

The Inflation Update: September 2003
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Yesterday afternoon the Directors of the Federal Reserve Bank of New York and the Board of Governors of the Federal Reserve System named Timothy F. Geithner as the new President of the Bank. My immediate reaction was that someone younger than me (he's 42, I'm 46) was appointed to what I think of as a job for grownups, so this did not bode well for the youthful view of myself that I have been trying to maintain. Once I got over that, I turned to thinking about what Mr. Geithner's appointment might mean for central banking world in general and the Federal Reserve Bank of New York in particular.

For the regular readers of these updates, you will recall last May I wrote the qualifications I thought were needed for the job in New York. What I said was the President of the Bank has to serve constituencies both inside the Federal Reserve System and inside both the domestic and international financial communities. (Remember that the Federal Reserve Bank of New York has a separate membership at the Bank for International Settlements in Basel.) And the primary task of central bankers over the next decade will be to figure out how they can best promote financial stability in the face of the changes in the structure of financial intermediation and the instruments used to transfer and manage risk. While I have never met him, Mr. Geithner's experience at the highest levels of the U.S. Treasury and the IMF mean that he has extensive experience with the difficult problems faced by the financial community today.

As for the Federal Reserve Bank of New York, I'm sure that Mr. Geithner understands the value of the people who he has inherited. Nevertheless, let me put in a brief plug for the research department. For ten years Bill McDonough cultivated a fertile research environment in New York. He did this knowing that he needed good advice to make good decisions. And who better to explain the state of the art in financial and economic research, than someone who produces it? Bill also knew that having a high quality research staff improved his credibility, making it easier to defend policy actions both publicly and privately. Having a high-quality research department is an essential ingredient in formulating good central bank policy.

Oh yes, this is an inflation update and the BLS did release some numbers this morning, and the bumpy ride continues. The overall CPI was up 3.3% (annual rate) for the month, and is now up 2.3% for the 12-months ending September 2003. Core measures were tame, as the CPI ex. food and energy rose a very modest 0.6% (a.r.), up 1.2% over 12 months, and the Median CPI computed by the Federal Reserve Bank of Cleveland increased an undramatic 1.6% (a.r.) and is now up 2.3% since September of last year. (I will note for the real limited-influence mavens that the 16% trimmed mean and the median have now converged with the median coming down.)

The overall pattern is the same as the one we have now seen for some time. Core goods prices are falling (down 2.4% for 12 months), while core services prices are rising (+2.7 since last fall). Owner equivalent rent inflation continued to show a decline, as it was up only 1.6% (a.r.) for the month, slightly 2.1% average for the past 12 months. My best estimate of the inflation trend is now below 2%. As I have said for some months now, we have achieved price stability.

Consumer Price Inflation, Various Measures
(Through September 2003, all data s.a. at an annual rate)

Previous	All Items CPI	CPI ex Food & Energy	Median CPI
1 Month	3.3	0.6	1.6
3 Months	3.1	1.5	2.4
6 Months	1.2	1.3	1.7
12 Months	2.3	1.2	2.0
12 Months ended September 2002	1.6	2.3	3.2

Detail for Computation of the Median CPI
September 2003

Component	Annualized 1- month % change	Relative Importance	Cumulative Relative Importance
Car and truck rental	-31.9	0.1	0.1
Used cars and trucks	-31.8	2.0	2.2
Fuel oil and other fuels	-20.5	0.2	2.4
Processed fruits and vegetables	-16.2	0.3	2.7
Jewelry and watches	-14.5	0.4	3.0
Tobacco and smoking products	-7.6	0.9	4.0
Fresh fruits and vegetables	-6.9	1.0	4.9
Public transportation	-5.5	1.2	6.1
Communication	-5.3	2.9	9.0
Household furnishings and operations	-4.7	4.6	13.7
New vehicles	-4.3	4.8	18.5
Lodging away from home	-3.9	2.6	21.1
Motor vehicle parts and equipment	-2.2	0.4	21.5
Cereals and bakery products	-1.2	1.3	22.8
Women's and girls' apparel	-1.1	1.7	24.5
Nonalcoholic beverages and beverage materials	-0.9	0.9	25.5
Personal care products	-0.8	0.7	26.1
Miscellaneous personal goods	0.0	0.2	26.3
Motor vehicle fees	1.0	0.6	26.9
Tenants' and household insurance	1.0	0.4	27.3
Food away from home	1.3	6.3	33.6
Owners' equivalent rent of primary residence	1.6	22.5	56.0
Motor vehicle maintenance and repair	1.9	1.4	57.5
Other food at home	2.2	1.8	59.3
Recreation	2.3	6.0	65.3
Rent of primary residence	2.9	6.6	71.8
Gas (piped) and electricity	3.3	3.7	75.5
Water and sewer and trash collection services	4.1	0.9	76.4
Medical care commodities	4.6	1.4	77.8
Miscellaneous personal services	5.2	1.6	79.4
Medical care services	6.4	4.6	84.0
Education	7.3	2.9	87.0
Alcoholic beverages	7.3	1.0	88.0
Motor vehicle insurance	7.4	2.5	90.5
Meats, poultry, fish, and eggs	8.9	2.3	92.8
Footwear	9.4	0.8	93.7
Personal care services	9.7	0.9	94.6
Infants' and toddlers' apparel	13.4	0.2	94.8
Dairy and related products	22.0	0.9	95.6
Men's and boys' apparel	22.8	1.0	96.7
Motor fuel	105.9	3.3	100.0