Domestic price rise during 1987 reflects swing of energy prices

Impact of volatile energy components again evident in Consumer Price Index and Producer Price Index, with increase in CPI returning to the 4-percent range, compared with a 1.1-percent rise in 1986

CRAIG HOWELL, ANDREW CLEM,
AND ROBERT A. KUEMMERLING

U.S. inflation in 1987 accelerated from its lowest level in more than 20 years, largely reflecting the partial rebound in energy prices. The Consumer Price Index (CPI) rose 4.4 percent during the 12-month period ended in December. This compared with an energy-restrained 1.1-percent rise in 1986 and increases of about 4 percent in each of the preceding 4 years. The turnaround in energy prices—particularly in the first half of the year—was almost entirely responsible for the acceleration in the overall index in 1987. Excluding energy, the CPI increased 4.1 percent during the year, after advancing 3.8 percent in 1986.

In 1987, the food component rose somewhat less than in 1986, despite the sharp increase in fruit and vegetable prices. The indexes for shelter and all items excluding food, shelter, and energy each rose slightly more than in 1986. Within the latter group, however, price movements for commodities and services differed substantially from 1986. The other commodities component, in part reflecting the declining value of the dollar in international markets, accelerated in 1987. Prices for clothing, wine, and entertainment commodities were sharply higher. Charges for other services, however, slowed in 1987, particularly those for medical care and transportation services. (See table 1.)

Producer prices turned up across a broad front during 1987. The Finished Goods Price Index increased 2.1 percent from December 1986 to December 1987, following a 2.3-percent decline in 1986 and a 1.8-percent increase in 1985. The index level in December 1987 was almost the same as it had been in December 1985. Prices for intermediate goods moved up 5.5 percent over the year, in the wake of a 4.4-percent drop in 1986 and a nominal decline in 1985. In contrast to substantial decreases in 1986 (8.9 percent) and 1985 (5.6 percent), the Crude Goods Price Index climbed 8.8 percent in 1987.

Energy prices, which had spearheaded the 1986 declines, rebounded somewhat in 1987, contributing to the upturn at each stage of processing. Food price index movements were generally moderate. The behavior of price indexes for goods except food and energy was mixed. At the crude material level, prices for sensitive industrial materials surged 22.4 percent. Prices for intermediate industrial materials advanced 5.3 percent after 2 years of virtually no change. Yet prices of finished goods other than foods and energy rose only 2.1 percent, even less than in either 1985 or 1986, in large part because of a downturn in the motor vehicles price index.

Consumer spending slows

The general economic expansion that had begun when the most recent recession ended in late 1982 completed its fifth year in 1987, but with some signs of faltering. Consumer expenditures, which had fueled the recovery for some time, weakened as the year progressed, resulting in some excessive inventory accumulation by retailers. Business expenditures on capital goods generally enjoyed another good year in the wake of some broad 1986 changes in tax laws affecting investment spending, but also exhibited some weakness. The pace of residential-housing construction was somewhat slower than in other recent years, in part because of a moderate climb in mortgage interest rates. The October stock market crash, while further heightening concerns about the durability of

Craig Howell, Andrew Clem, and Robert A. Kuemmerling are economists in the Office of Prices and Living Conditions, Bureau of Labor Statistics. They were assisted by Roger Burns, an economist in the same office.

Table 1. Percentage changes for major categories of the Consumer Price Index and Producer Price Index, 1983–87[1]

Index	1983	1984	1985	1986	1987
Consumer Price Index					
All items	3.8	3.9	3.8	1.1	4.4
Energy	−.5	.2	1.8	−19.7	8.2
Energy commodities	−3.2	−1.8	3.4	−30.5	17.8
Energy services	4.1	3.5	−.6	−3.3	.2
All items less energy	4.5	4.4	4.0	3.8	4.1
Food	2.7	3.8	2.6	3.8	3.5
Shelter	4.7	5.2	6.0	4.6	4.8
All items less food, shelter, and energy	5.0	4.3	3.7	3.3	3.8
Other commodities	5.0	3.1	2.2	1.4	3.5
Other services	4.9	6.0	5.4	5.6	4.9
Producer Price Index					
Finished goods	.6	1.7	1.8	−2.3	2.1
Finished consumer foods	2.3	3.5	.6	2.8	−.3
Finished energy goods	−9.2	−4.2	−.2	−38.1	10.3
Finished goods less food and energy	1.9	2.0	2.7	2.7	2.1
Intermediate materials, supplies, and components	1.8	1.4	−.3	−4.4	5.5
Intermediate foods and feeds	9.3	−5.4	−4.2	−.5	5.4
Intermediate energy goods	−5.5	−.1	−.8	−29.0	9.4
Intermediate materials less food and energy	2.9	2.1	−.1	.1	5.3
Crude materials for further processing	4.7	−1.6	−5.6	−8.9	8.8
Foodstuffs and feedstuffs	7.9	−1.2	−6.4	−1.5	1.7
Crude energy materials	−4.7	−1.2	−4.9	−27.6	10.5
Crude nonfood materials less energy	15.5	−3.4	−4.3	1.8	22.4

[1]Calculated on a December-to-December basis.

the expansion, did not seem to curtail either consumer or capital goods demand at yearend.

As in other recent years, developments in international currency and trade markets had a complex effect on the American economy and the behavior of domestic producer prices. The value of the U.S. dollar fell rapidly through most of the year, tending to lower prices of American goods sold in other countries and to raise prices of imported goods. Significantly improved export demand for many kinds of U.S.-made products was a major factor in boosting the capacity utilization rate in manufacturing to its highest level since the early 1980's and in pushing the unemployment rate even lower. At the same time, higher prices for foreign-made goods generally failed to dampen consumer demand for imported products with a reputation for value and quality.

But despite rising exports and advances in prices of competitive imported goods, domestic producers of many finished goods did not appear to raise their own output prices very much, in part because they hoped to keep or recapture a greater market share. For similar reasons, some output prices did not seem to reflect the full pass-through of higher costs for materials, whether domestic or imported.

CONSUMER PRICES

Food. Retail food prices rose 3.5 percent in 1987, after increasing 3.8 percent in 1986. Price advances in the second half were considerably less than in the prior 12 months. In 1986, a severe spring drought in the Southeast led to higher prices for fresh fruits and vegetables, pork, poultry, and eggs. By the end of 1987, prices for the latter three groups were below their levels of a year earlier. The index for fruits and vegetables, however, rose 12.8 percent. Heavy demand from food processors led to higher prices for citrus fruits. Fresh vegetable prices surged, typically because of the vagaries of the weather. In addition, lettuce prices more than doubled late in the year after a virus spread by the sweet potato white fly seriously damaged the winter lettuce crop.

The index for meats, poultry, fish, and eggs increased 1.1 percent in 1987, as advances in prices for beef and veal and for fish and seafood—6.7 percent and 10 percent—were partly offset by the declines in pork, poultry, and egg prices. These declines largely reflected the return to pre-drought supply levels.

Other grocery food groups contributing to deceleration in the food index were dairy products and nonalcoholic beverages, especially coffee—the largest U.S. agricultural import—which continued to be affected by the release of stocks built up earlier in the decade. The index for cereal and bakery products rose 4.1 percent, while other prepared foods rose 4.2 percent. Prices for food away from home increased 3.7 percent.

Shelter. Shelter costs rose 4.8 percent in 1987, compared with a 4.6-percent increase in 1986. Despite the apparent similarity, the composition of the change was different. A 4.0-percent increase in house and apartment rents followed a 5.0-percent rise in 1986 and was the smallest annual increase since 1972. Conversely, the index for owners' equivalent rent advanced 5.3 percent in 1987, up from 4.6 percent in 1986. The homeowner and renter index for maintenance and repair costs increased 3.3 percent in 1987, compared with 1.8 percent in 1986. The acceleration was largely the result of increased charges for services as prices for maintenance and repair commodities rose at about the same rate as in 1986.

Energy. The energy component of the CPI, which had declined 19.7 percent in 1986, partially rebounded in 1987, advancing 8.2 percent. In 1986, a glut of crude oil resulted when production quotas were formally abandoned by the Organization of Petroleum Exporting Countries (OPEC). However, during the winter of 1986, OPEC tentatively managed to restore control, and, with the backdrop of hostilities in the Persian Gulf, oil prices rose sharply in the first quarter of 1987.

The 8.2-percent rise in the energy index in 1987 was its largest advance since 1981. Leading the way were items whose price fluctuations closely paralleled those of crude oil. Fuel oil prices surged 17.9 percent during 1987, while gasoline prices were up 18.6 percent. However, by yearend the indexes for both fuel oil and gasoline remained considerably below their peak levels in early 1981. Energy services (gas and electricity) also turned upward, but only modestly, advancing 0.2 percent in 1987 after declining 3.3 percent last year. Charges for electricity rose 1.8 percent, but were nearly offset by a 2.9-percent decline in charges for natural gas.

Services excluding shelter and energy. For each of the 5 years prior to 1987, prices for services excluding shelter and energy rose substantially more than the average for all items. (See table 2.) During 1987, the 4.3-percent increase in this category was about the same as the advance in the overall CPI. The only significant decline in the services less shelter and energy component was registered by long distance telephone rates. Charges for interstate toll calls fell 12.4 percent in 1987 and were 26.9 percent below their level of December 1983, the last month preceding deregulation of the industry. This drop, coupled with a 3.0-percent decline in intrastate toll calls, was sharp enough to pull the yearend telephone services index down 1.3 percent, despite a 3.3-percent increase for local telephone charges.

Charges for several services components, although outpacing the overall CPI, slowed significantly in 1987. Automobile insurance charges increased 5.8 percent after double-digit increases in each of the previous 2 years. A 5.6-percent advance in the cost of medical care services followed a 7.9-percent rise in 1986 and was the smallest increase in 15 years.

A few service categories experienced price acceleration in 1987. Auto finance charges were up 5.9 percent as a result of the expiration of several manufacturer incentive plans. Refuse collection charges increased at double-digit rates because of the apparent scarcity of landfill sites around major metropolitan areas. And the cable TV index rose 9.5 percent reflecting deregulation of the cable industry, which allowed for increases in both periodic and installation charges.

Commodities less food and energy. Price movements accelerated in 1987 for several groups of commodities with above-average representation of imports in market sales, reflecting the declining value of the dollar. (See table 3.) For example, wine at home and entertainment commodities such as toys, sport vehicles, and photographic supplies all rose substantially more in 1987 than in 1986. In addition, prices for apparel commodities moved up 4.9 percent in 1987, the largest increase since 1980. Significantly, however, a relatively high proportion of clothing imports were from the Newly Industrializing Countries of the Pacific Rim. The currencies of these countries traditionally have been pegged to the U.S.

Table 2. Price changes for consumer services other than shelter and energy, December 1982–December 1987

Consumer service category	Percent change				
	December 1982 to December 1983	December 1983 to December 1984	December 1984 to December 1985	December 1985 to December 1986	December 1986 to December 1987
Services excluding shelter and energy	4.9	6.0	5.4	5.6	4.3
Telephone:					
Local charges	3.2	17.1	8.9	7.1	3.3
Interstate toll calls	1.4	−4.3	−3.8	−9.5	−12.4
Intrastate toll calls	7.4	3.7	.5	.4	−3.0
Water and sewerage maintenance	8.5	5.5	5.5	5.4	5.2
Cable television	(1)	6.1	6.0	3.8	9.5
Refuse collection	(1)	3.2	6.4	9.4	10.2
Postage	.0	.0	10.2	.0	.0
Appliance and furniture repair	4.9	5.6	3.1	2.6	3.1
Moving, storage, freight, household laundry, and drycleaning	6.2	4.9	7.2	3.2	(1)
Gardening and other household services	(1)	(1)	(1)	(1)	4.9
Apparel services	5.0	4.9	4.9	3.9	3.9
Automobile maintenance and repair	3.8	3.2	3.3	3.7	3.8
Automobile insurance	9.1	7.9	12.0	11.8	5.8
Automobile finance charges	−7.9	6.8	−8.3	−7.3	5.9
Automobile registration, licensing, and inspection fees	7.8	8.5	2.1	3.4	1.7
Other automobile related fees	3.5	5.8	4.2	10.0	5.2
Airline fares	4.8	6.5	6.3	5.3	1.6
Other intercity public transportation	7.0	10.7	6.4	4.9	2.0
Intracity public transportation	2.1	5.9	3.6	6.8	2.4
Professional medical services	7.6	6.3	6.5	6.3	6.3
Hospital and related services	10.4	7.6	5.0	7.2	7.0
Entertainment services	5.4	5.7	4.4	5.4	4.3
Personal care services	3.6	4.9	3.6	2.6	3.8
Tuition and other school fees	9.4	10.1	8.4	7.9	7.6
Personal expenses (legal, financial, and funeral)	12.2	6.5	6.1	9.0	4.4

[1]Data not available.

dollar, and, unlike the currencies of Japan and the nations of Western Europe, have only recently been allowed to appreciate. Another import-sensitive commodity—new cars—experienced a smaller increase in prices in 1987, rising only 1.8 percent after climbing 5.9 percent in 1986. The price behavior of automobiles is an example of market conditions vitiating the effects of exchange rate movements. New car sales consistently trailed the prior year's levels and, combined with high inventories of unsold vehicles, led to widespread use of manufacturer and dealer incentives.

Although prices of imported cars increased more than those of their domestic counterparts, the rise was below expectations based on the appreciation of the exporters' currencies. There are several possible explanations. First, foreign car manufacturers might be willing in the short run to sacrifice profit margins rather than reduce their market share. Second, there was evidence that dealers, who in the past added substantial surcharges to the sticker price of imports in short supply, were cutting or eliminating entirely these "dealer markups." Finally, the determination of exactly what is or is not an imported vehicle was becoming blurred as an increasingly large number of "foreign" models were manufactured domestically.

Prices also accelerated for two additional commodity groups that are not directly sensitive to imports. Used car prices rose a brisk 8.9 percent because the weakness in new car sales reduced the supply of trade-ins. And the index for medical care commodities rose 7.1 percent in 1987, compared with a 6.8-percent increase in 1986.

PRODUCER PRICES

Finished goods

Energy. After slumping 38.0 percent in 1986, the index for finished energy goods rose 10.2 percent in 1987. This reflected a similar upturn in crude petroleum prices in both domestic and world markets. Price indexes for gasoline and home heating oil each climbed more than 20 percent, after plunging almost 50 percent the year before. Natural gas did not share in the 1987 price resurgence, however, falling about 4 percent in the wake of a 16.7-percent decrease in 1986 and a 7.8-percent drop in 1985.

Other consumer goods. Prices received by domestic producers of consumer goods other than foods and energy moved up 2.6 percent, following a 3.0-percent increase during 1986. This index would have accelerated somewhat had it not been for a downturn in the passenger cars index. Prices for a number of goods tended to rise more rapidly in the second half than in the first half.

The new car price index dropped 3.1 percent in 1987, in contrast to its 6.5-percent climb a year before. Imports commanded more than 30 percent of the new car market, but sales of domestic automobiles retreated somewhat after several strong years. Car sales had been unusually brisk in the second half of 1986, because of both attractive factory-subsidized finance programs and changes in Federal income tax laws scheduled to take effect in 1987. As a result, demand for cars was sluggish in early 1987, and incentive programs later in the year had to be generous to hold down dealer inventories. Even with higher prices of many foreign-made models because of the reduced value of the dollar and with escalating costs of some materials such as copper and plastics, American car manufacturers minimized their own price increases to improve their competitive stand.

Prices for prescription and over-the-counter pharmaceutical preparations continued to advance rapidly in 1987 (9.3 and 4.8 percent); these increases were partly attributed by manufacturers to the continued substantial rise in research and development costs associated with bringing new drugs onto the market. Increases in gold and silver prices were reflected in higher prices for precious metal jewelry. The index for tobacco products also moved up sharply, partly to respond to stronger export demand but also to boost profit margins in the face of several years of falling domestic sales. Increased costs for stainless steel and silver contributed to the substantial advance in household flatware prices. Producer prices for many kinds of apparel rose more than in 1986, although most of the 1987 advances were still modest.

Capital equipment. The Producer Price Index for capital equipment edged up 1.3 percent for the 12 months ended in December 1987, following a 2.1-percent rise in 1986 and a 2.7-percent increase in 1985. As with consumer goods, indexes for motor vehicles played a key role in restraining inflation in the capital goods sector in 1987. Prices received by manufacturers of heavy trucks dropped 2.7 percent after a 3.4-percent advance a year before, while the light trucks index retreated from a 3.6-percent advance in 1986 to a 0.5-percent decline a year later. Prices for most other kinds of capital equipment rose less than 4 percent in 1987; however, some of these prices tended to accelerate at the end of the year in reaction to much-improved export demand.

Capital spending in 1987, as in most other recent years, was concentrated on equipment that would cut costs and enhance productivity rather than on large-scale capacity expansion projects. While this strategy limited the vulnerability of companies to cyclical downturns, it also limited the ability of producers to respond to increased domestic or foreign demand without encountering capacity restraints and having to boost prices as a result.

Foods. The Producer Price Index for finished consumer foods inched down 0.3 percent in 1987, following a 2.8-percent advance for 1986. As often happens, there was a

Table 3. Seasonally adjusted annual rates of change for Consumer Price Indexes for certain commodities with higher-than-average import proportions, selected periods, December 1982–December 1987

Category	December 1982 to December 1983	December 1983 to March 1985	March 1985 to June 1986	June 1986 to December 1986	December 1986 to December 1987
Commodities less food and energy	5.0	3.5	0.7	2.0	3.5
Wine at home	-1.5	.7	2.6	-1.3	3.8
Whiskey at home	1.5	1.3	7.8	.2	1.3
Alcoholic spirits, excluding whiskey	1.0	2.0	9.7	-.3	.9
TV and sound equipment	-2.2	-4.1	-5.1	-3.0	-3.7
Clocks, lamps, and decor items	2.4	1.0	1.6	-5.8	1.7
Tableware, serving pieces, and nonelectric kitchenware	1.6	.5	2.2	.9	1.3
Lawn equipment, power tools, other hardware	2.3	1.9	-1.9	1.8	1.3
Men's and boys' apparel	2.3	2.3	1.3	.9	3.1
Women's and girls' apparel	3.3	2.5	-2.3	5.0	5.9
Infants' and toddlers' apparel	3.5	5.5	4.6	-4.3	2.4
Jewelry and luggage	3.4	.3	-1.1	5.1	[1]11.5
Footwear	1.0	2.0	-1.4	3.9	3.8
New vehicles	3.3	3.0	4.1	5.8	1.8

[1] Jewelry only.

wide variation in price behavior among the items within this category. Substantial decreases for pork, processed poultry, roasted coffee, and eggs offset increases for fish, fresh and dried vegetables, shortening and cooking oils, and milled rice. Indexes for most other major foods rose less than 5 percent.

Pork and processed poultry prices fell during most months of 1987, principally because of significant increases in supplies. Beef and veal index movements were more mixed, as strong advances in the first half were negated by later declines, resulting in a modest increase for the year as a whole. Fish prices, however, were 18.1 percent higher at the end of 1987 than they had been a year earlier, in part because of the continuing shift towards fish as an alternative to red meats. Seafood consumption reached a new high.

Extensive damage to California crops from the white fly virus late in the year was the primary reason prices of lettuce doubled. Bad weather contributed to price increases for tomatoes, citrus fruits, and milled rice. Higher costs for ingredients such as grains, soybeans, and sugar were passed through in increases for such foods as shortening and cooking oils, bakery products, confectionery products, and soft drinks. In contrast, excess supplies and sluggish retail demand resulted in considerably lower prices for roasted coffee and eggs.

Intermediate goods

The Producer Price Index for intermediate materials, supplies, and components advanced 5.5 percent during 1987, more than recovering the 4.4-percent decline of 1986. Although the upturn was most pronounced within the intermediate energy category, the same pattern was observed for a number of other industrial goods, particularly metals and petroleum-derived products.

Manufacturing materials. After showing virtually no net change over the two preceding years, the index for intermediate goods other than food and energy advanced 5.3 percent in 1987. The strongest surge was centered in the materials for durable manufacturing category, which climbed 11.6 percent, after 3 consecutive years of small declines. Unusually large increases occurred for certain nonferrous metals, and steel prices turned up moderately. According to Federal Reserve Board data, the rate of capacity utilization in the primary metals sector jumped from 72 percent to 88 percent between December 1986 and December 1987.

Primary copper prices soared 86 percent, more than in any other year since PPI records for this commodity began in 1947. Because of a long-term decline in demand for copper (owing in part to fiber optics replacing copper wire, and plastics replacing copper pipes) and excess production by certain Third World countries, copper prices had fallen in 6 of the 7 preceding years. This led to a severe contraction and restructuring of the copper industry in the United States and overseas. Smaller output, in turn, set the stage for an upturn in prices. Demand for copper was stronger than expected throughout 1987; by the end of the year, tight supplies resulted in sharp price increases. Copper and brass mill shape prices rose 55 percent in 1987.

Similarly, aluminum prices advanced sharply during the year; unalloyed primary aluminum advanced 33 percent, while aluminum mill shape prices rose 14 percent. As with copper, price decreases in recent years had led producers to cut back their output. Heightened speculative interest in aluminum contributed to the volatility experienced during 1987.

Lead prices rose 49 percent, even more than in the year before. The jump resulted from strong non-automotive demand, a strike in a Canadian lead-zinc smelter, and production problems elsewhere. Gold and silver prices both registered increases of about 30 percent, reflecting renewed speculative and precautionary demand responding to the drop in the exchange value of the U.S. dollar.

After a 4.2-percent decline in 1986 and a small dip in 1985, the PPI for steel mill products moved up 6.4 percent. Sizable increases were noted for all major categories of steel except wire and cold finished bars. Having undergone extensive plant modernization and closings of obsolescent furnaces and mills in recent years, the American steel industry emerged in a stronger competitive position vis-a-vis producers in other countries. For example, most of the steel produced in this country is now made in mills with continuous casters, compared to less than 30 percent 5 years earlier. Such productivity-enhancing measures, plus the decline in the value of the dollar, helped to regain part of the market share from foreign producers and restored profitability to the industry. Among other durable materials, hardwood lumber prices advanced 9.0 percent, reflecting the strong demand from Europe and Japan.

After moving down about 2 percent in both 1985 and 1986, the index for materials for nondurable manufacturing advanced 7.7 percent. A major portion of the increase resulted from petrochemicals and derivative products. In the wake of the sharp oil price increases early in the year, prices for benzene and toluene advanced sharply until June, and propylene continued to rise throughout the year. The PPI for basic organic chemicals ended the year 11.7 percent higher than in December 1986, reflecting increases in oil costs, while inorganic chemical prices showed little change.

Petrochemical-derived products likewise began to move up, particularly during the second quarter. Plastic resins prices climbed 14.4 percent over the year, and synthetic rubber advanced 24 percent; both had declined during the two previous years. Comparatively little effect on synthetic fibers took place, however; prices turned up 1.9 percent after 5 consecutive years of decrease. The continued trend in consumer preferences for clothing made from natural fibers contributed to price increases in cotton and wool yarns and fabrics. Aided by restrictions on textile imports, the American textile industry was operating at about 93 percent of capacity at the end of the year, versus 90 percent in December 1986.

Much like textiles, the pulp and paper products industry operated at more than 90 percent of capacity for the entire year, resulting in significant price increases for the second consecutive year. Paper manufacturers in this country and abroad have been reluctant to boost capacity in recent years, leading to higher prices in reaction to improved demand as production limits are reached. Woodpulp prices rose 16.1 percent, almost as much as in 1986. Newsprint and paperboard prices also advanced more than 10 percent, while other grades of paper continued to move up modestly.

Domestic and export demand for leather was strong during 1987, and supplies of hides became tight. As a result, prices for leather advanced 20 percent. Double-digit increases also occurred for both phosphates and inedible fats and oils, following declines in recent years.

Construction materials. Although new residential construction activity continued to recede gradually during the year, prices for several types of materials showed substantial increases. During the spring, mortgage interest rates began to jump because of Federal policy moves to bolster the exchange rate of the U.S. dollar. The rate of private housing starts declined from about 1.8 million at the beginning of the year to about 1.4 million at the end. However, most of this reduction came from the multi-unit segment of the market (which was adversely affected by the new tax law), while single-family housing starts were only slightly below year-earlier levels. However, nonresidential construction spending turned up slightly after a sharp drop in the previous year.

The PPI for materials and components for construction rose 4.3 percent, following 3 years of smaller increases. Softwood lumber prices advanced 6.8 percent, slightly more than in the year before, led by large increases for southern pine. Because the slowdown in new housing starts was centered in multi-unit structures in which less lumber is used per unit, lumber markets were rather stable through most of the year. Strength in the home repair sector, construction of larger homes, and the popularity of such amenities as wood sundecks boosted lumber prices. Prices for both plywood and millwork advanced moderately.

Tight supplies of copper and aluminum contributed to the 21.7-percent jump in the index for nonferrous wire and cable, the biggest annual increase since 1979. Higher costs for the component resins caused the plastic construction products index to climb 8.4 percent, after declining the two previous years.

In contrast, price movements for nonmetallic minerals were modest. Gypsum product prices fell 10.6 percent, after a small decline in the previous year. Prices for concrete products and insulation materials continued to be very stable. Small upturns occurred for refractories, asphalt roofing, and asphalt paving mixtures.

Energy. In the wake of the record 29-percent drop of 1986, the index for intermediate energy goods rose 9.4 percent; this index was still more than one-quarter below its peak level in 1981. Most refined petroleum fuels had fallen nearly 50 percent during the prior year; the magnitude of the increases in 1987 was varied.

Prices for jet fuel soared more than any other intermediate energy product (over 40 percent), contrary to their usual pattern of relative stability among energy products. Number 2 diesel fuel and residual fuel prices climbed nearly 30 percent, while liquefied petroleum gas prices rose about 25 percent. Prices for electric power declined slightly (as in 1986), reflecting lower costs for coal and natural gas used for power generation.

Foods. The intermediate foods and feeds index rose 5.4 percent, the first over-the-year increase since 1983. Prices for crude vegetable oils jumped 21.1 percent, because of strong export demand. Similarly, demand from foreign and domestic sources led to a 13.3-percent increase in the prepared animal feeds index. Prices for most materials used in food manufacturing were generally stable.

Crude goods

Following decreases in each year from 1984 through 1986, the Producer Price Index for crude materials for further processing rose 8.8 percent during 1987. The category for basic industrial materials showed a record advance for 1987. Crude oil prices turned up substantially after falling in recent years, and scrap metals and other items surged at double-digit rates.

Basic industrial materials. The index for crude nonfood materials other than energy advanced 22.4 percent, much more than 1.8-percent increase of 1986, and the largest annual advance recorded since this grouping was first compiled in 1973. Prices for all varieties of scrap metal soared at double-digit rates. Production cutbacks in recent years for steel, aluminum, and copper had led to low inventories for scrap metal (scrap in part is generated as a by-product of metal production); increased demand for metals during 1987 then drew up demand for scrap. Iron and steel scrap soared 41.1 percent after a modest increase in 1986; in addition, the falling U.S. dollar boosted exports for ferrous scrap. Aluminum base scrap surged 53.0 percent, and copper base scrap jumped 60.1 percent, each following a much smaller increase in 1986. Lead scrap prices soared 61.5 percent.

Prices for logs and timber and for raw cotton turned up sharply following declines in 1986. Logging operations were hindered by inclement weather, thus tightening supplies, and lumber demand associated with residential housing rose. The rising popularity of pure cotton clothing and higher export sales because of the low U.S. dollar, together with falling world cotton harvests, drove up raw cotton prices. Leaf tobacco prices also moved up after falling in the previous year; smaller carry-in stocks made for tighter supplies despite slightly higher production. Cattle hide prices showed stronger advances than in the previous year; domestic demand for leather goods was up, demand from the Far East for cattle hides increased, and world supplies decreased in accord with lowered cattle slaughter rates. Prices also rose for phosphates and domestic apparel wool. Price advances slowed for wastepaper, nonferrous metal ores, and construction sand and gravel, however, compared to the previous year.

Energy. The crude energy materials index moved up 10.5 percent following a 27.6-percent drop in 1986. Crude petroleum prices jumped 29.3 percent after plummeting 50.6 percent in 1986. U.S. production continued to decline in 1987, and imports won an increased share of domestic consumption. Prices surged in the early part of the year after the Organization of Petroleum Exporting Countries set a new policy of lower production and higher prices at its December 1986 meeting. The aggregate output quota was cut from 17 million barrels per day to 15.8 million, and the U.S. Producer Price Index for crude oil jumped 20 percent in January. The effectiveness of the OPEC agreement was short-lived, however. The December 1987 meeting of OPEC members achieved little substantive success.

The index for natural gas dropped 4.1 percent, following more sizable declines in 1985 and 1986. Gas consumers continued to switch to refined petroleum products. Prices for coal moved down nearly 5 percent, considerably more than in either of the 2 preceding years.

Foodstuffs. The index for crude foodstuffs and feedstuffs moved up 1.7 percent, after decreasing 1.5 percent in 1986. Cattle prices advanced 11.3 percent, prompted by tight supplies. A smaller world crop, together with greater exports, pushed soybean prices up. Grain prices rose with higher export demand, particularly from the Soviet Union. Supply problems, owing in part to weather, boosted prices for hay, fresh vegetables, and citrus fruits. Prices for unprocessed fish were up substantially, while raw cane sugar showed a small increase. In contrast, expanded production brought price declines of 24.7 percent for hogs and 30.3 percent for chickens. Fluid milk prices also declined. □