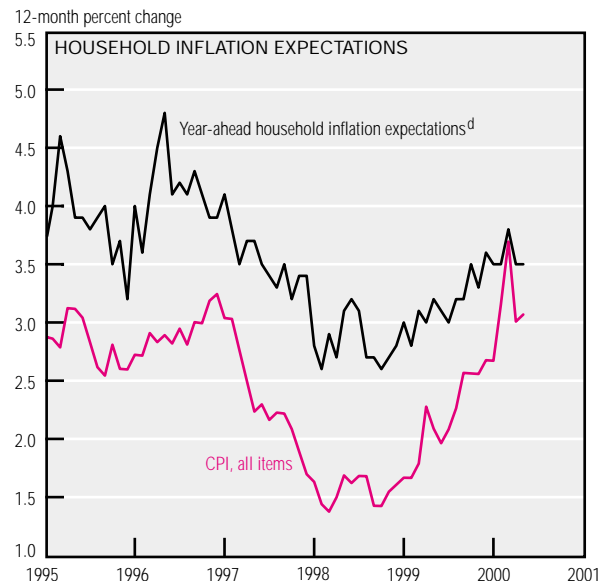
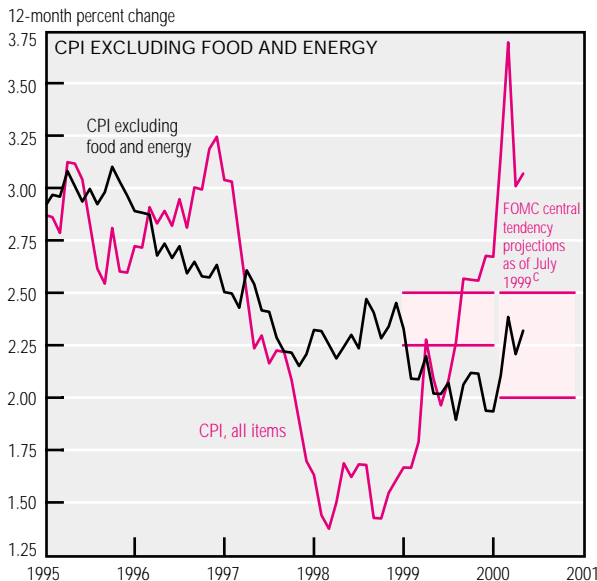
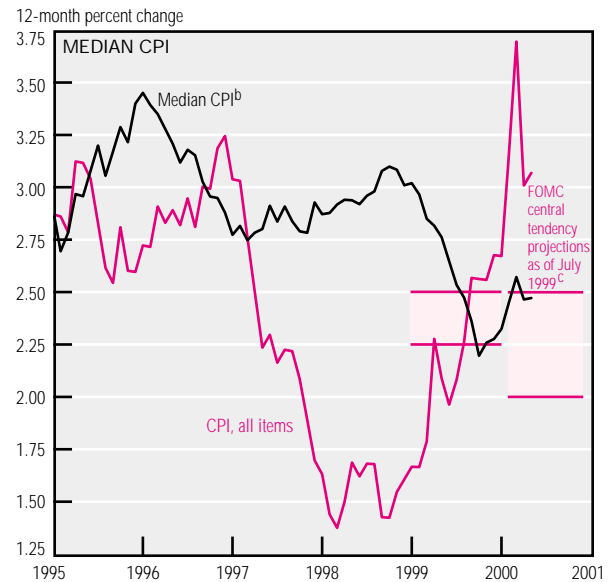


# Inflation and Prices

	Percent change, last:				1999 avg.
	1 mo. <sup>a</sup>	3 mo. <sup>a</sup>	12 mo.	5 yr. <sup>a</sup>	
<b>Consumer prices</b>					
All items	0.7	3.1	3.1	2.4	2.7
Less food and energy	2.0	3.2	2.3	2.4	1.9
Median <sup>b</sup>	2.5	2.6	2.5	2.8	2.3
<b>Producer prices</b>					
Finished goods	0.0	2.7	3.8	1.4	2.9
Less food and energy	2.5	1.9	1.4	1.1	0.8



a. Annualized.

b. Calculated by the Federal Reserve Bank of Cleveland.

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

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

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; Federal Reserve Bank of Cleveland; and University of Michigan.

Retail prices remained subdued in May, up a modest 0.1%, as energy prices fell again (down 1.9% in the month). Pulling in the opposite direction, food prices rose—rather sharply—0.5% (5.9% annualized). Removing these two volatile sectors yields the so-called core rate of inflation, which rose 0.2% (2.0% annualized), equaling its April rate of increase. The median CPI, an alternative measure of underlying inflation, also rose 0.2% in May (2.5% annualized).

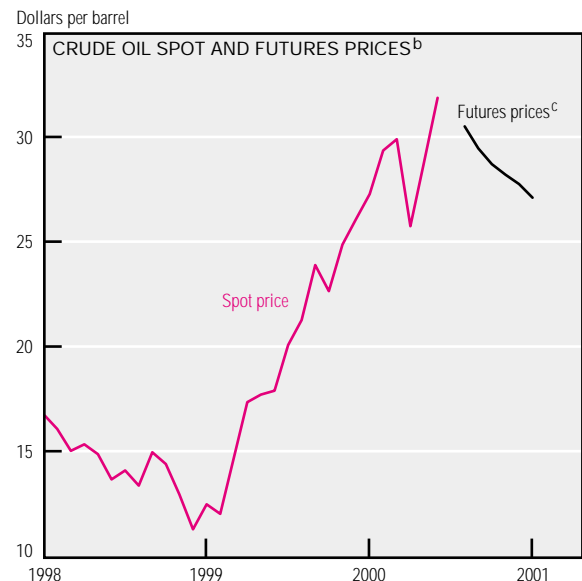
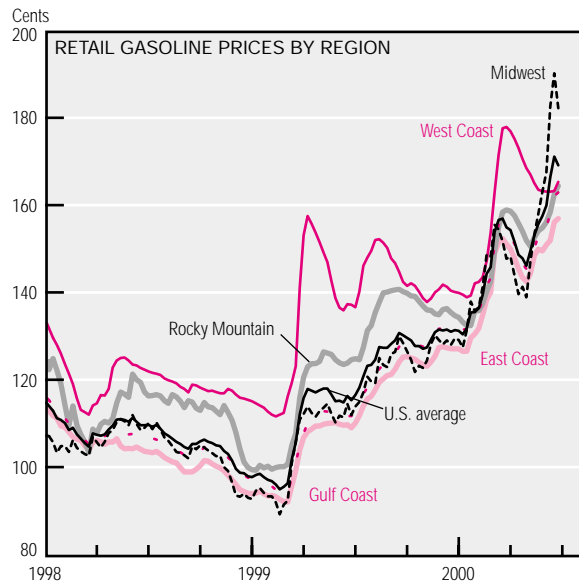
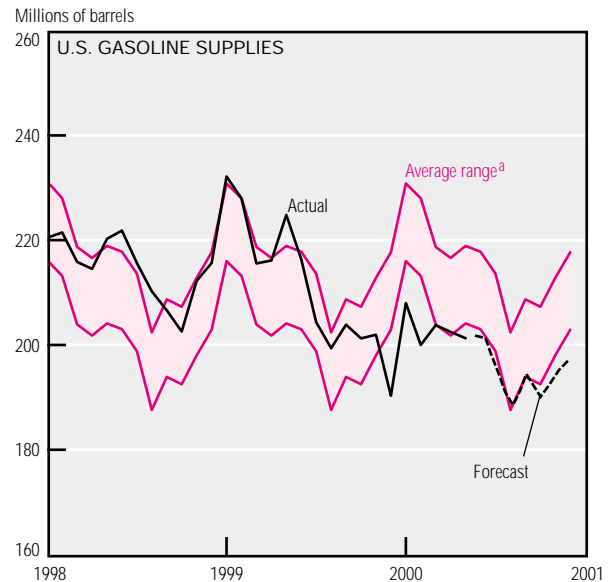
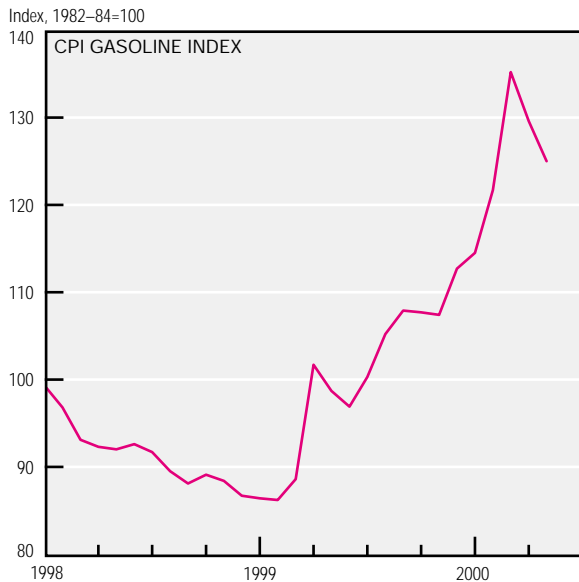
The 12-month percent changes of

these three inflation measures over the past 18 months also reveal widely divergent patterns. While the CPI has accelerated from a 1.5% growth rate to just over 3.0%, the core measures have remained steady (about 2.0% for the CPI excluding food and energy and 2.5% for the median CPI). Core measures of inflation are valuable to policymakers precisely because they screen out transitory factors—such as recent energy price increases—leaving a clearer view of the part of inflation that may result from the central

bank's actions. It is interesting, therefore, that the public's expectations of future inflation have so closely followed the upward move in the all-items series rather than the core measures. In other words, the public seems to ascribe some persistence to factors that the core measures imply are merely transitory.

One change that is not reflected in the May report on consumer prices is the recent swift re-ascent of gasoline prices. Having risen more or less steadily since the beginning  
(continued on next page)

## Inflation and Prices (cont.)



a. Average ranges are constructed by the U.S. Department of Energy's Energy Information Administration from data for the most recent three-year period. The ranges also reflect seasonal variation for the past seven years.

b. West Texas Intermediate crude oil.

c. As of June 30, 2000.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Energy, Energy Information Administration; Bloomberg Financial Information Services; and Dow Jones Energy Service.

of 1999, gasoline prices began dropping in mid-March. This reversal was brief, however, and crude oil prices began climbing again in early May, against a background of low U.S. gasoline supplies (which had been below the Energy Department's "normal ranges" since late last year). Indeed, according to Energy Department sources, gasoline supplies dropped partly because producers, hopeful that crude oil prices would soon retreat, were reluctant to build up their gasoline stocks in 1999. As demand surged

with the approach of the summer driving season, suppliers were unable to provide sufficient product, pushing gasoline prices still higher.

Skyrocketing gasoline prices have been most dramatic in the Midwest, where prices in some cities exceeded \$2 a gallon. These prices result partly from the supply disruption caused by a leak in the Explorer Pipeline, which provides about 20% of the region's gasoline. (The pipeline is now operating again, but at reduced capacity.) In addition, refineries reportedly had difficulty producing sufficient quantities of a

new type of reformulated gasoline (RFG), required by the Environmental Protection Agency in some areas. This explains some of the more extreme price increases in the Chicago and Milwaukee areas, which together consume about two-thirds of the Midwest's RFG.

The outlook for gas prices is improving. Supply disruptions are likely to abate in the near term, and Saudi Arabia's recent announcement that it will increase production has pushed prices of crude oil for December delivery down to about \$27 a barrel from June's average of about \$32.