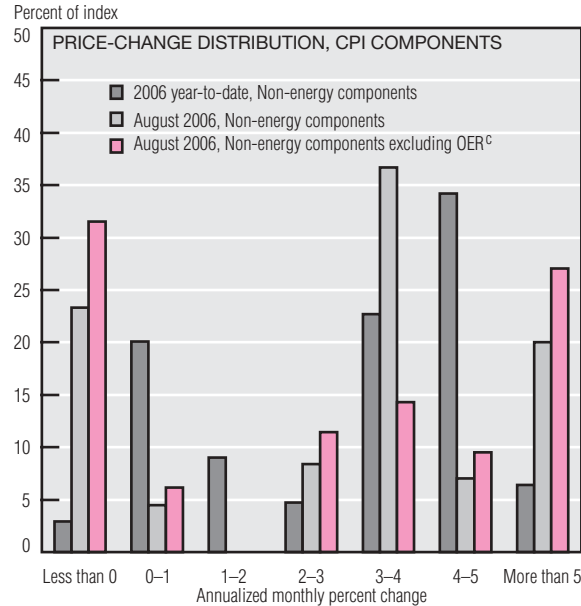
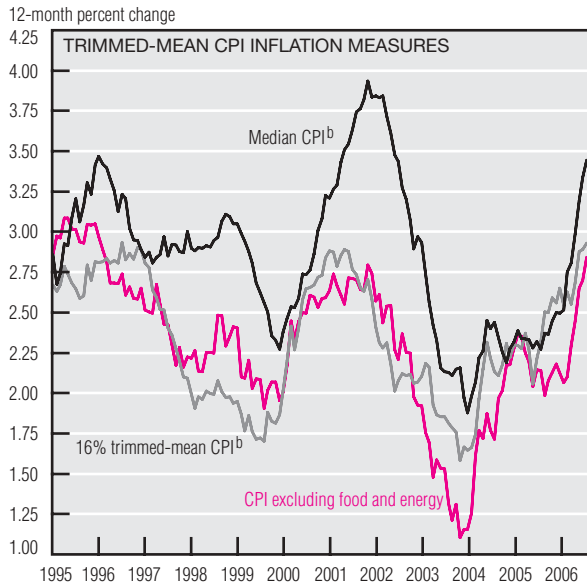
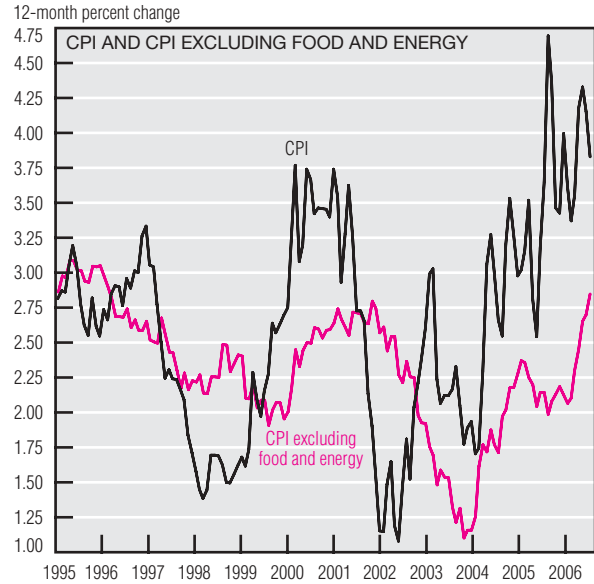


Inflation and Prices

	Percent change, last:				2005 avg.
	1 mo. ^a	3 mo. ^a	12 mo.	5 yr. ^a	
Consumer Price Index					
All items	3.0	3.6	3.8	2.8	3.6
Less food and energy	2.9	3.0	2.8	2.1	2.2
Median ^b	3.4	4.1	3.4	2.7	2.5
Producer Price Index					
All items	0.7	2.8	3.7	2.8	5.7
Less food and energy	-4.4	-1.8	0.9	1.0	1.5



a. Annualized.
 b. Calculated by the Federal Reserve Bank of Cleveland.
 c. Owner's equivalent rent of primary residence.
 SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and Federal Reserve Bank of Cleveland.

Retail price growth remained elevated in August: The Consumer Price Index (CPI) rose 3.0%, and the core CPI, which excludes the more volatile food and energy prices, rose 2.9% (annualized rates). The median CPI, which attempts to isolate an inflation trend by focusing on the middle of the monthly price-change distribution, rose 3.4% (annualized) following increases of more than 4.0% in each of the previous three months.

Longer-term growth trends in the “core” retail price measures continued

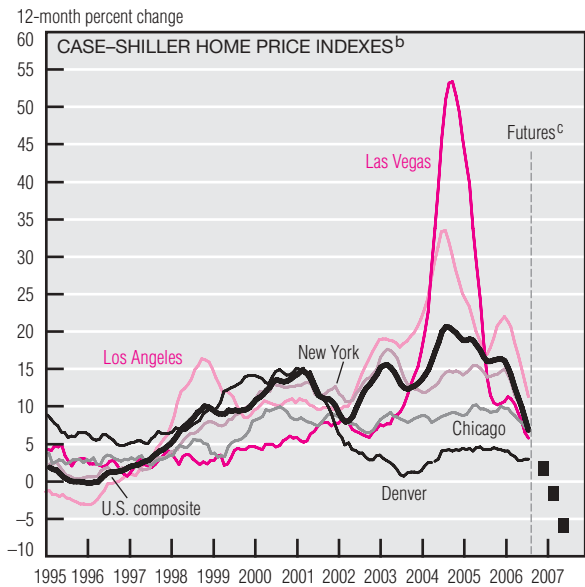
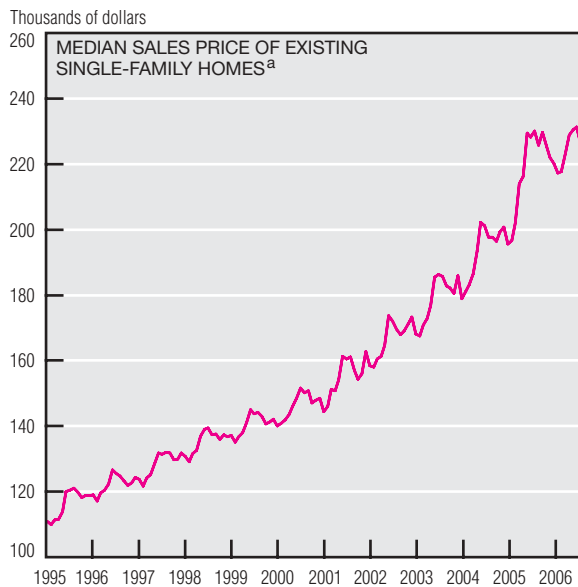
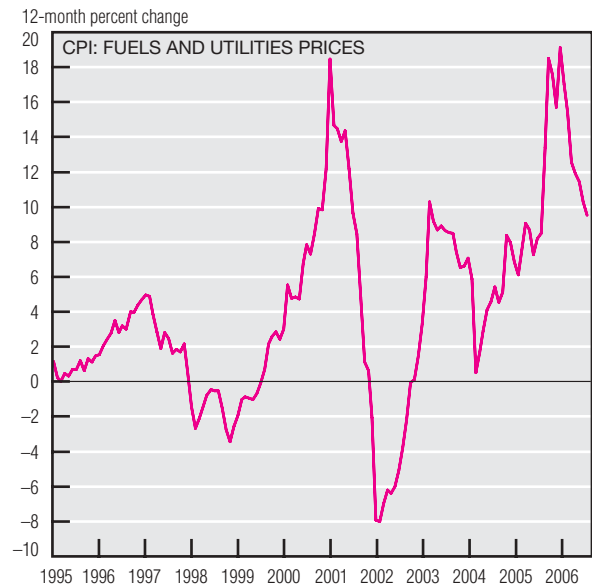
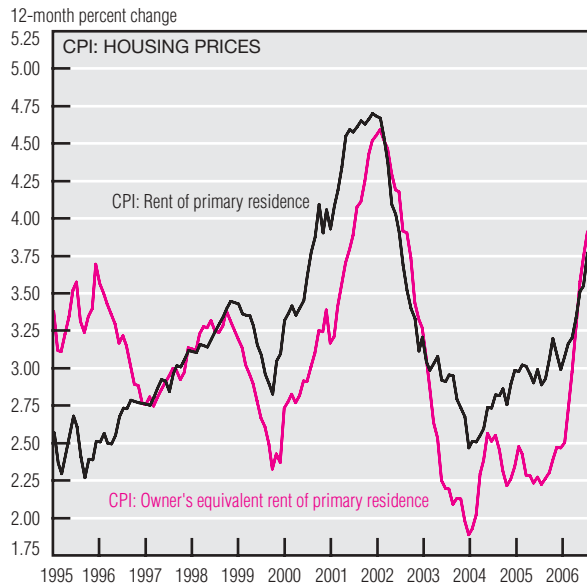
to inch up in August: Growth rates ticked up to 2.8% in the CPI excluding food and energy and to 3.4% in the median CPI. However, the 12-month growth rate in the 16% trimmed-mean CPI held steady at 2.9% for the third consecutive month.

Robust price increases continued to be broad based: In August, for the fourth consecutive month, more than 60% of the non-energy CPI components rose at rates exceeding 3%. But price changes in the non-energy CPI components seemed to moderate a

bit. In June, the most common price increase among these components was over 5%; in July, it was 4% to 5%; and in August, it slipped to 3% to 4%. However, this shift seems primarily to reflect moderation in the owner's equivalent rate of primary residence (OER), which accounts for more than one-fourth of the non-energy CPI index. Indeed, the component price change distribution excluding the OER and the non-energy components reveals that the most common

(continued on next page)

Inflation and Prices (cont.)



a. Data are not seasonally adjusted.

b. The Case-Shiller Composite Home Price Index is based on repeat sales of existing single-family homes in 10 real estate markets. It is an average of the 10 individual indexes, weighted by each area's share of the total value of housing stock.

c. Futures prices based on the Case-Shiller Composite Home Price Index.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; National Association of Realtors, Economics and Research Division; and Bloomberg Financial Information Services.

price increase is more than 5%. It also shows that about half of the CPI components excluding OER and the non-energy components continue to rise at annualized monthly rates higher than 3%.

Although monthly growth in OER—an opportunity cost a homeowner assumes by occupying their home rather than renting it out—moderated slightly in August, it has been brisk since the beginning of this year. Longer-term trends reveal that

OER growth has been accelerating since mid-2005. Some of this rise can be tied to decelerating utilities costs (which are subtracted out of this housing cost measure), but some of it is apparently coming from firming in the rental market after several years of relative softness. Rising rents may result partly from the recent moderation in the housing market.

The median home sales price, which has risen dramatically, has more recently stabilized in a range between \$220,000 and \$230,000. The

Case-Shiller Composite Home Price Index for the U.S., which documents the prices of existing home sales in 10 major real estate markets, shows a marked deceleration in price growth since the beginning of this year. Furthermore, financial instruments called futures, which are essentially bets on future home prices as measured by the Case-Shiller Index, show that investors expect prices in these major housing markets to deteriorate over the next year.