Consumer prices rose 3.4 percent in 2005, about the same as last year

Larger price increases in 2005 for household fuels, telephone services, and airline fares were largely offset by smaller increases in the indexes for motor fuel, motor vehicle insurance, and new and used motor vehicles

Todd Wilson

The Consumer Price Index for All Urban Consumers (CPI-U) for All Items for the U.S. city average increased 3.4 percent in 2005, compared with a 3.3-percent rise during 2004.[1] A larger increase in the index for household fuels in 2005 was mostly offset by smaller increases in the indexes for motor fuel, motor vehicle insurance, and new and used motor vehicles. (See table 1.)

The CPI-U excluding food and energy prices increased 2.2 percent in 2005, the same rate as during the prior year.[2] Excluding food and energy commodities, inflation for commodities decelerated in 2005. The index for commodities less food and energy index rose 0.2 percent in 2005, after rising 0.6 percent during 2004. Commodities are generally subject to greater global competition than services, and have registered smaller price increases than services in every year since 1983. Services less energy prices rose 2.9 percent in 2005, by about the same increase (2.8 percent) during 2004. (See table 2.)

Other price measures

The Producer Price Index (PPI) for finished goods increased 5.4 percent in 2005, compared with 4.1 percent in 2004. Excluding food and energy, the PPI for finished goods increased 1.7 percent in 2005. The PPI for intermediate materials less foods and energy increased 4.5 percent, and the PPI for crude nonfood materials less energy increased 4.8 percent in 2005. The PPI does not include changes in import prices. As measured by the Import Price Index, excluding petroleum, import prices advanced 2.4 percent in 2005, following a 3.7-percent advance in 2004, which was the highest increase in 10 years.

Energy and food prices

Energy. Energy inflation was about the same in 2005 as it was during 2004, 17.1 percent, compared with 16.6. The energy index, which represents about 9 percent of the All Items index, is comprised of two fairly equally weighted components, motor fuel and household fuels. Prices for energy commodities, which mainly include gasoline and home heating (fuel) oil, increased substantially, but not by as much as they did during 2004, 16.7 percent, compared with 26.7 percent. Energy services charges (piped gas and electricity), however, accelerated significantly in 2005, up 17.6 percent, compared with 6.8 percent in 2004.[3]

World crude oil prices increased sharply in 2005 as world petroleum demand grew rapidly, especially among developing Asian countries excluding China, resulting in large price increases for gasoline and fuel oil. Excess world oil production capacity fell to its lowest level in more than three decades. Additionally, Hurricane Katrina destroyed infrastructure for both oil production and oil refining in the Gulf of Mexico region during the latter part of summer 2005.[4]

Gasoline prices increased 16.1 percent in 2005, after rising 26.1 percent in 2004. Fuel oil prices rose 27.2 percent last year, after increasing 39.5 percent in 2004. According to the PPI, jet fuel

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Table 1. CPI components having a large effect on all items during 2005

Expenditure categories with higher inflation in 2005	12-month percent change ending December 2004	12-month percent change ending December 2005
Household fuels	8.4	18.0
Telephone services	–2.5	.4
Airline fares	–1.5	6.4
Owners' equivalent rent	2.3	2.5
Tobacco and smoking products	3.1	5.8
Medical care commodities	2.2	3.7
Recreation	.7	1.1
Motor vehicle maintenance and repair	2.7	3.6
Motor vehicle parts and equipment	2.0	3.7
Expenditure categories with lower inflation in 2005		
Motor fuel	26.1	16.2
Motor vehicle insurance	3.4	1.0
New and used motor vehicles	1.1	.4
Hotels and motels	5.0	3.3
Food	2.7	2.3
Apparel	–.2	–1.1
Medical care services	4.9	4.5
Tuition, other school fees, and child care	6.8	6.2
Legal services	5.3	3.4
Financial services	3.7	1.6

prices rose 41.3 percent in 2005, following a 27.1-percent rise in the prior year.

During 2005 in the Gulf of Mexico region, Hurricane Katrina, and to a lesser extent Hurricane Rita, temporarily but dramatically reduced supplies of crude oil, oil products, and natural gas in the United States. The Gulf of Mexico coastal region supplies this country with a significant amount of crude oil and natural gas production, crude oil distillate (refining) production, and petrochemical manufacturing. Furthermore, this region is a key import hub (especially in New Orleans) and nexus for pipeline infrastructure. Hurricanes Katrina and Rita damaged, set adrift, or sunk 192 oil and natural gas drilling rigs and producing platforms in the Gulf of Mexico.[5] In this coastal region, Federal (the land is owned by the Federal Government) offshore crude oil production accounts for 29 percent of total U.S. production. Crude oil refining capacity accounts for 47 percent of total U.S. production. Offshore natural gas production accounts for 19 percent of total U.S. production. Hurricane Katrina inflicted significant damage to offshore (Gulf of Mexico) refineries, pipelines, and ports in the Louisiana (especially in New Orleans) and Mississippi regions of the Gulf of Mexico, with wide-scale electricity outages and flooding, further compromising the already devastated infrastructure. Oil production and refining operations were further set back by the evacuation of thousands of employees.[6]

By the start of December, about 36 percent of normal daily Federal Gulf of Mexico oil production and about 29 percent of normal daily Federal Gulf of Mexico natural gas production remained shut-in (that is, natural gas that has been produced but is temporarily trapped in pipelines) due to Hurricanes Katrina and Rita. In Louisiana, shut-in on-shore oil and natural gas production was down to about 40 percent of pre-hurricane capacity, but was projected to be fully restored by the end of March 2006.[7]

Following Hurricane Katrina, oil and gasoline prices rose sharply in September. However, during the fourth quarter of 2005, these prices declined to pre-Hurricane Katrina levels. Actions taken by the both the U.S. Government and the International Energy Agency served to lower oil and gasoline prices following Hurricane Katrina. The loan and sale of crude oil from the Strategic Petroleum Reserve increased the available supply of oil. Also, the U.S. Government waived the emissions requirement for summer gasoline and for low-sulfur diesel. Additionally, the International Energy Agency directed its member nations to make an extra 2 million barrels of oil per day available to the oil market for 30 days. Half of this supply came from the U.S. Strategic Petroleum Reserve.[8]

While crude oil prices rose during most of last year, there were some countervailing factors that kept prices from rising more than they did. One of these factors was a slight decrease in petroleum demand from the United States, for the first time since 2001, following both record-high gasoline prices in 2004, which discouraged driving in 2005, and milder-than-usual winter weather in 2005, which reduced the demand for household fuels such as fuel oil.[9] (Gasoline demand accounts for about half of petroleum consumption.) According to NASA scientists, 2005 was the warmest year worldwide since the late 1800s.[10]

There are additional factors that held down inflation for petroleum and its products last year. Demand growth for petroleum in China eased in 2005, after growing rapidly in 2004.[11] U.S. demand for jet fuel decreased slightly in 2005, accompanying airline consolidations. Oil prices rose sharply in 2005, despite the fact that oil supplies increased from the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC sources as well. In 2005, OPEC increased the average daily number of barrels of petroleum supplied by 3.0-percent, from 32.9 million in 2004, to 33.9 million in 2005.[12] OPEC petroleum production accounts for about 40 percent of the world's petroleum production. This cartel holds about two-thirds of the world's proven oil reserves.[13]

The world price of crude oil advanced from about $37 per barrel in December 2004, to about $53 per barrel in December 2005. This price reached a record high at about $60 per barrel in September following the hurricanes.[14] In December 2004, the average price per gallon of regular unleaded gasoline was $1.88. By December 2005, that price had risen to $2.19, but it

Table 2. Annual percent change in the Consumer Price Index for All Urban Consumers (CPI-U), selected expenditure categories, 1996–2005

Expenditure category	December 2005 relative importance	Percent change for 12 months ended December—									
		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
All Items	100.000	3.3	1.7	1.6	2.7	3.4	1.6	2.4	1.9	3.3	3.4
Food	13.942	4.3	1.5	2.3	1.9	2.8	2.8	1.5	3.6	2.7	2.3
Energy	8.685	8.6	–3.4	–8.8	13.4	14.2	–13.0	10.7	6.9	16.6	17.1
Household fuels	4.494	5.6	–1.1	–3.8	2.4	14.5	–3.4	1.0	7.1	8.4	18.0
Motor fuel	4.191	12.7	–6.2	–15.4	30.2	13.9	–24.8	24.6	6.8	26.1	16.2
All items less food and energy	77.373	2.6	2.2	2.4	1.9	2.6	2.7	1.9	1.1	2.2	2.2
Commodities less food and energy	22.319	1.1	.4	1.3	.2	.6	–.3	–1.5	–2.5	.6	.2
All items less energy	91.315	2.9	2.1	2.4	2.0	2.6	2.8	1.8	1.5	2.2	2.2
Services less energy services	55.055	3.3	3.0	3.0	2.7	3.4	4.0	3.4	2.6	2.8	2.9
Commodities	40.790	3.2	.2	.4	2.7	2.7	–1.4	1.2	.5	3.6	2.7
Durables	11.576	.7	–1.5	–.5	–1.2	.0	–1.3	–3.3	–4.3	.4	–.5
Furniture and bedding	1.013	1.0	–.7	1.4	–1.3	.4	–3.1	–1.1	–1.6	–.2	.6
Televisions	.164	–5.3	–4.3	–4.8	–7.3	–10.7	–10.8	–10.6	–14.3	–12.3	–14.4
New vehicles	5.155	1.8	–.9	.0	–.3	.0	–.1	–2.0	–1.8	.6	–.4
Used cars and trucks	1.799	–1.6	–4.9	3.5	1.2	3.4	–1.9	–5.5	–11.8	4.8	1.4
Personal computers and peripheral equipment	.236	—	—	–35.8	–26.5	–22.7	–30.7	–22.1	–17.8	–14.2	–15.8
Nondurables	29.214	4.0	.8	.7	4.1	3.6	–1.4	3.1	2.4	4.8	3.9
Energy commodities	4.530	13.8	–6.9	–15.1	29.5	15.7	–24.5	23.7	6.9	26.7	16.7
Gasoline	4.148	12.4	–6.1	–15.4	30.1	13.9	–24.9	24.8	6.8	26.1	16.1
Fuel oil	.232	23.3	–11.7	–15.2	30.9	40.5	–26.7	14.7	7.8	39.5	27.2
Apparel	3.786	–.2	1.0	–.7	–.5	–1.8	–3.2	–1.8	–2.1	–.2	–1.1
Medical care commodities	1.457	2.6	2.3	4.1	4.0	2.8	4.4	3.1	2.1	2.2	3.7
Prescription drugs and medical supplies	1.025	3.2	2.5	4.9	6.1	3.6	6.0	4.5	2.5	3.5	4.4
Services	59.210	3.3	2.8	2.6	2.6	3.9	3.7	3.2	2.8	3.1	3.8
Shelter	32.260	2.9	3.4	3.3	2.5	3.4	4.2	3.1	2.2	2.7	2.6
Owners' equivalent rent of primary residence	23.442	2.8	3.1	3.2	2.4	3.4	4.5	3.3	2.0	2.3	2.5
Rent of primary residence	5.832	2.8	3.1	3.4	3.1	4.0	4.7	3.1	2.7	2.9	3.1
Hotels and motels	2.460	5.1	6.2	3.7	1.7	2.7	–.8	.0	3.1	5.0	3.3
Utility natural gas service	1.530	11.0	3.3	–3.5	2.1	36.7	–15.1	6.7	17.4	16.4	30.2
Electricity	2.625	.7	–1.3	–3.2	.7	2.6	6.1	–1.9	2.6	2.1	10.7
Medical care services	4.764	3.2	2.9	3.2	3.6	4.6	4.8	5.6	4.2	4.9	4.5
Airline fares	.673	14.7	–4.8	4.1	10.9	5.9	–3.9	–2.4	–.1	–1.5	6.4
Telephone services	2.245	–	–	.3	.4	–2.3	1.3	.2	–2.7	–2.5	.4
Motor vehicle insurance	2.301	3.8	2.4	–.3	.5	1.8	7.3	9.0	4.5	3.4	1.0
Medical care	6.220	3.0	2.8	3.4	3.7	4.2	4.7	5.0	3.7	4.2	4.3

NOTE: Dash indicates data are not available. Data are not seasonally adjusted.

reached a record high at $2.93 in September of that year.

Prices for energy services, natural (utility piped) gas and electricity, accelerated sharply last year, increasing 17.6 percent, compared with 6.8 percent in 2004. Natural gas prices rose 30.2 percent, after increasing 16.4 percent in 2004. Supplies of natural gas were short in 2005 following hurricane damage to production platforms, subsea pipelines, and natural gas processing plants. Fortunately, natural gas suppliers have been able to reroute gas flow around damaged pipelines to active processing plants using the interconnectivity of the natural gas gathering system. This system has sped up the recovery of shut-in production.

Domestic dry (not liquefied) natural gas production in 2005 declined by approximately 4 percent, mainly a result of hurricane damage to infrastructure in the Gulf of Mexico. Liquefied natural gas net imports were about unchanged last year.[15]

Electricity prices increased 10.7 percent in 2005, after rising 2.1 percent in 2004. More than half of the electricity consumed in the United States is produced from burning coal. Power sector demand for coal continued to increase last year following soaring natural gas prices and sharply rising oil prices. (Many electric power companies have the ability to choose between burning coal, natural gas, and fuel oil.) Coal prices paid by electric power plants rose 15.3 percent from the first half of 2004 to the first half of 2005, according to the U.S. Department of Energy. The high coal prices can be attributed to low coal inventories following high demand and transportation problems, in addition to increased transportation costs following soaring crude oil prices over the past 2 years.[16] Although coal is this country's dominant fuel for creating electric power, natural gas is quickly gaining ground; the U.S. Department of Energy anticipates that more than 90 percent of the electric power plants to be built in the next 20 years will be fueled by natural gas.[17]

Food. Food inflation was slightly lower in 2005, 2.3 percent, compared with 2.7 percent during 2004. Pork and poultry prices were nearly unchanged after rising during the prior year. Cereals and bakery products, dairy products and fresh fruit prices increased less in 2005 than during the prior year. Fresh vegetable prices declined in 2005 after rising sharply during the prior year. These various decelerations in food prices were partially offset by accelerations in the indexes for beef and veal, fish and seafood, and nonalcoholic beverages. The food at home (grocery store food) index advanced 1.7 percent last year, down from a 2.4-percent advance during the prior year. The food away from home (restaurant food) index rose 3.2 percent in 2005, up slightly from a 3.0-percent increase in 2004.

Pork prices declined 0.1 percent in 2005, after rising 4.7 percent in the earlier year. The deceleration in 2005 pork prices can be explained by an increase in the number of slaughter-ready hogs, heavier dressed weights, and a decline in consumer demand for pork in the United States.[18] In 2005, per capita pork consumption decreased 2.9 percent. Lower consumer demand was reflected in lower wholesalers' bids to packers for pork products. As a result, the packers ended up paying less for hogs.[19]

The poultry index advanced 0.3 percent in 2005, after rising 5.1 percent in the prior year. Chicken prices decreased 0.3 percent last year, after increasing 5.8 percent in 2004. Broiler production rose 3.6 percent in 2005, following both an increase in the numbers of chicks placed for grow out, and an increase in average broiler live weight at slaughter.[20]

Prices for dairy products advanced 1.7 percent last year, after increasing 4.1 percent in 2004. Milk prices rose 3.5 percent last year, following a 5.9-percent rise in 2004. Cheese and related products prices increased only 0.5 percent last year, after increasing 5.3 percent during the prior year. Milk output per cow increased 3.1 percent in 2005. The number of milk cows rose 0.3 percent, comparing quarterly average numbers from 2004 with those from 2005. Over the 2004–05 period, milk returns have been relatively high. Consequently, milk producers have had an incentive to increase milk production. Over this same period, milk cow numbers have risen following farm expansions and relatively few farm exits.[21]

Fresh fruit prices rose 1.3 percent in 2005, following a 7.3-percent rise in 2004. The other fresh fruit index (which excludes apples, bananas and citrus fruits) decreased 3.9 percent, following an 11.5-percent rise in 2004. Contributing to this price decline, for example, were Washington State's supplies of fresh-market pear varieties (excluding Bartletts, which are used mainly for processing), which were plentiful. Supplies of Thompson seedless grapes were also plentiful. Large end-of-season supplies of California strawberries and increased strawberry imports from Mexico also contributed to weakening the other fresh fruit price index in 2005.[22]

Fresh vegetable prices decreased 2.3 percent last year, compared with an 11.9-percent rise in 2004. Tomato prices decreased 19.5 percent, compared with a 49.5-percent increase in 2004. Lettuce prices decreased 6.1 percent, compared with an 8.3-percent decrease in 2004.

Beef and veal prices increased 2.2 percent last year, after declining 0.9 percent in 2004. Supplies of choice and prime beef were very tight in 2005 in spite of the fact that domestic supply channels were absorbing supplies that could not be exported because of fears over mad cow disease. Cow slaughter was down about 6 percent in 2005, consistent with the rebuilding of cattle herd inventories over the past 2 years. In December 2005, the U.S. beef export market to Japan reopened after being closed for the past 2 years due to mad cow disease. Prior to the mad cow disease fears 2 years ago, the Japanese market was this country's most important foreign market for beef. Prior to late December 2003, when a dairy cow in Washington State was found to have this disease, Japan, Mexico, and Canada combined accounted for two-thirds of U.S. beef exports. The South Korean market represented an additional 25 percent of U.S. beef exports prior to 2004. In January 2006, the U.S. Government announced the opening of the South Korean and Hong Kong markets for U.S. beef.[23] After exporting nearly 10 percent of U.S. beef and veal production in 2003, U.S. exports plummeted in 2004 when less than 2 percent of production was exported.[24]

The fish and seafood index advanced 3.8 percent in 2005, compared with 2.3 percent in the earlier year. Fresh fish and seafood prices accelerated sharply in 2005 (5.7 percent), after rising 2.8 percent in 2004. Supplies of live catfish, delivered for processing (grower sales) decreased 5 percent in 2005 for the second year in a row.[25]

Items other than food and energy

Shelter. Shelter inflation was approximately unchanged in 2005 at 2.6 percent, versus 2.7 percent in 2004. Decelerations in the indexes for hotels and motels, housing at school, and tenants' and household insurance were mostly offset by slightly larger increases in the indexes for owners' equivalent rent of primary residence, and rent of primary residence.

Hotel and motel charges rose 3.3 percent in 2005, after rising 5.0 percent during the prior year. Housing at school, excluding board charges, increased 5.1 percent last year, compared with 6.9 percent in 2004. Tenants' and household insurance costs decreased 2.2 percent last year, after rising 3.8 percent in 2004.

The rent of primary residence index increased 3.1 percent last year, up slightly from a 2.9-percent rise in 2004. Since 2002, both an increasing supply of homes and an increasing incidence of households moving out of rental units and into purchased homes may have served to hold rental increases at relatively low levels over the past 4 years. The annual average vacancy rate of residential rental units climbed to a record 10.2 percent in 2004, the fourth year in a row this vacancy rate had risen, and the highest rate since the inception of this measure by the Commerce Department in 1956. In 2005, this measure slipped slightly to 9.9 percent.

In response to low mortgage interest rates and high real economic growth in recent years, households have increasingly moved out of rental properties and into purchased homes. The Nation's homeownership rate reached a record high in 2004 at 69.0 percent of households, and was about unchanged at 68.9 percent in 2005.[26] Since 1995, this rate has steadily risen. In 1994, the homeownership rate stood at 64.0 percent.

The supply of new single-unit housing has greatly increased in recent years during a booming real estate market. The number of new, one-family houses sold in the United States increased 6.7 percent in 2005, after increasing 10.8 percent in 2004. Declining long-term interest rates over the past several years have encouraged a sharp increase in demand for houses. During the past 3 years, mortgage interest rates have reached their lowest levels in more than 40 years. From 1994 to 2003, the average 30-year conventional fixed mortgage interest rate declined from 8.35 percent to 5.82 percent. In 2004 and 2005, this rate was nearly unchanged at 5.84 percent and 5.86 percent, respectively.[27]

The owners' equivalent rent index rose 2.5 percent in 2005, up modestly from a 2.3-percent advance in 2004. This index represents approximately 73 percent of the shelter index, and approximately 23 percent of the overall CPI-U All Items index.

New and used motor vehicles. In 2005, new vehicle prices declined, and used vehicle prices rose by less than the 2004 prices. The new vehicles index decreased 0.4 percent last year, compared with a 0.6-percent rise in 2004. The used cars and trucks index increased 1.4 percent last year, compared with a 4.8-percent rise in 2004.

New car prices rose 0.8 percent, while new truck prices decreased 1.9 percent. Last year, the number of new vehicles sold rose slightly, 0.5 percent. New car sales rose 2.9 percent, while new truck sales decreased 1.5 percent. Sharply rising gasoline prices led to the reduction in consumer demand for new light trucks, including sport utility vehicles. Simultaneously, demand for smaller, more fuel-efficient vehicles, such as hybrids, increased.

Although the Nation's new vehicle sales volume approached a record high level of almost 17 million vehicles in 2005, the sales volume for U.S.-owned automakers decreased 2.5 percent in that same year. The corresponding volume for Japanese-owned automakers rose 6.2 percent. The number of new vehicles sold in this country that were made by European-owned manufacturers decreased 2.7 percent in 2005. Korean sales for new vehicles in this country increased 6.1 percent.

In efforts to bounce back from soft January and February new vehicle sales volumes, operating losses, growing inventories, and fierce competition, U.S.-owned vehicle manufacturers offered deep discounting in March. This incentive program helped increase the number of light vehicles sold by 4.6 percent for the 12-month period ending March 2005.[28] Most foreign-owned manufacturers have had a steady growth in market share over the years without offering discounts or rebates as large as U.S.-owned manufacturers have offered.

During the second quarter of 2005, following the deep discounting campaign, sales volumes of domestic vehicles were disappointing. In an effort to increase demand, U.S. vehicle manufacturers offered employee discounts to all customers in July. As a result of this "employee discount" campaign, more new vehicles were sold (about 1.8 million) than in any month in the 109-year history of the auto industry in this country.[29] The not-seasonally-adjusted CPI for new vehicles decreased more in July, 1.3 percent, than in any month since September 1973. The number of new vehicles sold during the 12-month period ending July 2005 increased 16.2 percent.[30] This campaign extended through the end of the 2005 model year, and helped the number of new vehicles sold rise 3.8 percent for the 12-month period ending August 2005.[31]

For 2006 model year vehicles, some domestic vehicle manufacturers introduced "value pricing" in an effort to increase sales. Value pricing means lowering the sticker price closer to the selling price. As a result, discounts are also lowered because there is less of a margin between the sticker price and the dealer invoice price. The value pricing sales campaign did not prove to be as successful at increasing sales as did either the March discounts or the employee discounts. Value pricing improves an automaker's price competitiveness when consumers shop and compare vehicles on the Internet.

Medical care. The medical care index increased 4.3 percent last year, about the same as a 4.2-percent rise in 2004. Prices for prescription drugs, internal and respiratory over-the-counter drugs, dental services, and eyeglasses and eye care each showed larger increases in 2005 than in the prior year.

Medical care commodities prices rose 3.7 percent last year, up from a 2.2-percent increase in 2004. Prices for prescription drugs and medical supplies rose 4.4 percent last year, after rising 3.5 percent in 2004. Accelerating prices charged for brand name drugs were responsible for the higher increase in the prescription drugs index. Brand name drugs that increased sharply include: cholesterol-lowering medicines, bronchodilators, anti-depressants, contraceptives, weight control drugs, asthma drugs, antibiotics, and topical steroids.

Prices for internal and respiratory over-the-counter drugs increased 2.1 percent in 2005, after decreasing 2.3 percent in 2004.

The medical care services index rose 4.5 percent in 2005, down from 4.9 percent in the earlier year, reflecting deceleration in the indexes for physicians' services and inpatient hospital services. Physicians' services fees rose 3.1 percent last year, following a 4.0-percent rise in 2004. Inpatient hospital services charges rose 5.3 percent last year, compared with 5.6 percent in 2004. Dental services fees increased 5.7 percent in 2005, after rising 4.9 percent in the prior year. Higher medicare reimbursements were a major reason for the higher increase. Eyeglasses and eye care prices rose 3.1 percent last year, compared with 2.9 percent in 2004.

Telephone services. The index for telephone services increased 0.4 percent in 2005, following a 2.5-percent decrease during the previous year. In 2005, an increase in charges for local land-line telephone services was higher than the increase during 2004. Long distance service charges decreased much less in 2005 than during each of the prior 3 years. Wireless telephone service charges decreased by roughly the same amount during 2004 and 2005.

Local land-line telephone service charges rose 3.3 percent in 2005, following a 1.1-percent rise in 2004. Long-distance land-line telephone call charges decreased by a much smaller amount, 1.7 percent in 2005, compared with much larger decreases over the 3 preceding years, 7.7 percent in 2004, 10.0 percent in 2003, and 6.0 percent in 2002. Over the past several years, long-distance telephone service companies have faced increasingly fierce competition from both wireless telephone service companies and broadband (wireless Internet) long-distance companies. Accordingly, long-distance companies have had to lower prices. Increasingly, in recent years, these long-distance providers have incurred losses from customers shifting from making long-distance calls by traditional land-line telephones to making them using wireless (cellular) service and by Internet telephone service. Wireless telephone service charges decreased 1.5 percent last year, after decreasing 1.4 percent in 2004. □

Notes

[1] Annual percent changes are calculated from December to December, unless otherwise stated.

[2] Economists often exclude food and energy price movements when evaluating the underlying or "core" level of inflation. Food and energy price movements tend to be relatively volatile in the short-to-intermediate terms, making only transitory impacts on the All items CPI. Large rises in these prices are often followed by large decreases, and vice versa. Volatility in food and energy price movements, such as that caused by unusual weather conditions, is generally self-correcting. Inclement weather often leads to temporary food shortages and temporarily increased demand for household fuels. Sustained shifts in food and energy prices, of course, will affect overall inflation.

[3] Sharply rising energy costs affect consumers not only directly, through rising household fuel bills and motor fuel charges, but also indirectly by raising business' input costs and eventually consumer prices charged by those businesses for goods and services. Increases in energy costs affect businesses in the same way increases in taxes affect them. They raise the cost of doing business. The higher prices charged to consumers in order to recoup higher energy-related input costs are the "indirect effects" of an increase in energy prices. Commonly, businesses pass some or all of these higher input costs through to consumers with a lag of up to several months. The extent to which businesses pass along these higher costs depends on how competitive the marketplace is for the goods or services they sell.

[4] *Short-Term Energy Outlook, December 2005* (Energy Information Administration, U.S. Department of Energy, Dec. 6, 2005).

[5] *Short-Term Energy Outlook, November 2005* (Energy Information Administration, U.S. Department of Energy, Nov. 8, 2005).

[6] *Short-Term Energy Outlook, September 2005* (Energy Information Administration, U.S. Department of Energy, September 2005).

[7] *Short-Term Energy Outlook, December 2005.*

[8] *Short-Term Energy Outlook, September 2005.*

[9] *Short-Term Energy Outlook, February 2006* (Energy Information Administration, U.S. Department of Energy, Feb. 7, 2006).

[10] *2005 Warmest Year in Over a Century* (National Aeronautics and Space Administration [NASA], Jan. 24, 2006).

[11] *Short-Term Energy Outlook, December 2005.*

[12] *Short-Term Energy Outlook, February 2006 and January 2005* (Energy Information Administration, U.S. Department of Energy, Feb. 7, 2006, and Jan. 11, 2005, respectively).

[13] Proven oil reserves are ones that have been detected using geographical mapping tools, and are ones that can be extracted using available extraction technology. For more information about the world's petroleum production, see OPEC (Energy Information Administration, U.S. Department of Energy, Feb. 8, 2006). OPEC members include Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.

[14] World crude oil prices are officially called "Refiner Acquisition Cost of Crude Oil, Composite (of both Domestic and Imported oil)," published in *Petroleum Marketing Monthly, February 2006* (Energy Information Administration, U.S. Department of Energy, February 2006).

[15] *Short-Term Energy Outlook, December 2005*.

[16] *Short-Term Energy Outlook, December 2005*.

[17] *Electric Power* report prepared for Congress (U.S. Department of Energy, Jul. 31, 2002.)

[18] Heavier dressed hog weights represent an average increase in the supply of pork per slaughtered hog.

[19] *Livestock, Dairy, and Poultry Outlook* (U.S. Department of Agriculture, Dec. 16, 2005).

[20] *Livestock, Dairy and Poultry Outlook,* Jan. 19, 2006.

[21] *Livestock, Dairy, and Poultry Outlook,* Dec. 16, 2005.

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