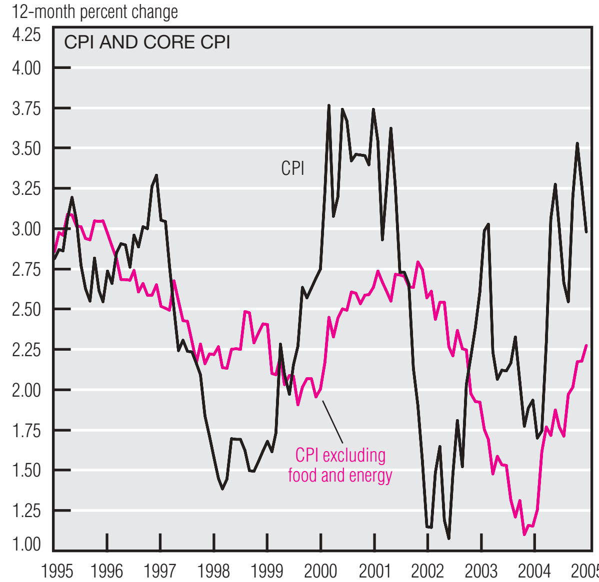
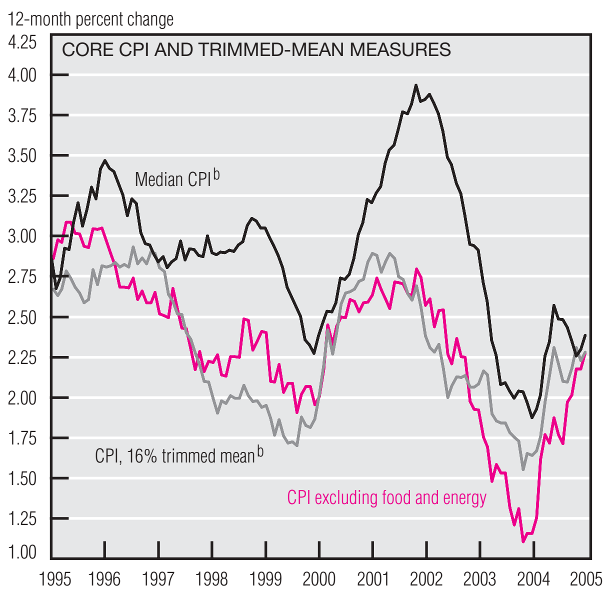
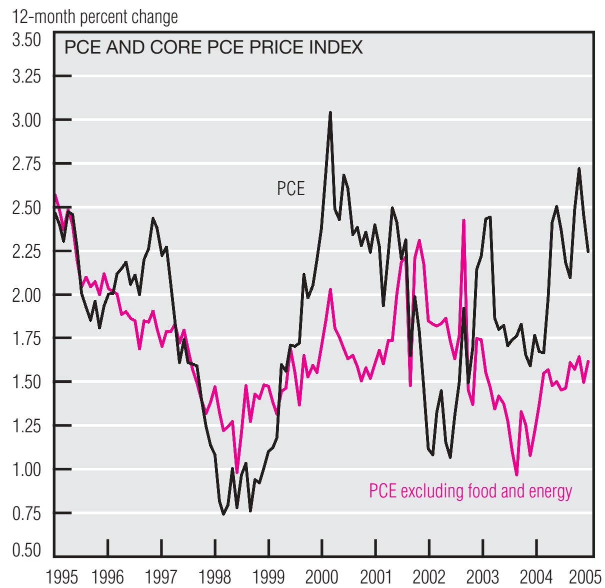
Inflation and Prices

January Price Statistics

	Percent change, last: 1 mo.[a]	3 mo.[a]	12 mo.	5 yr.[a]	2004 avg.
Consumer prices					
All items	0.6	1.3	3.0	2.5	3.4
Less food and energy	2.4	2.0	2.3	2.1	2.2
Median[b]	3.2	2.2	2.4	2.8	2.3
Producer prices					
Finished goods	3.2	2.7	4.2	2.4	4.4
Less food and energy	9.7	4.8	2.7	1.2	2.2







a. Annualized.
b. Calculated by the Federal Reserve Bank of Cleveland.
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of Economic Analysis; and Federal Reserve Bank of Cleveland.

The Consumer Price Index (CPI) rose at an annualized rate of 0.6% in January after remaining unchanged in December; the core CPI, which excludes the volatile food and energy prices, rose at a 2.4% annualized rate. The median CPI, which attempts to control for volatile monthly price changes by considering the center of the monthly price-change distribution, increased at a brisk 3.2% annualized rate, its second-largest advance in the past year.

Longer-term inflation patterns indicate that although the retail price measures inched upward in January, inflation seems to be relatively stable. Although inflation, as measured by the core CPI, has trended upward over the past year, its 12-month growth rate of 2.3% was about 0.6 percentage point below the average rate during the previous economic expansion. The 12-month growth rates of the median and 16% trimmed-mean CPI were 2.4% and 2.3%, respectively. Patterns in the Personal Consumption Expenditure (PCE) Price Index and the core PCE Price Index, which measure an alternative consumer market basket, largely mirror the CPI price measures. The core PCE has fluctuated between 1.4% and 1.6% for the past 12 months.

In its semiannual Monetary Policy Report to the Congress, the Board of Governors of the Federal Reserve System reported recent projections by the Federal Open Market Committee. They showed inflation rising slightly: The central tendency of the group's projection for the core PCE Price Index in 2005 and 2006 is between $1\frac{1}{2}$% and $1\frac{3}{4}$% on a fourth-quarter over fourth-quarter basis. The February projections for 2005 are lower

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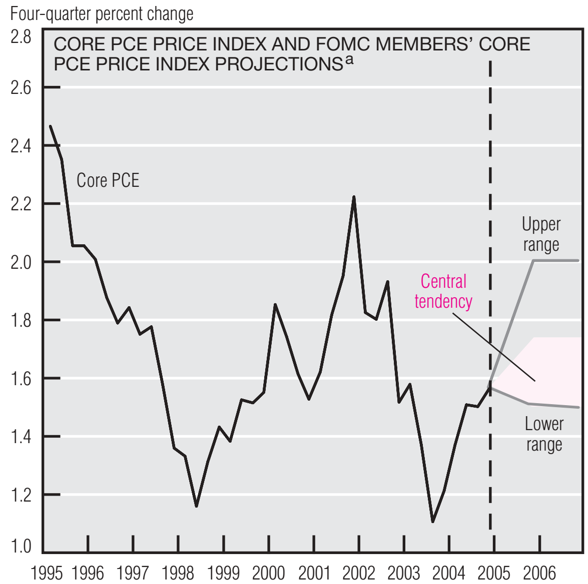
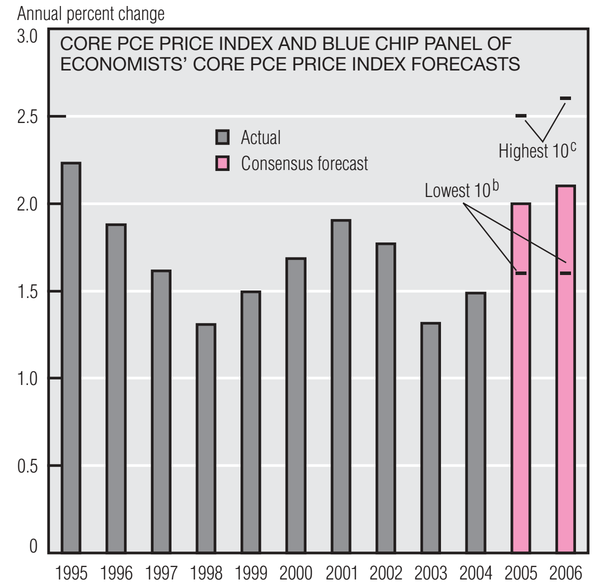
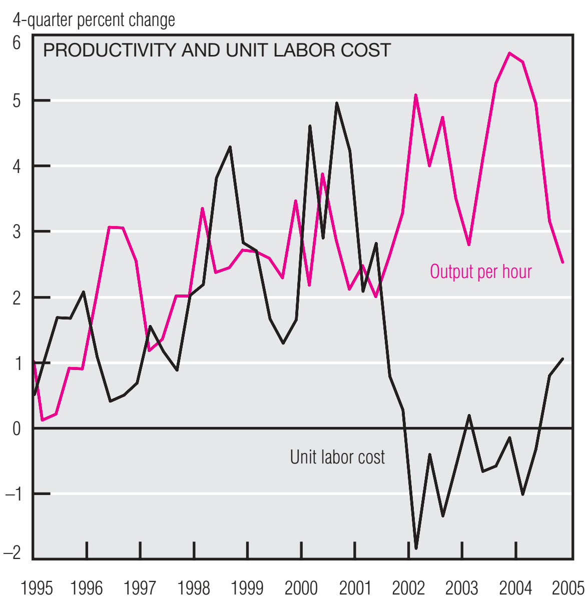
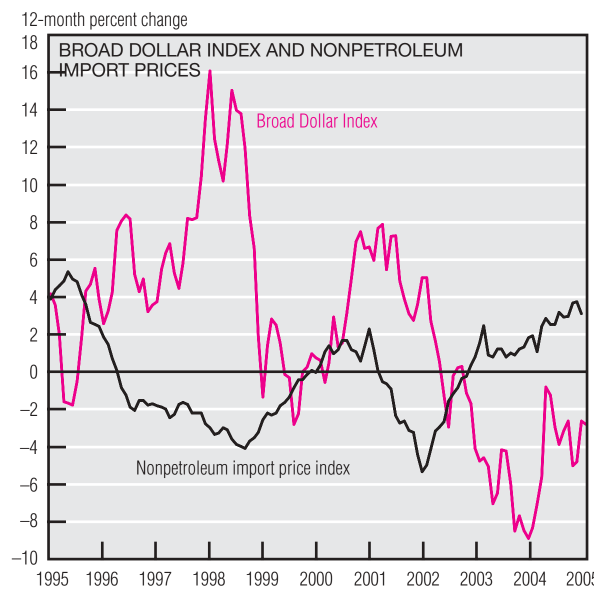
Inflation and Prices *(cont.)*









a. Projections by the Board of Governors of the Federal Reserve System and Reserve Bank presidents.
b. Average of lowest 10 forecasts.
c. Average of highest 10 forecasts.
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, "Foreign Exchange Rates," *Federal Reserve Statistical Releases* H.10 and Monetary Report to the Congress; and *Blue Chip Economic Indicators*, January 10, 2005.

than last July's, in which members anticipated a rise of $1^{3}/_{4}$% to 2% in core-PCE-measured prices. Private forecasters expect those prices to register in the upper range of the FOMC members' projections: Consensus estimates by the Blue Chip panel of economists show prices rising 2.0% in 2005 and 2.1% in 2006.

In presenting the Monetary Policy Report to the Congress, Chairman Greenspan noted that the inflation outlook would be shaped by productivity developments, changes in the exchange value of the dollar, and oil prices. He observed that "…the implications for inflation will be influenced by the extent and persistence of any slowdown in productivity. A lower rate of productivity growth in the context of relatively stable increases in average hourly compensation has led to slightly more rapid growth in unit labor costs… To date, with profit margins already high, competitive pressures have tended to limit the extent to which cost pressures have been reflected in higher prices." Whether inflation actually rises, however, "...will depend on the degree of utilization of resources and how monetary policymakers respond."

Inflationary pressure could also arise from further dollar depreciation, which makes imports relatively more expensive in dollar terms. Chairman Greenspan warned that "the recent somewhat quickened pace of U.S. import prices suggests that profit margins of exporters to the United States have contracted to the point where the foreign shippers may exhibit only limited tolerance for additional reductions in margins should the dollar decline further."