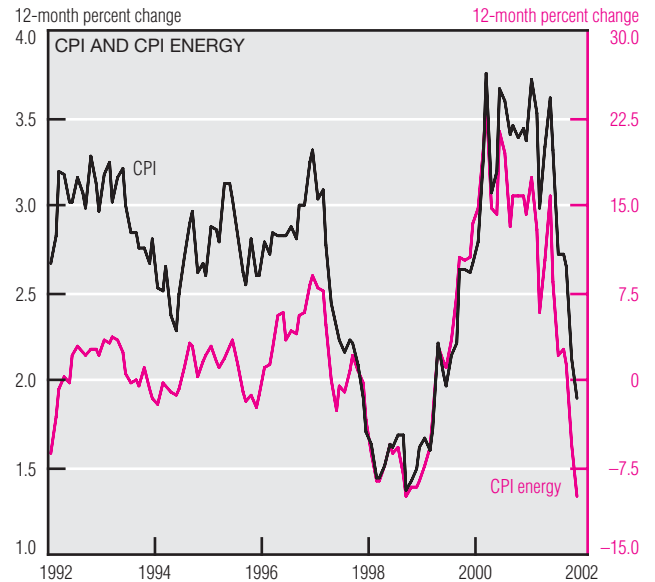
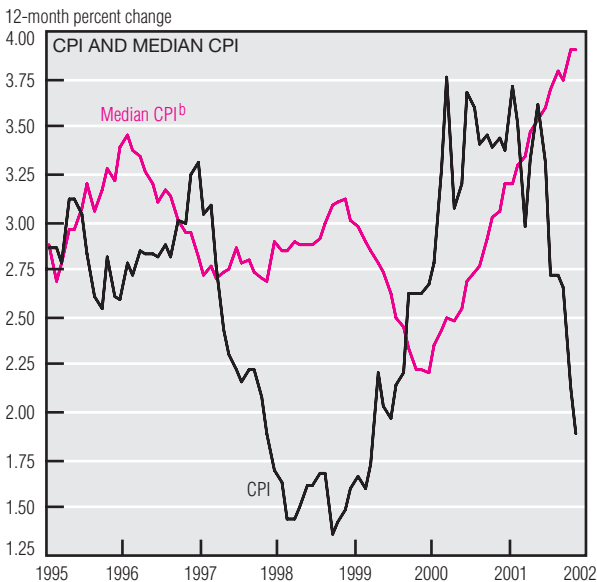
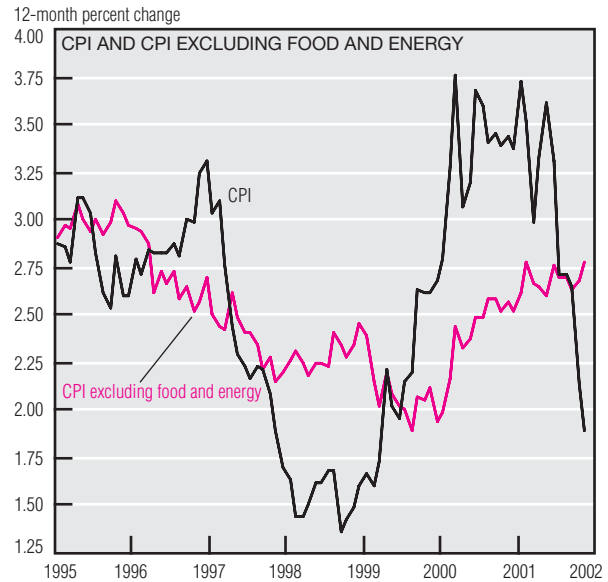


Inflation and Prices

November Price Statistics

| | Percent change, last: | | | | |
|------------------------|-----------------------|--------------------|--------|--------------------|-----------|
| | 1 mo. ^a | 3 mo. ^a | 12 mo. | 5 yr. ^a | 2000 avg. |
| Consumer prices | | | | | |
| All items | 0.0 | 0.2 | 1.9 | 2.3 | 3.4 |
| Less food and energy | 4.6 | 3.0 | 2.8 | 2.4 | 2.5 |
| Median ^b | 3.5 | 3.8 | 3.9 | 3.0 | 3.2 |
| Producer prices | | | | | |
| Finished goods | -6.7 | -7.2 | -1.1 | 0.9 | 3.6 |
| Less food and energy | 2.4 | -0.3 | 0.9 | 1.1 | 1.3 |



a. Annualized.

b. Calculated by the Federal Reserve Bank of Cleveland.

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

After declining in October, the Consumer Price Index (CPI) remained unchanged in November. Energy prices posted another significant decline after falling more than 6.0% in October. Food prices also fell in November (0.1%). These price movements helped dampen the overall rate of change in consumer prices for the month. Over the past 12 months, the CPI rose at a rate of only 1.9%. By comparison, in the previous November the index's 12-month percent change was almost 3.5%.

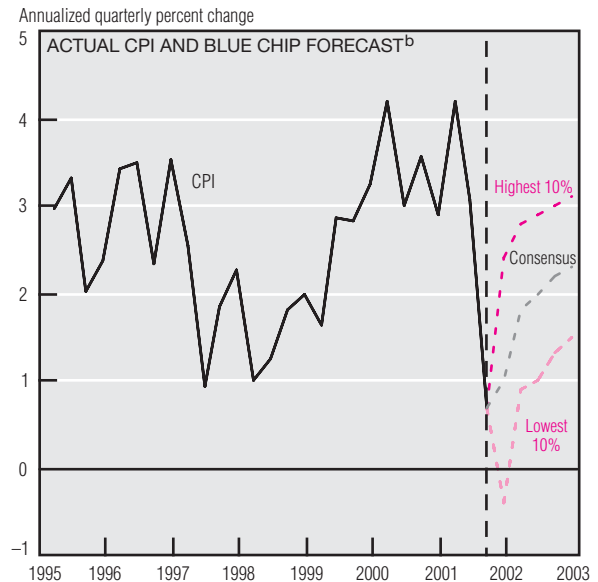
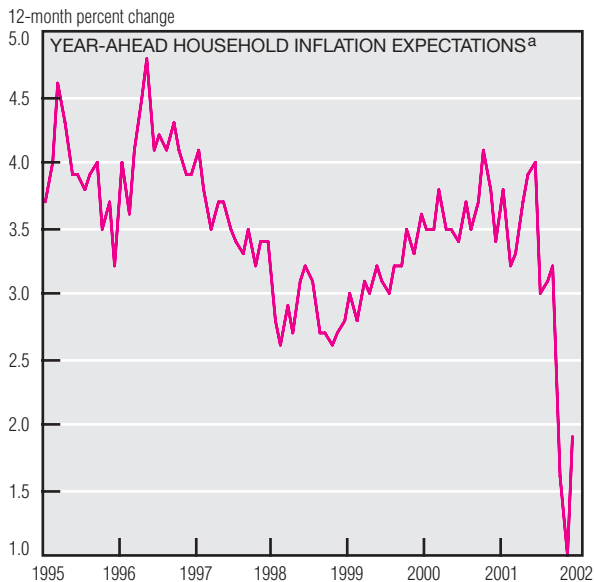
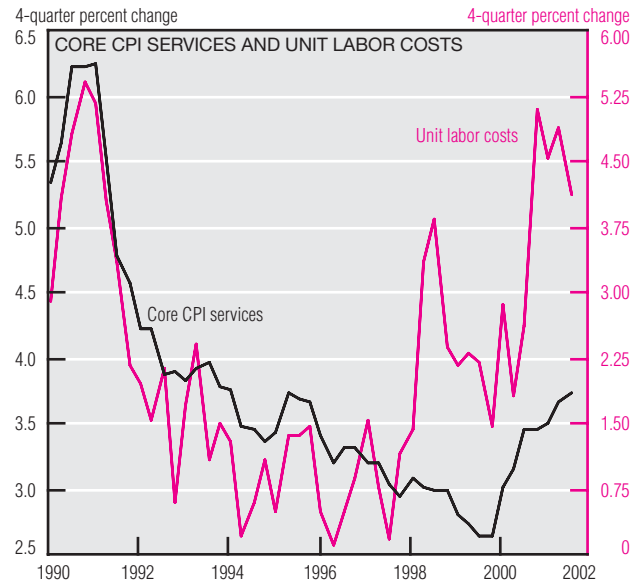
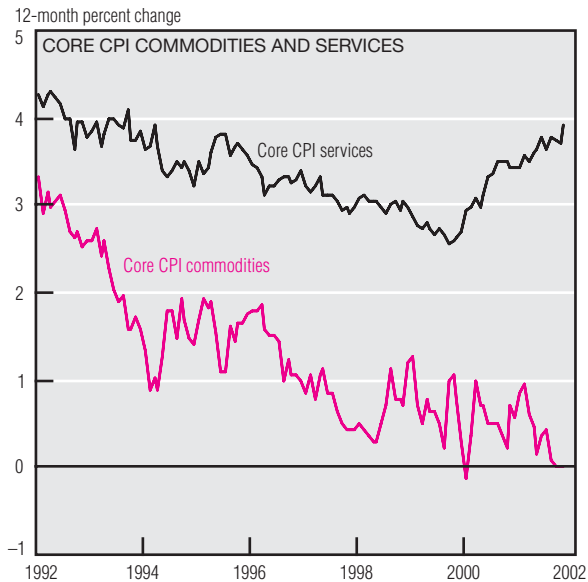
Excluding food and energy, however, consumer prices rose more sharply in November than in any month since January 1996. The monthly increase in the so-called core CPI was led by a sizeable jump (3.9%) in prices for tobacco and smoking products. Two travel-related components, car and truck rental and lodging away from home, also posted large monthly price increases, snapping back from the unusually large price drops these goods showed in the aftermath of September 11. Over the last 12 months, the CPI

excluding food and energy has risen at a rate of 2.8%, similar to its growth rate for 2000.

The median CPI, by contrast, has shown an almost uninterrupted upward trend in its 12-month rate of change since the beginning of 2000. Over the last 12 months, the median CPI has risen at a rate of 3.9%. With the exception of the 12 months ending in October 2001, this marks the most rapid 12-month increase in the index since December 1991.

Clearly, the CPI's ups and downs in recent years have followed wide *(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. Blue Chip panel of economists.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; University of Michigan; and *Blue Chip Economic Indicators*, December 10, 2001.

swings in energy prices. While energy costs are an important component of household expenses, their highly unstable behavior may mask the underlying movement in all prices, which the central bank hopes to keep under control. This supports the argument for excluding these items when monitoring inflation.

Of course, transitory movements can be recorded in other goods as well (this month's surge in tobacco prices, for example). More generally, however, the divergence in recent years between the CPI less food and

energy and the median CPI results from the widening gap between the behavior of retail goods prices and services prices. Not surprisingly, the upward trend in core services prices roughly matches the pattern shown by unit labor costs (the difference between labor compensation growth and labor productivity growth). Whether those wage increases can continue, especially in light of continued deterioration in U.S. labor markets, is a key unknown in assessing the economy's 2002 inflation performance.

Recent survey data from households show a sharply lower expectation of price changes over the next 12 months—roughly half the inflation households were anticipating just a few months ago. However, economists' outlook is a bit less optimistic. They expect little or no price growth in 2002:1Q, followed by higher growth during the rest of the year. The pessimists among them project that inflation (as measured by the CPI) will return to its trend (about 3%) by year's end.