

Consumer prices in 1995

Last year saw a 2.5-percent increase in the Consumer Price Index for All Urban Consumers; the cost of food, which rose just 2.1 percent, and energy prices, which fell 1.3 percent, acted as moderating influences on the index

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Consumer prices, as measured by the Consumer Price Index for All Urban Consumers (CPI-U), rose 2.5 percent in 1995.¹ This marks the fourth consecutive year that inflation remained below the 3-percent level. By contrast, between 1965 and 1992, the CPI-U rose 3.0 percent or more in every year except one (1.1 percent in 1986).

The CPI for all items less food and energy, often referred to as the core index, increased 3.0 percent in 1995, following a 2.6-percent rise in 1994. The increase in 1995 ended a 4-year period of deceleration in this index. The following tabulation shows the annual percent changes in the Consumer Price Index for All Urban Consumers for all items and all items less food and energy, for the previous 12 months ending December, from 1986 to 1995:

	<i>All items</i>	<i>All items less food and energy</i>
1986.....	1.1	3.8
1987.....	4.4	4.2
1988.....	4.4	4.7
1989.....	4.6	4.4
1990.....	6.1	5.2
1991.....	3.1	4.4
1992.....	2.9	3.3
1993.....	2.7	3.2
1994.....	2.7	2.6
1995.....	2.5	3.0

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The economy

The economy and labor markets expanded modestly in 1995, while inflationary pressures, on balance, eased. Real gross domestic product (GDP) increased a modest 1.3 percent over the four quarters of 1995, following a strong 3.5-percent advance during 1994. The slowdown may have reflected, in large part, the cumulative impact of the Federal Reserve Board's tightening of monetary policy during 1994 and early 1995. Consumer spending contributed moderately to overall growth in 1995, advancing 2.0 percent during the year.

The unemployment rate fluctuated within a narrow range, ending the year at 5.6 percent. The nonfarm sector added 2.2 million jobs during the 12 months of 1995, down from the 3.8 million gain in the previous 12 months.

Price pressures at the earliest stages of production peaked in the spring and trended sharply downward thereafter. Producer prices for crude materials excluding food and energy fell at an 18.6-percent seasonally adjusted annual rate in the second half of the year; the index fell 4.6 percent over the full year. The Producer Price Index for Finished Goods rose a modest 2.2 percent during 1995. Changes in this index have fluctuated between -0.1 and 2.2 percent during the past 5 years. Pressures from labor costs remained moderate during the year. A modest advance in hourly compensation in the nonfarm business

sector, combined with a similar advance in productivity, yielded a 3.4-percent rise in unit labor costs over the four quarters of 1995.

Food and energy prices

Food. The food index rose 2.1 percent in 1995. This was less than the 2.9-percent increase recorded in each of the previous 2 years and was the fifth consecutive year that food prices increased less than 3.0 percent. (See table 1.) Prices for food away from home rose 2.2 percent as lunch, dinner, and other meals and snacks rose 2.3 percent, 2.2 percent, and 2.3 percent, respectively. The index for food at home rose 2.0 percent in 1995.

Prices for fresh fruits and vegetables declined late in 1995, resulting in a -3.1 percent change for the year. Prices for fresh fruits rose 5.2 percent. The index for fresh vegetables fell 11.4 percent in 1995, after an increase of 21.6 percent in 1994. Prices for fresh vegetables varied widely during the year, as unfavorable weather and extremely high prices through June were followed by more favorable weather and lower prices in the fall.

The index for meats, poultry, fish, and eggs rose 4.1 percent. Pork prices rose 7.3 percent in 1995, following the previous year's fall of 2.3 percent. Poultry prices increased 4.2 percent as a summer heat wave reduced production. Declining supplies led to an increase of 3.1 percent in the index for fish and seafood. Egg prices increased 25.0 percent, with the extreme summer heat decimating the laying hen flock.

The indexes for the other major food-at-home groups rose moderately in 1995. Prices for cereals and bakery products increased 3.2 percent as wheat production was off for the third consecutive year due to unfavorable weather and increases in demand for rice, pasta, and cornmeal. Dairy product prices rose 2.6 percent from December 1994, with USDA price supports limiting volatility in the index. Prices for other food at home rose 1.2 percent in 1995, following a rise of 6.0 percent in 1994.

Energy. The energy index fell 1.3 percent in 1995, the third decline in the past 5 years. (See table 1.) The household fuels index increased 0.7 percent after a 0.5-percent decline in 1994. Within the household fuels group, fuel oil costs rose 1.5 percent. The relatively mild winter kept price changes for fuel oil in check for the first few months of 1995, but a cold December in the northeast resulted in higher distributor prices for the commodity.

Within the energy services group, prices for electricity rose 2.7 percent, and natural gas (utility piped gas) costs fell 3.6 percent.

Gasoline prices² fell by 4.2 percent, following a 1994 increase of 6.4 percent. An early spring increased demand for gasoline earlier than expected and reduced stocks. The increased demand resulted in price hikes in the second quarter of 1995. During the third and fourth quarters, as oil supplies increased, the price for crude oil, and consequently for gasoline, fell. Prior to seasonal adjustment, the 1-month changes in gasoline prices ranged between -2.6 percent and -1.3 percent from June to November 1995 and remained unchanged in December.

Other indexes

The index for all items less food and energy—the series often referred to as the core index—rose 3.0 percent in 1995; the modest acceleration reflected a somewhat larger increase in shelter costs, coupled with upturns in the indexes for public transportation and for apparel and upkeep. (See table 2.)

Medical care. The medical care component of the CPI rose 3.9 percent in 1995. This is the smallest increase since 1972, when the index rose just 3.3 percent, and represents the fifth consecutive year of deceleration. Although medical care costs have risen faster than the overall index since 1980, the increases for medical care services and medical care commodities were the lowest in more than 20 years. Medical care commodity prices rose 1.8 percent, the smallest increase since 1973. The slower rise in the index for medical care commodities was the result of a slowdown in the rate of increase in both components of this category—prescription drugs,³ and nonprescription drugs and medical supplies, which rose 2.0 percent and 2.4 percent, respectively.

Table 1. Annual percent changes in the Consumer Price Index for All Urban Consumers (CPI-U), selected food and energy categories, previous 12 months ending December, 1986 to 1995

Category	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Food	3.8	3.5	5.2	5.6	5.3	1.9	1.5	2.9	2.9	2.1
Food at home	3.7	3.5	5.6	6.2	5.8	1.3	1.5	3.5	3.5	2.0
Meats, poultry, fish, and eggs	6.4	1.1	5.3	6.6	7.9	-1.5	.4	3.8	-5	4.1
Fresh fruits and vegetables	3.6	17.9	3.7	5.4	8.2	7.6	2.5	9.3	11.9	-3.1
Food away from home	4.3	3.7	4.4	4.6	4.5	2.9	1.4	1.9	1.9	2.2
Energy	-19.7	8.2	.5	5.1	18.1	-7.4	2.0	-1.4	2.2	-1.3
Fuel oil	-33.3	17.9	-6.3	19.5	29.9	-19.9	-3.4	-4.6	.0	1.5
Electricity	-1.5	1.8	2.8	2.8	1.4	5.0	1.7	.6	.6	2.7
Utility (piped) gas	-5.8	-2.9	3.6	2.7	1.8	.3	5.1	5.8	-3.2	-3.6
Gasoline, all types	-30.7	18.6	-1.8	6.5	36.8	-16.2	2.0	-5.9	6.4	-4.2

Costs for medical care services, which represent approximately 83 percent of the medical care component, rose 4.4 percent in 1995. Professional medical service costs advanced 4.0 percent, the smallest increase since 1972. Many observers believe that this deceleration is primarily the result of a shift toward managed care health plans. The index for hospital and related services rose 4.6 percent in 1995, the smallest increase in this index since its inception in 1978. All of the indexes that constitute the index for hospital and related services increased more slowly than in previous years. The slowdown in these indexes may be attributable to more negotiated-payor rates for hospitals, stricter State rate controls over hospitals, closings of financially weak hospitals, mergers, and greater competition due to managed care entrants to the marketplace.

Shelter. The shelter index increased 3.5 percent in 1995, the largest increase since a 3.9-percent change in 1991. Within this component of the CPI, the owner's equivalent rent index⁴ advanced 3.7 percent, while the residential rent index was up 2.5 percent—the same as in 1994. The indexes for lodging while out of town and for lodging while away at school each rose 4.3 percent.

Apparel and upkeep. The index for apparel and upkeep rose a slight 0.1 percent in 1995, following a decline of 1.6 percent in 1994. The apparel commodities index decreased 0.1 percent in 1995, after declining 1.9 percent in 1994. In recent years, consumers have become much more value conscious and have kept retail price increases to a minimum. The trend toward more casual dress in the workplace has resulted in falling demand for clothing, and the oversaturation of clothing stores selling the same merchandise has led to intense competition. The apparel services index rose 0.8 percent, due to modest increases for dry cleaning and laundry services and for clothing rentals and alterations.

Other significant price movements. The index for private transportation increased 1.3 percent during 1995. The new-vehicles index rose a moderate 1.9 percent in 1995, following a 3.3-percent increase in each of 1993 and 1994. This is the smallest increase in this index since a rise of 1.8 percent in 1987. New-car prices rose 1.6 percent, after increasing 3.2 percent in 1994. Car sales were down 4.0 percent despite countless yearend incentives. New-truck sales, on the other hand, rose approximately 4.0 percent,⁵ and

the index for new trucks advanced 2.8 percent. Many automobile analysts believe that the interest rate increases enacted by the Federal Reserve last year resulted in fewer sales and forced manufacturers to offer price incentives and cut production.⁶ Automobile insurance premiums rose 4.3 percent, ending a 3-year trend of deceleration in this index. Automobile finance charges rose 2.0 percent, following a 23-percent increase in 1994.

The public transportation index rose 3.1 percent in 1995, after a 6.2-percent drop in 1994. Intracity public transportation costs rose 7.6 percent in 1995, the largest increase since 1990, when the index rose 7.7 percent. The airline fares index rose a modest 1.8 percent, following the previous year's decrease of 9.5 percent. During the first half of 1995, airline fares increased rather consistently. The January-to-June 1-month changes ranged from 1.1-percent to 4.8-percent increases in 5 of the 6 months. (From April to May, there was no change in the index.) Fares then fell throughout the second half of the year. Fare declines ranged from 1.0 percent to 6.8 percent in 5 of the 6 months. (In October, the index rose 2.1 percent.)

Prices for tobacco and smoking products rose 2.7 percent in 1995. With the exception of a decline of 5.9 percent in the index in 1993 during a price war among the manufacturers of brand name and generic cigarettes,⁷ the 1995 increase was the slowest rate of advance for this component in more than 30 years. Despite antismoking activities, the demand for tobacco and smoking products remained stable in 1995. The stable demand, coupled with stable supplies, resulted in less retail price volatility in the index in 1995.

The college tuition index rose 5.7 percent in 1995, continuing a deceleration trend that began in 1992. The 1995 increase was the smallest in this index since it was established in 1979. Although the rate of increase has slowed, increases

Table 2. Annual percent changes in the Consumer Price Index for All Urban Consumers (CPI-U), selected expenditure categories, previous 12 months ending December, 1986 to 1995

Category	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
All items less food and energy	3.8	4.2	4.7	4.4	5.2	4.4	3.3	3.2	2.6	3.0
Medical care	7.7	5.8	6.9	8.5	9.6	7.9	6.6	5.4	4.9	3.9
Medical care commodities	6.8	7.1	6.9	8.2	8.4	7.5	5.2	3.1	3.0	1.8
Medical care services	7.9	5.6	6.9	8.6	9.9	8.0	7.0	5.9	5.4	4.4
Shelter	4.6	4.8	4.5	4.9	5.2	3.9	2.9	3.0	3.0	3.5
Apparel and upkeep9	4.8	4.7	1.0	5.1	3.4	1.4	.9	-1.6	.1
New vehicles	5.6	1.8	2.2	2.4	2.0	3.2	2.3	3.3	3.3	1.9
Public transportation	6.0	1.8	3.6	4.1	17.2	-3.0	5.6	11.6	-6.2	3.1
Tobacco and smoking products	5.9	7.9	9.4	14.7	10.8	11.1	8.1	-5.9	3.0	2.7
College tuition	7.4	7.0	7.7	8.1	8.2	12.1	10.0	7.9	6.3	5.7

in college tuition continue to outpace the overall rate of consumer price change. Some tuition increases were attributed to State legislation or to higher costs for materials.

TO SUMMARIZE, consumer prices rose a moderate 2.5 percent in 1995, sustaining a deceleration trend that began in 1991. During 1995, the food and energy components acted as moderating influences on consumer prices. The index for all items less food and energy, often referred to as the core index, advanced slightly more in 1995 than in the preceding year. This

modest acceleration reflected a somewhat larger increase in shelter costs, coupled with upturns in the indexes for public transportation and for apparel and upkeep.

Consumer prices for all items increased 2.8 percent between March 1995 and March 1996; the comparable figure for the 1994–95 period was 2.9 percent. Consumer prices for all items less food and energy also increased 2.8 percent between March 1995 and March 1996; the increase was 3.0 percent for the corresponding 1994–95 period. Price changes in early 1996 are quite similar to those in 1995.⁸ □

Footnotes

¹ Annual percent changes are December-to-December changes in the CPI-U unless stated otherwise.

² A quality adjustment was made to gasoline prices in January 1995 to account for the effects of the mandated reformulated gasoline in selected areas of the United States. For more information on this adjustment, see "Quality Adjustment for Gasoline," *CPI Detailed Report*, January 1995, p. 8, or contact Joe Chelena at (202) 606-6982.

³ Effective with the calculation of the index for January 1995, the CPI changed its treatment of prescription drugs. Under the new procedure, after a drug in the sample loses patent protection, all equivalent drugs (including the original drug and generic versions of it) will be eligible for pricing. For more information, see Dave Knudsen, "Improvements to CPI Procedures: Prescription Drugs," *CPI Detailed Report*, October 1994, p. 4.

⁴ Extensive research and testing in 1994 led to an improved owner's equivalent rent calculation and the replacement of the composite estimator

for 1-month rental price changes. These improvements began with the January 1995 housing index. For more information, see Steve Henderson and Karin Smedley, "Improvements in Estimating the Shelter Indexes in the CPI," *CPI Detailed Report*, October 1994, pp. 5–6.

⁵ *Automotive News*, Jan. 6, 1996.

⁶ *Ibid.*

⁷ See Craig Howell, Frank Congelio, and Ralph Yatsko, "Pricing practices for tobacco products, 1980–94," *Monthly Labor Review*, December 1994, pp. 3–16.

⁸ Information on the Consumer Price Index may be obtained through the Internet at <http://stats.bls.gov> for World Wide Web users and stats.bls.gov for Anonymous FTP or Gopher users. Those so desiring may also call the Consumer Price Index Information and Analysis section of the Bureau at (202) 606-7000.