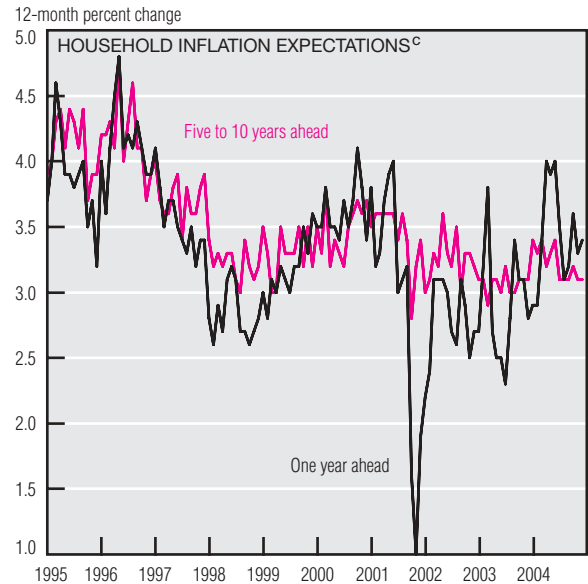
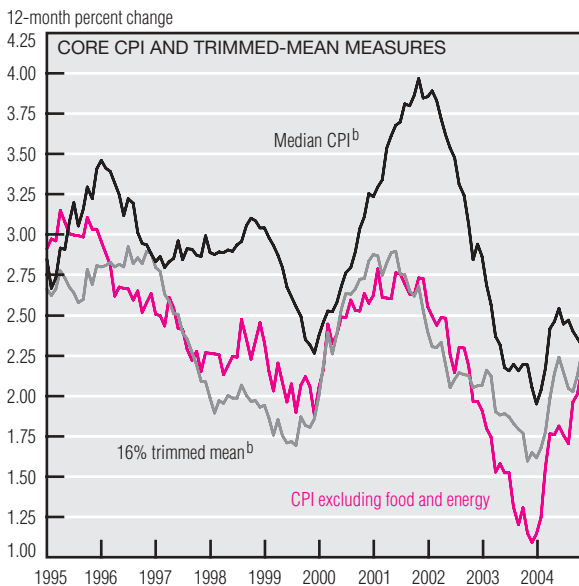
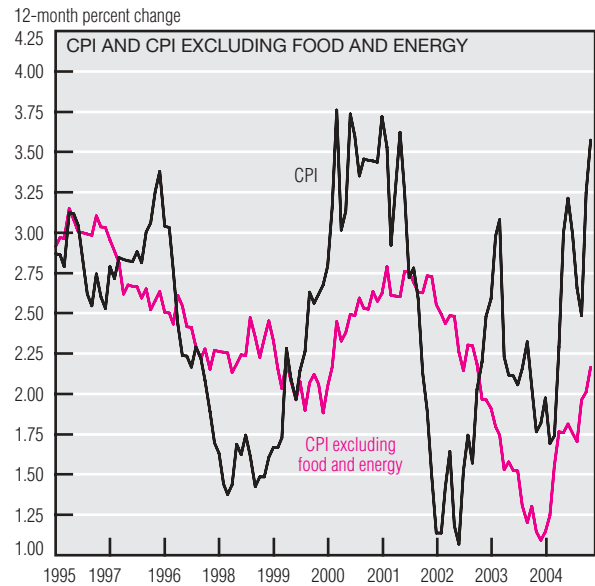


Inflation and Prices

	Percent change, last:				2003 avg.
	1 mo. ^a	3 mo. ^a	12 mo.	5 yr. ^a	
November Price Statistics					
Consumer prices					
All items	1.9	3.9	3.6	2.6	1.9
Less food and energy	1.8	2.7	2.2	2.1	1.1
Median ^b	1.1	1.6	2.3	2.9	2.1
Producer prices					
Finished goods	6.5	9.5	5.1	2.4	4.4
Less food and energy	2.4	3.4	1.9	1.0	1.1



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; University of Michigan; and Federal Reserve Bank of Cleveland.

Retail price measures grew modestly in November. The Consumer Price Index (CPI) rose at a 1.9% annualized rate during the month after surging 7.9% in October. Growth in alternative retail price measures was equally restrained: The core CPI, which excludes volatile food and energy prices, rose 1.8%, whereas the median CPI, which examines the center of the monthly price change distribution, rose a mere 1.1%—its smallest monthly growth rate in over a year.

The 12-month growth rates in the core CPI, the 16% trimmed-mean CPI, and the median CPI continued to hold steady between 2.0% and 2.5%. However, although the 12-month growth rate of the median CPI is roughly the same as in November 2003, the rates of the CPI and the core CPI have about doubled since then.

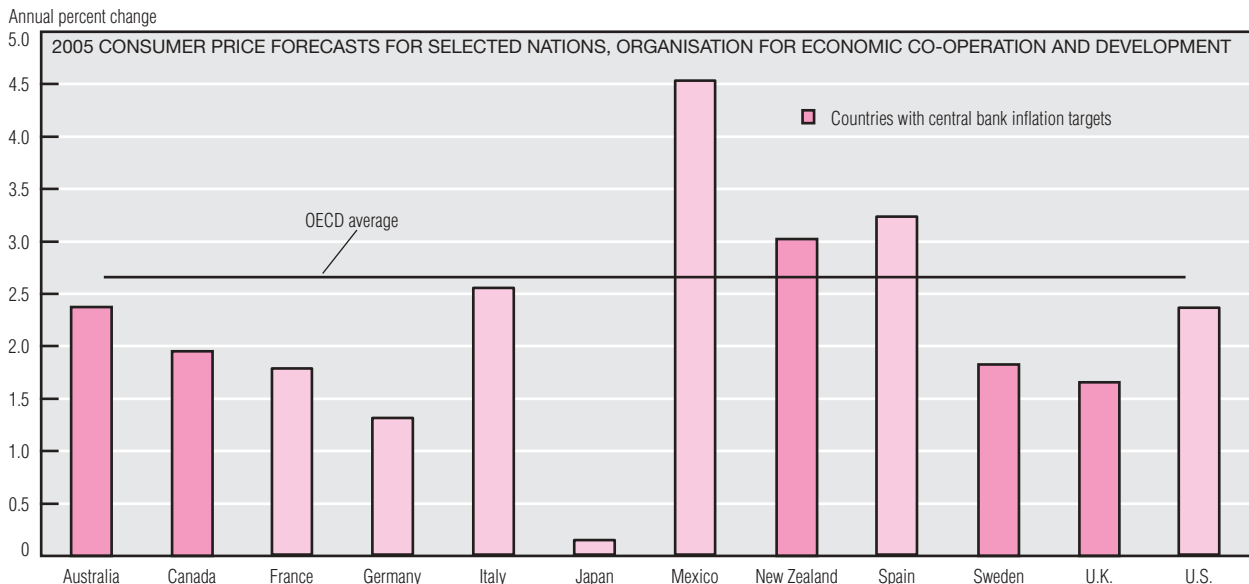
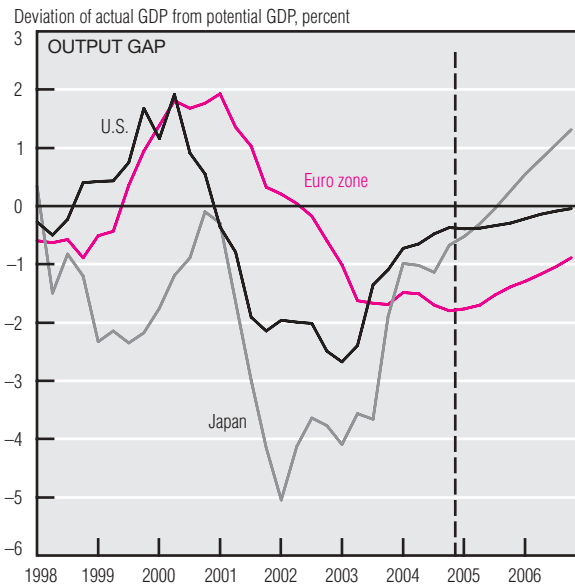
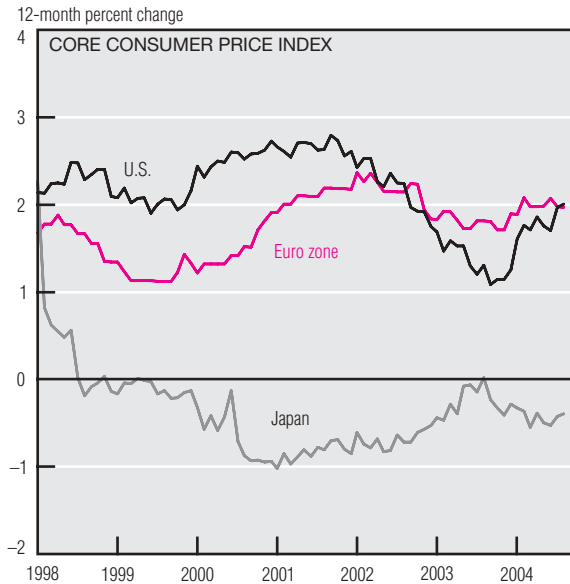
Meanwhile, survey data indicate that inflation expectations are holding steady. The year-ahead inflation expectations of households included

in the University of Michigan's *Survey of Consumers* ranged between 3.1% and 3.6% over the past six months, while five- to 10-year inflation expectations remained constant at around 3.1% over the same period.

Throughout the past several years, the relatively moderate growth of core retail prices in the U.S. generally has mirrored the euro zone, where the 12-month growth rate of core retail prices has ranged between 1.0% and 2.5%. In the Organisation

(continued on next page)

Inflation and Prices (cont.)



SOURCES: Organisation for Economic Co-operation and Development, *OECD Economic Outlook*, No. 76, December 2004.

for Economic Co-operation and Development's (OECD) *Economic Outlook*, the moderate rise in overall consumer prices is projected to continue in 2005. The OECD's U.S. inflation forecast predicts that retail prices will rise 2.4% in 2005; prices in most European countries are expected to rise between 1.5% and 2.5%. In contrast, consumer prices in Japan, which has undergone price deflation for more than six years,

are expected to remain essentially unchanged.

One standard economists use to gauge inflationary pressures is the amount of slack (underutilized resources) in the economy, called the output gap. It is intended to measure the difference between the economy's potential output and its actual output; presumably, as the amount of slack is used up, inflation accelerates. Current estimates of the U.S. output gap, as reported by the

OECD, suggest that U.S. potential output has exceeded actual output since 2001 and projects that the gap will close only gradually over the next two years. The OECD's estimate of economic slack in the euro zone suggests somewhat less inflationary pressure there because their economic slack remains even more elevated, whereas for Japan, the OECD forecasts that resources will become fully utilized sometime this year.