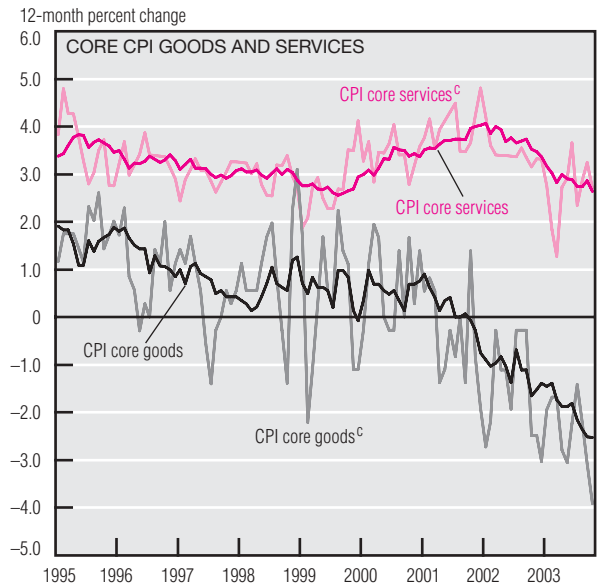
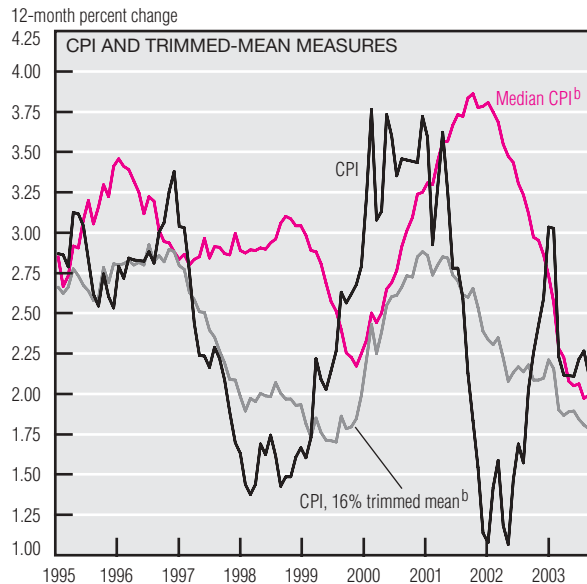
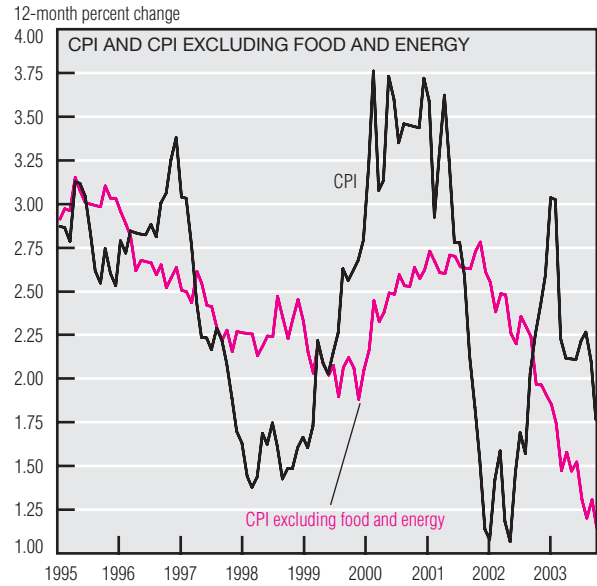


Inflation and Prices

	Percent change, last:				2002 avg.
	1 mo. ^a	3 mo. ^a	12 mo.	5 yr. ^a	
November Price Statistics					
Consumer prices					
All items	-2.6	0.2	1.8	2.4	2.4
Less food and energy	-0.6	0.8	1.1	2.1	2.0
Median ^b	1.6	2.2	2.0	2.8	3.0
Producer prices					
Finished goods	-3.3	3.1	3.4	2.0	1.2
Less food and energy	-0.8	1.9	0.5	0.9	-0.5



a. Annualized.

b. Calculated by the Federal Reserve Bank of Cleveland.

c. Three months annualized.

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

The November inflation data show a continuing, generally broad-based pattern of disinflation.

The Consumer Price Index (CPI) declined an annualized 2.6% in November after holding unchanged in October. The decline was partly the result of falling energy prices, which continued their descent by slipping another 3.0% after declining 3.9% in October.

The core CPI, a closely watched measure of inflation that eliminates

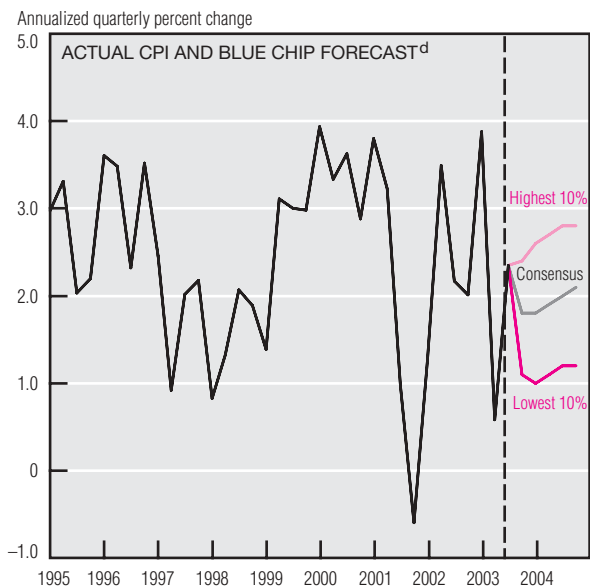
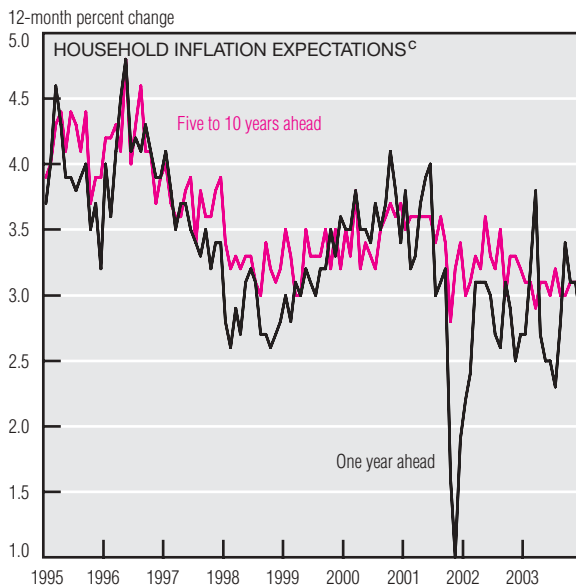
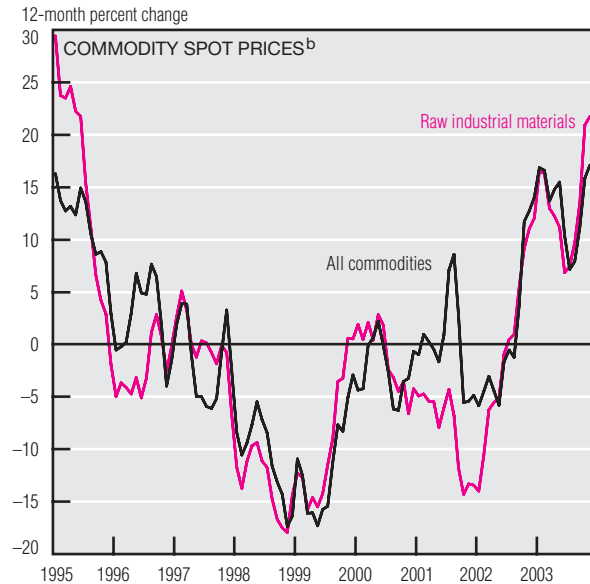
the CPI's volatile food and energy components, fell at a 0.6% annualized rate in November, its first decline in more than 20 years. The median CPI and the 16% trimmed-mean CPI, alternative inflation measures designed to exclude the most extreme price changes, rose at a 1.6% annualized rate and declined at a 0.9% annualized rate, respectively. Year-over-year comparisons within the core and alternative CPI inflation measures continued to trend downward.

Core consumer goods prices, which account for 23% of the total CPI, have shown persistent declines over the past two years, and that deflation appears to be accelerating. Moreover, the gap between core services prices and core goods prices continues to widen: Whereas the price level of core services is still increasing at a year-over-year rate of roughly 3.0%, the price level of core goods is deflating at a year-over-year rate of approximately 2.5%. Prices of

(continued on next page)

Inflation and Prices (cont.)

	Share of CPI (percent)	Percent change, last		
		3 mo. ^a	12 mo.	5 yr. ^a
New vehicles	4.8	-2.6	-2.1	-0.9
Household furnishings and operations	4.6	-1.9	-2.3	-0.3
Communication	2.8	-3.6	-3.9	-2.1
Used cars and trucks	1.8	-28.9	-11.2	-3.0
Women's and girls' apparel	1.7	-0.7	-2.0	-1.9



a. Annualized.

b. As measured by the Knight-Ridder Commodity Research Bureau's Composite and Raw Industrials Spot Commodity Price Indexes.

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

d. Blue Chip panel of economists.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; Commodity Research Bureau; University of Michigan; and *Blue Chip Economic Indicators*, December 10, 2003.

new vehicles, used cars and trucks, household furnishings, and apparel all show persistent declines.

Interestingly, accelerated deflation in core goods prices persists as the year-over-year rate of change in commodity prices continues to rise. Some argue that commodity price movements are a leading indicator of inflation because they are a significant input cost for producers; however, evidence of this leading relationship

is mixed. After falling for more than five years, the recent significant increase in commodity prices since mid-2002 has not yet produced a rise in core goods prices.

Meanwhile, the University of Michigan's *Survey of Consumers* reveals that household inflation expectations for the next year are falling as well. December survey data suggest that on average, households expect a 2.8% increase in prices

in the next year and a 3.1% increase in the next five. The Blue Chip panel of economists still expects CPI-measured inflation to grow at an annualized rate of about 2% over the next five quarters, a forecast similar to the current CPI growth trend. The inflation pessimists predict a rate of 2.8% by 2004, and the inflation optimists now expect a CPI increase of about 1.2% by then, a reduction from last month's 1.4% estimate.