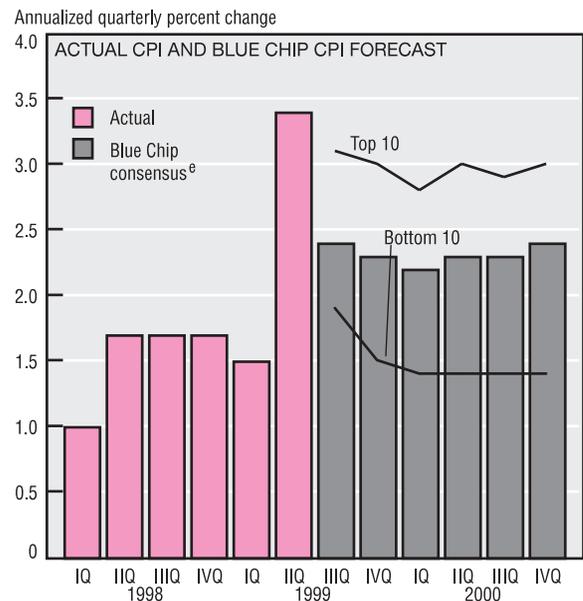
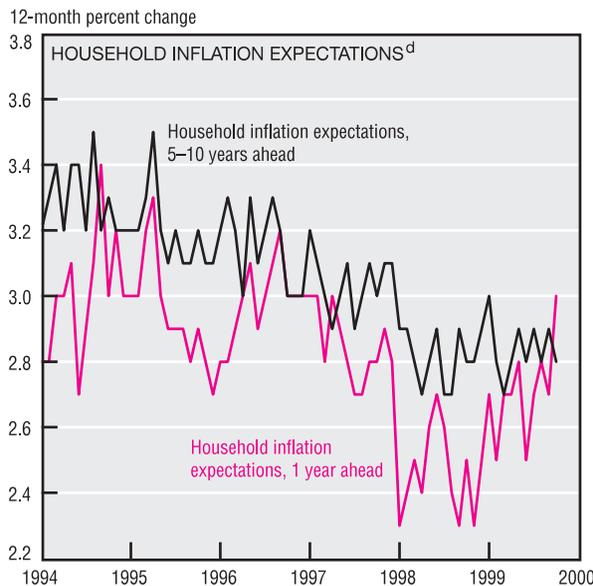
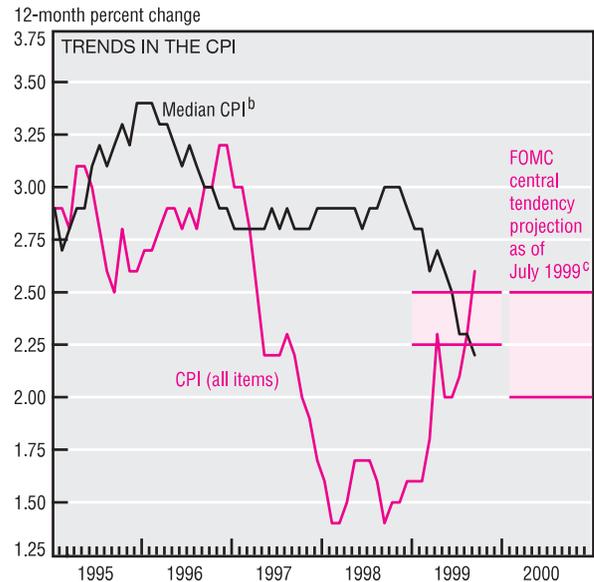


Inflation and Prices

	Percent change, last:				1998 avg.
	1 mo. ^a	3 mo. ^a	12 mo.	5 yr. ^a	
September Price Statistics					
Consumer prices					
All items	5.1	4.2	2.6	2.4	1.6
Less food and energy	4.1	2.5	2.1	2.5	2.5
Median ^b	1.9	1.9	2.2	2.8	2.9
Producer prices					
Finished goods	13.4	7.5	3.1	1.4	-0.1
Less food and energy	9.5	2.8	1.7	1.3	2.5



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.

d. Median expected change in consumer prices as measured by the University of Michigan's *Survey of Consumers*.

e. Blue Chip panel of economists.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; Federal Reserve Bank of Cleveland; University of Michigan; and *Blue Chip Economic Indicators*, October 10, 1999.

Following annualized increases of 3.7% in each of the previous two months, the Consumer Price Index (CPI) rose 5.1% (annualized) in September. As in July and August, energy prices continued to exert extreme pressure on the index. Energy costs in the CPI rose 1.7% (21.7% annualized) in September—virtually identical to the 21.6% annualized average over the past six months. The upward surge in energy prices is reportedly a reflection of OPEC members' stricter adherence to the organization's oil-production quotas.

Excluding food and energy, the CPI rose 4.1% (annualized) in September, the index's largest monthly increase since April. Apparel costs rose 1.2% (15.8% annualized) in September, having fallen the previous four months, and tobacco and smoking products rose 6.5% (111.9% annualized). Many observers have discounted the importance of these rather sizeable increases, attributing them to transitory factors. Accordingly, they argue that September's increase in the CPI less food and energy may not accurately represent the under-

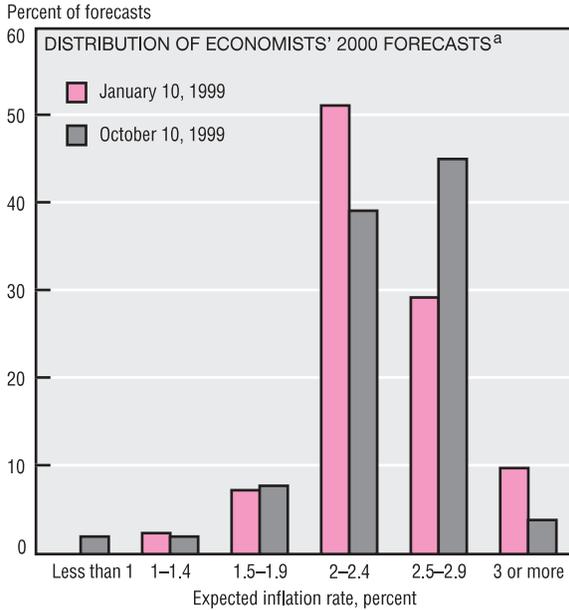
lying or core rate of inflation that the index is intended to gauge.

Indeed, another measure of core inflation, the median CPI, rose 1.9% (annualized) in September—far below the rates posted by the CPI as well as the CPI less food and energy. In fact, over the past 12 months, the median CPI has grown at a rate of 2.2%, almost ½ percentage point below the CPI's average growth rate over the period.

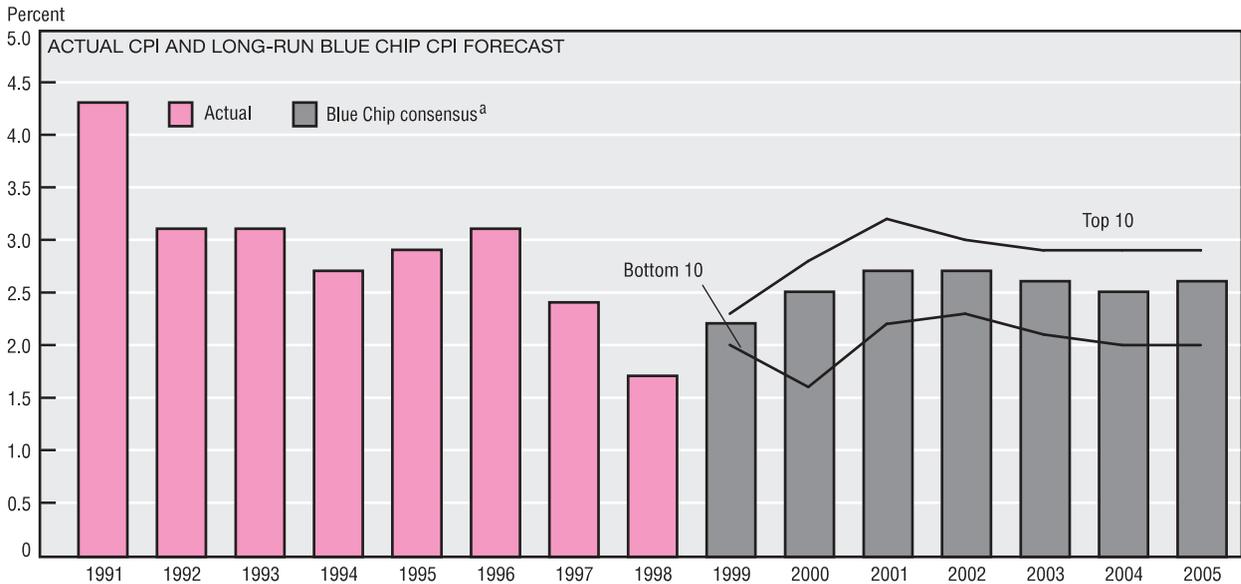
The step-up in retail prices has apparently taken its toll on households' expectations of inflation—at

(continued on next page)

Inflation and Prices (cont.)



	Percent change	
	Forecast for 2000	Expected increase from 1999
Japan	0.3	0.5
France	1.4	0.8
Germany	1.8	1.1
Canada	1.9	0.4
U.S.	2.4	0.3
U.K.	2.5	0.3



a. Blue Chip panel of economists.
 SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and *Blue Chip Economic Indicators*, January 10 and October 10, 1999.

least over the near term. From the end of 1998 to the present, expectations of inflation for the upcoming 12-month period, as measured by the University of Michigan's *Survey of Consumers*, have risen from about 2¼% to 3%. Inflation expectations for the next five- to ten-year period, however, have remained fairly stable this year at about 2¾%.

Economists' forecasts of inflation for the next year suggest a moderation from the price surge that occurred in 1999:IIQ, at least according to the consensus of forecasts. Still, the trend growth of consumer prices

over the remainder of this year and in 2000 is expected to be a bit (about ½ percentage point) higher than the inflation recorded in 1998.

The inflation outlook for 2000 is somewhat more pessimistic now than it was last January. At that time, about 51% of the economists polled saw inflation in 2000 in the 2.0%–2.4% range, while about 30% were anticipating inflation in the 2.5%–2.9% range. In October, the proportion of forecasts showing next year's inflation in the lower of these two ranges had fallen to just under 40%, and the share showing inflation in

the higher range had risen to about 45%. In 2000, the rise in U.S. consumer prices is expected to be on the high side relative to other major economies.

Looking further ahead, economists expect the upward trend in retail prices to remain in the 2½%–2¾% range through the year 2005—not far from the long-run inflation expectation of households noted earlier. The inflation pessimists see inflation stabilizing just under the 3% level by mid-decade; the optimists expect the rate to level off at around 2%.