices that are lower than foreign firms’ production costs.