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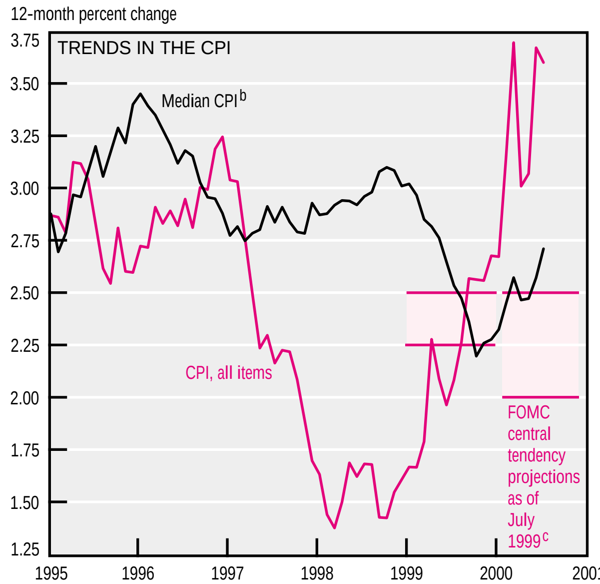
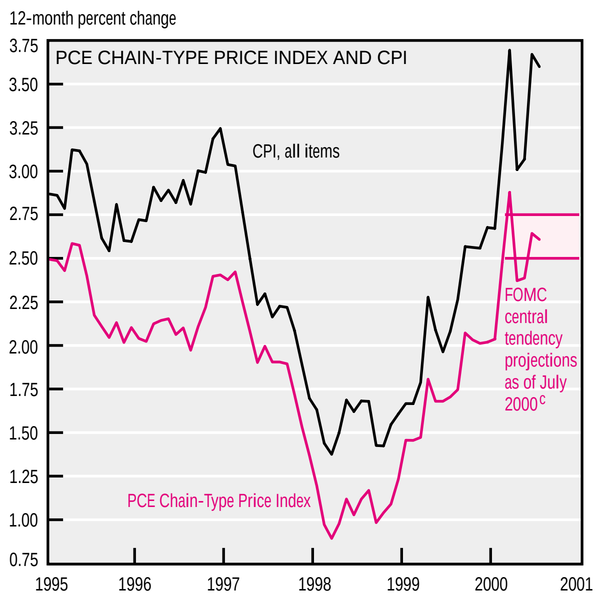
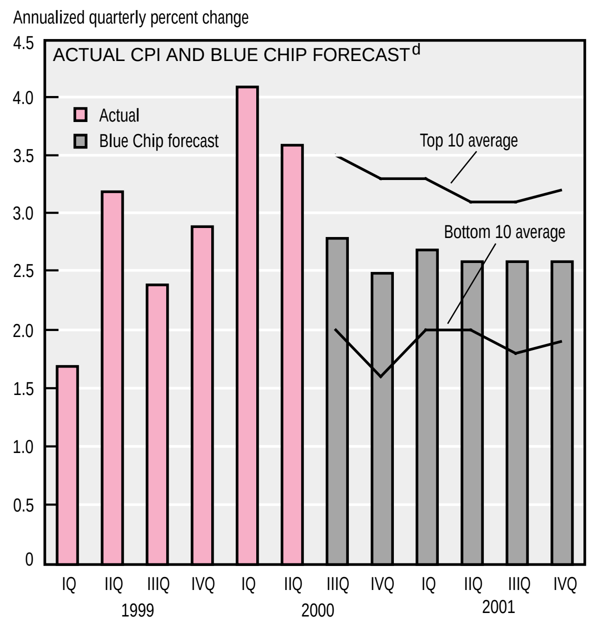
Inflation and Prices

July Price Statistics

	Percent change, last:				
	1 mo.[a]	**3 mo.**[a]	**12 mo.**	**5 yr.**[a]	**1999 avg.**
Consumer prices					
All items	2.8	3.6	3.6	2.5	2.7
Less food and energy	2.7	2.2	2.4	2.4	1.9
Median[b]	3.5	3.0	2.7	2.8	2.3
Producer prices					
Finished goods	0.0	2.4	4.1	1.5	2.9
Less food and energy	1.6	0.8	1.5	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. Blue Chip Panel of economists.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of Economic Analysis; Federal Reserve Bank of Cleveland; and *Blue Chip Economic Indicators*, August 10, 2000.

Whether the July price statistics show inflation to be high or low is a matter of perspective. Judged against this year's performance, the July numbers appear modest. The Consumer Price Index (CPI) rose an annualized 2.8% for the month, or about ¾ percentage point under its 12-month average increase. However, the July data also indicate that retail prices continued to rise at the somewhat elevated pace set in 1999—about one percentage point above their 1997–99 average growth rate. Also, signals from July's so-called "core" inflation statistics (statistics that attempt to distinguish between transitory and permanent movements in the data) were a bit high. The CPI excluding food and energy items rose 2.7% in the month, or roughly ¼ percentage point higher than its 12-month average, while the median CPI jumped 3.5%, more than ¾ percentage point higher than its 12-month average. Finally, the PCE Chain-Type Price Index, an alternative measure of retail prices, has risen slightly more than 2½% in the past 12 months, nearly the highest growth trend posted in more than five years.

Economists expect retail price data to moderate gradually over the next several quarters before stabilizing around the 2½% level by next spring. Inflation pessimists see the trend in the CPI leveling off at a rate slightly under 3¼%, while the inflation optimists see the price data holding to just under 2%.

Potential pressure on domestic resource markets is considered (at least by some economists) to be an

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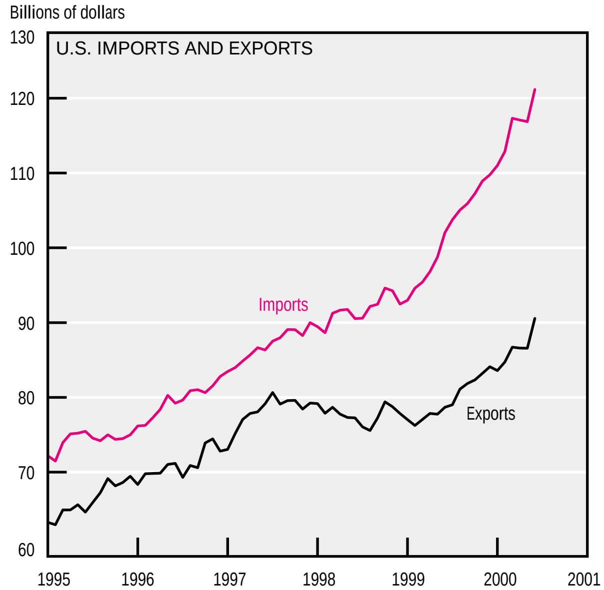
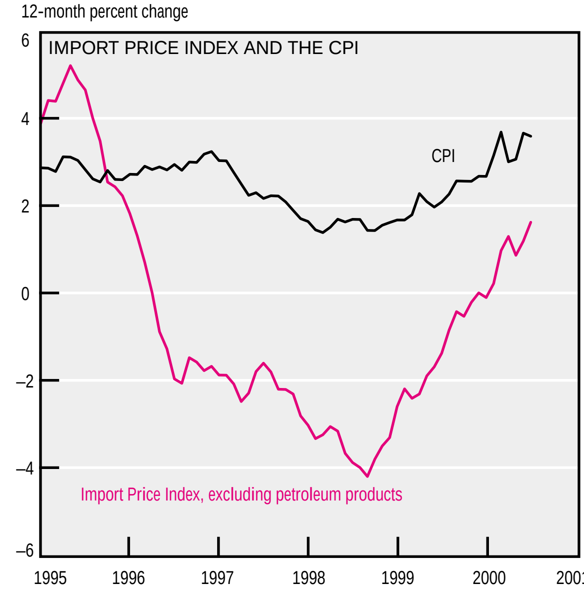
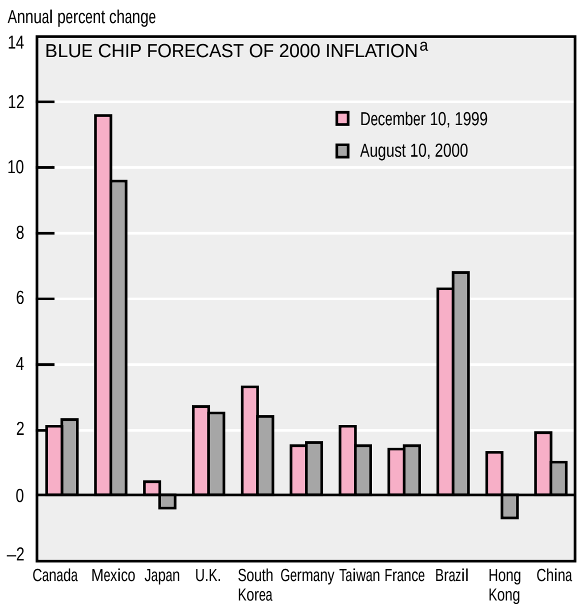
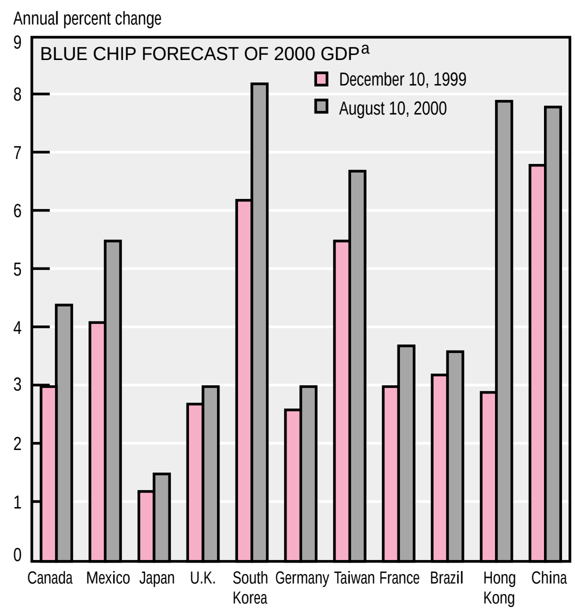
Inflation and Prices (cont.)









a. Blue Chip Panel of economists.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of the Census; and *Blue Chip Economic Indicators*, December 10, 1999 and August 10, 2000.

important unknown in the inflation outlook for the remainder of this year and next. However, the notion that future inflation trends can be forecasted by evaluating resource markets is hotly debated, with some analysts using slack economies abroad to explain why U.S. resource market conditions have been particularly uninformative about inflation in recent years. They argue that the availability of ample foreign resources meant that U.S. demand was not met with the same cost pressures—hence inflation pressures—as in the past. The U.S. trade gap has widened sharply since the summer of 1997, a period when import prices exerted substantial downward influence on U.S. retail prices.

According to this view, a key factor in the U.S. inflation outlook is the continued sluggishness of economies abroad. Should other nations' production start to gain significant momentum and command greater amounts of their productive capacity, the U.S. economy's ability to forestall an upward surge in inflation would be greatly diminished. Surprisingly, while foreign economies have shown greater-than-expected strength this year, their own inflation performance has been generally less than expected. For each of 11 major U.S. trading partners, real economic growth has been tracking above analysts' expectations, in many cases more than a percentage point higher. However, inflation performance in seven of these countries is tracking somewhat lower than analysts had projected. Overall, despite the generally stronger world economic activity, nonpetroleum import prices this year have continued to have a net dampening influence on U.S. retail prices.