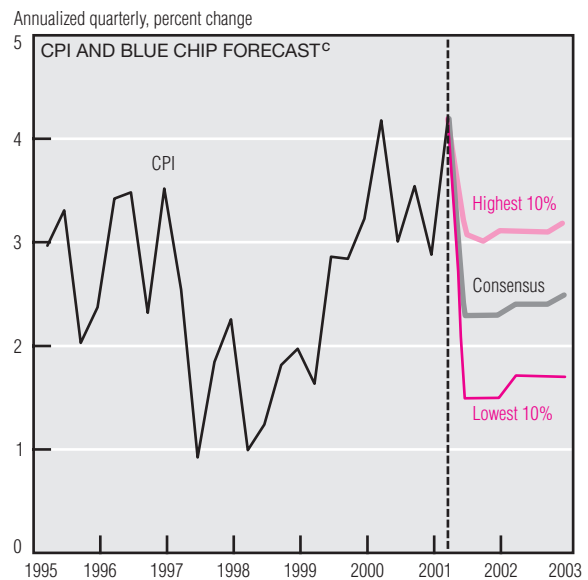
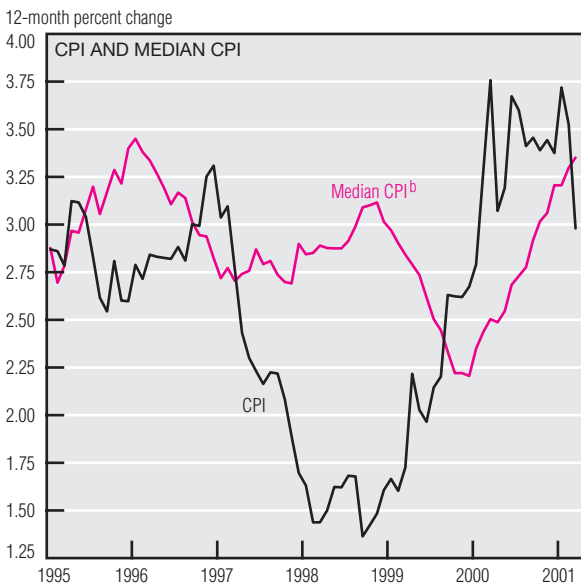
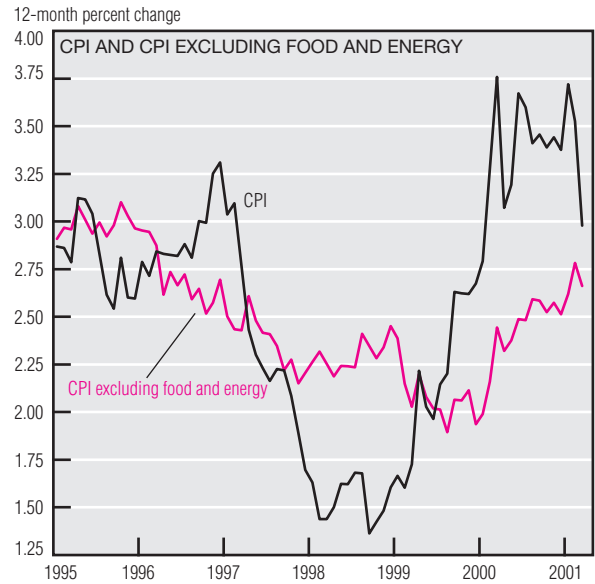


# Inflation and Prices

	Annualized percent change, last:				2000 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	4.0	3.0	2.5	3.4
Less food and energy	2.6	3.5	2.7	2.4	2.5
Median <sup>b</sup>	4.0	4.0	3.4	2.9	3.2
<b>Producer prices</b>					
Finished goods	-0.8	4.9	3.1	1.7	3.6
Less food and energy	1.6	1.9	1.4	1.1	1.2



a. Annualized.  
 b. Calculated by the Federal Reserve Bank of Cleveland.  
 c. Blue Chip panel of economists.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics, Federal Reserve Bank of Cleveland; and *Blue Chip Economic Indicators*, April 10, 2001.

After large increases in the first two months of 2001, the Consumer Price Index (CPI) rose a very modest 0.1% (0.7% annualized) in March. Energy prices declined for the second straight month (-22.4% annualized), as the prices of household fuels fell 8.4% and motor fuel prices dropped 36.4% (both annualized). Food prices (up an annualized 2.8% in March, compared to 5.8% in February) also contributed to March's slower CPI growth.

Still, even after excluding food and energy prices, the CPI's March increase was less pronounced than

earlier this year (an annualized rate of 2.6% versus 4.0% in each of the previous two months). Smaller price increases for apparel and medical care, along with price declines in tobacco, recreation, and household furnishings and operations, contributed to a slowdown in retail prices' advance.

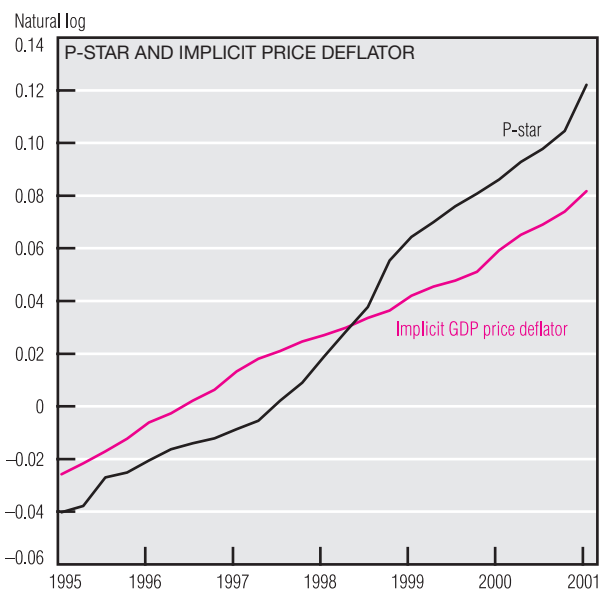
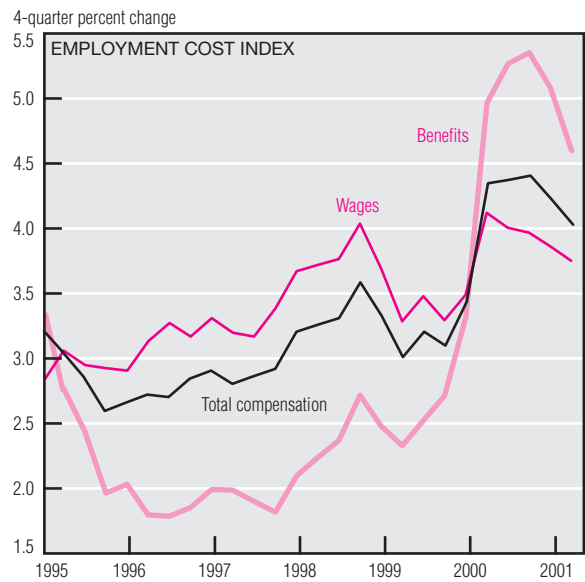
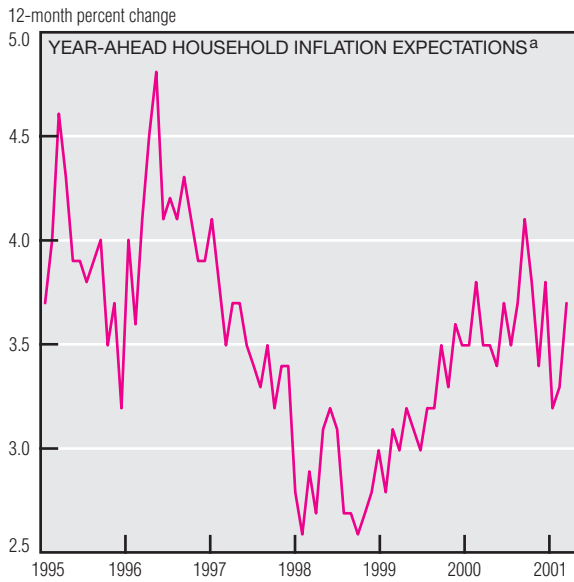
Although these data suggest an improving inflation outlook, the median CPI provides a less sanguine reading. While a subset of items in the CPI helped restrain retail price growth, prices for a large share of goods con-

tinued to advance strongly. In March, the median CPI rose at a 4.0% annualized pace—equal to its average increase for 2001 and up from the 3.2% average in 2000.

Mixed signals from the price data help explain the wide range of opinions regarding the inflation outlook. The consensus forecast by the Blue Chip panel of economists shows the CPI rising about 2½% (annualized) through 2002. However, the most pessimistic of these forecasters expect inflation to hold at around a 3% rate over the next

*(continued on next page)*

## Inflation and Prices (cont.)



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

b. Finance, insurance, and real estate.

c. Transportation and public utilities.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; and University of Michigan.

seven quarters, while their more optimistic counterparts see inflation of only about half that amount. Households' inflation expectations rose to 3.7% in the most recent month, but remain marginally below the four-year high of 4.1% they set last October.

Those who gauge the economy's inflationary momentum by the patterns of wage growth are also receiving mixed signals. Overall, the trend in compensation growth has slowed slightly compared with 2000

for both wages and benefits. Still, that slowdown has been heavily concentrated in industries where business conditions were unusually soft—finance, trade, and durable goods manufacturing. In areas where business conditions are stronger, including general services, construction, and transportation, workers' compensation growth has picked up since last year.

But for economists who believe that inflation is ultimately caused by "too much money chasing too few

goods," the inflationary signs are more ominous. The P-star statistic is one gauge of the inflationary potential of money growth. This statistic shows the long-run price level implied by the trend rate of M2 growth relative to the economy's long-run growth rate (among other things). Since 1998, the price level as measured by the implicit GDP price deflator has been below P-star, which means that this inflation predictor foretells acceleration.