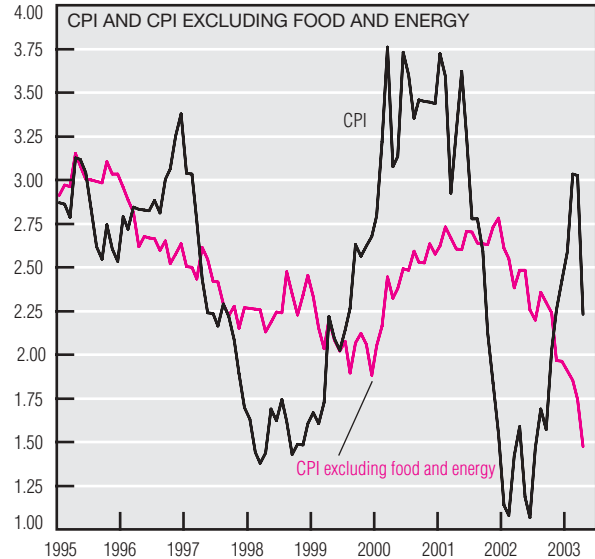


Inflation and Prices

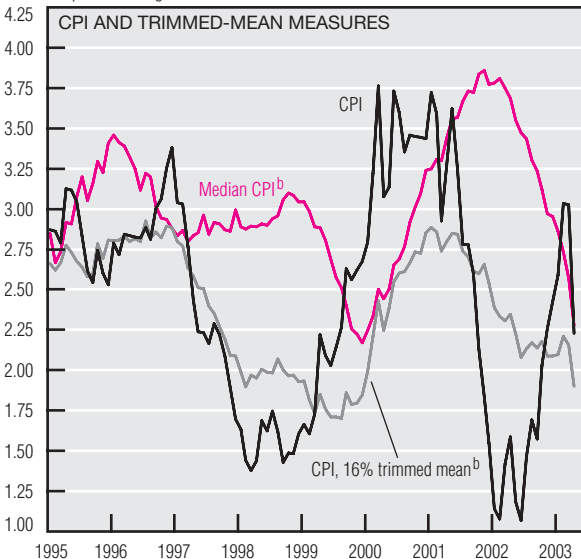
April Price Statistics

	Percent change, last:				2002 avg.
	1 mo. ^a	3 mo. ^a	12 mo.	5 yr. ^a	
Consumer prices					
All items	-3.8	2.4	2.2	2.5	2.4
Less food and energy	0.0	0.4	1.5	2.2	2.0
Median ^b	0.0	1.2	2.3	2.9	3.0
Producer prices					
Finished goods	-20.9	2.0	2.4	1.7	1.2
Less food and energy	-10.5	-2.6	-0.2	0.9	-0.5

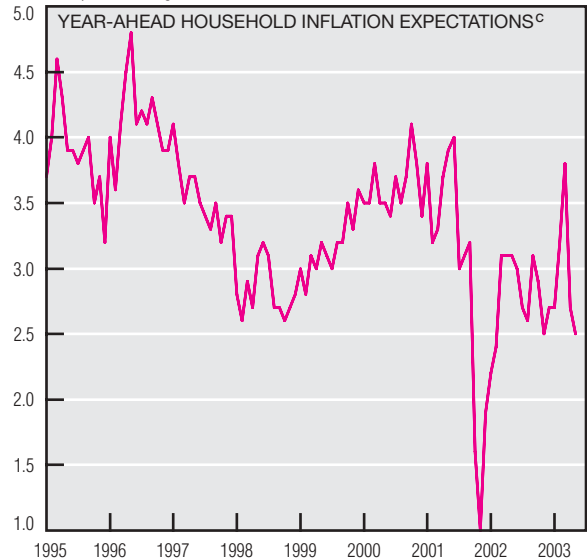
12-month percent change



12-month percent change



12-month percent change



a. Annualized.

b. Calculated by the Federal Reserve Bank of Cleveland.

c. 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.

Recent inflation data and the inflation outlook continue to show improvement. After rising 0.3% in March, the Consumer Price Index (CPI) fell 0.3% in April. This marks the first outright decline in the index since December 2001. Energy prices continued to exert considerable influence over the CPI; after rising 4.6% in March, they fell 4.6% in April. Since 2000, such volatile movements in the CPI's Energy Index have been highly correlated with movements in the total CPI. Apart from food and energy, prices were unchanged on average in April,

the second consecutive month that showed no change in the CPI excluding food and energy.

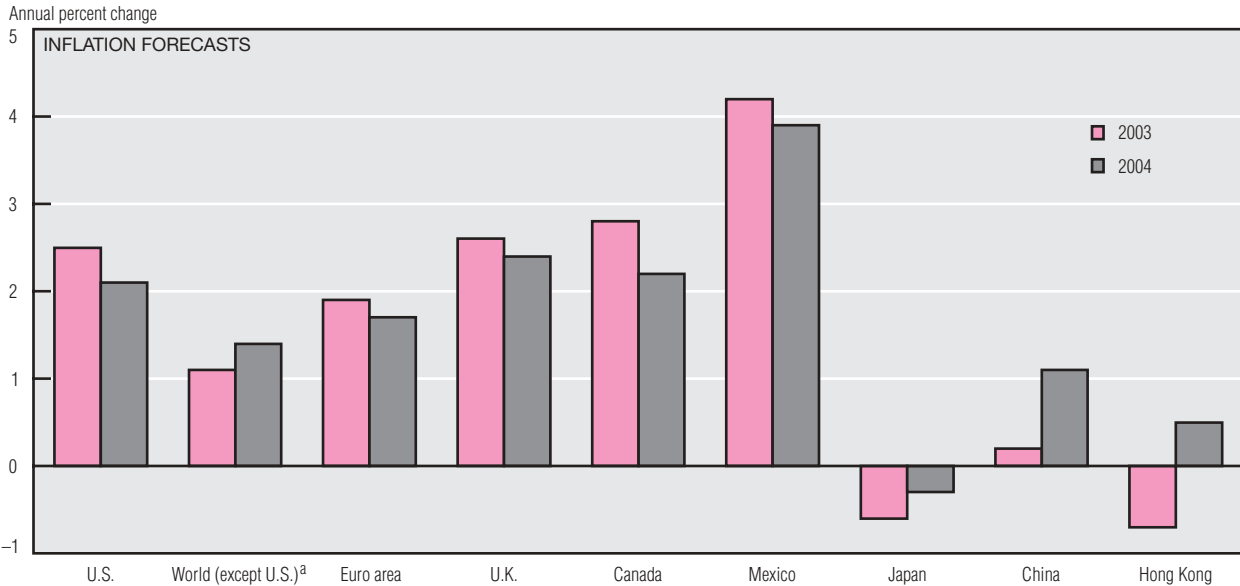
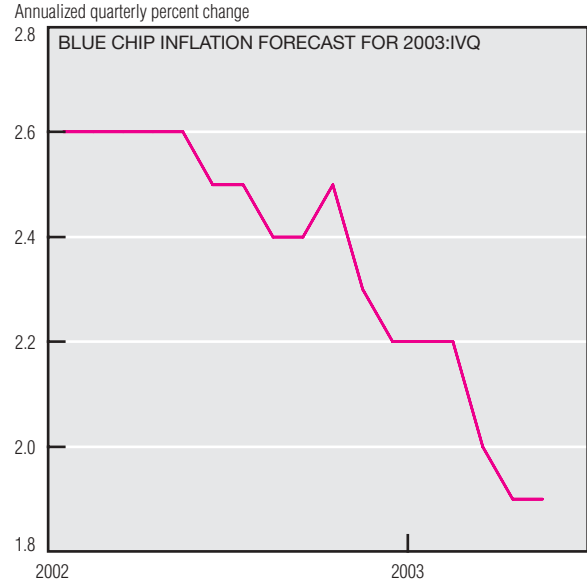
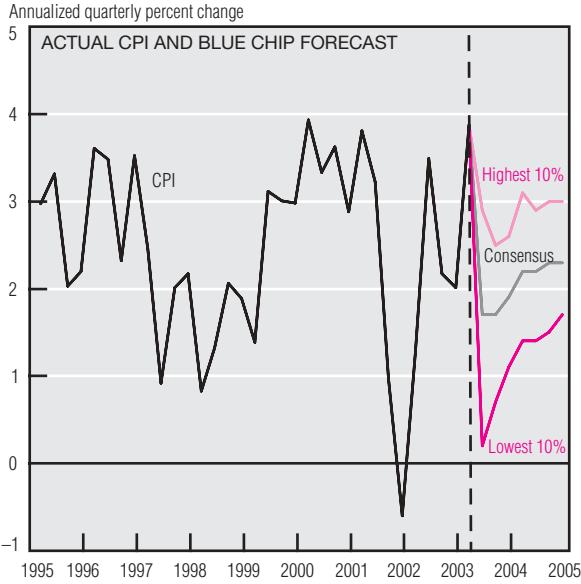
In April, the year-over-year change in the CPI stood at 2.2%, down sharply from 3.0% in March. Before March, the CPI's year-over-year percent change had been trending upward, largely because of rising energy prices. Excluding volatile components, like food and energy, from the CPI calculation, however, reveals an inflation trend that has been decidedly downward for some time now. The year-over-year change in the CPI excluding food and energy

as of April was 1.5%, and this measure has been falling since the end of 2001. Another core measure of inflation, the median CPI, has shown the same downward pattern since 2001.

Households' inflation expectations seem to have responded to this downward drift in the underlying inflation trend. Although the moderating trend has not been steady, households' inflation expectations have fallen from about 4% in early 2001 to only 2.5% today, according to the University of Michigan's *Survey of Consumers*. Except for the period immediately

(continued on next page)

Inflation and Prices (cont.)



NOTE: Forecasts are from the Blue Chip panel of economists except where otherwise noted.
 a. Calculated by the Federal Reserve Bank of Cleveland.
 SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; Federal Reserve Bank of Cleveland; *Blue Chip Economic Indicators* May 10, 2003; and World Bank.

following September 11, 2001, this is U.S. households' lowest year-ahead inflation outlook since the University of Michigan added a monthly inflation expectations question to its survey about 25 years ago.

Economists' expectations concerning the inflation outlook have also fallen. The consensus view from the Blue Chip panel of economic forecasters shows CPI inflation falling to just under the 2% threshold this quarter (about half the first-quarter rise) and staying under 2½% through the end of 2004. Indeed, last year the panel

projected that the CPI would level off at a 2.6% annual rate by the end of 2003. Today, the same panel of economists foresees an annualized inflation rate of 1.9% in the fourth quarter.

The improving outlook for the U.S. inflation rate is somewhat at odds with global projections. Specifically, if we weight the Blue Chip panel's inflation outlook for each major nation by the relative size of that nation's economy, we see that inflation in the rest of the world is expected to rise from about 1.1% this year to 1.3% in 2004. However, this modest projected increase

stems primarily from the inflation experiences of two major Asian economies: In Japan, inflation is expected to be negative this year but less negative in 2004. In China, this year's zero inflation is expected to give way to a 1% rate next year. Elsewhere (for example, in the U.K., Canada, and the euro area), the inflation pattern is expected to be similar to the U.S.; that is, inflation in these nations is projected to moderate by about ¼ to ½ percentage point between 2003 and 2004.