

Consumer prices for energy and food accelerated in 1996

Cold winter weather, low petroleum inventories, and high grain costs drove the increases in energy and food prices in 1996; however, decelerating prices for other goods and services contributed to record-low underlying inflation

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The Consumer Price Index for All Urban Consumers (CPI-U) for All Items increased 3.3 percent in 1996, following a 2.5-percent advance in 1995.¹ The 1996 rise was the highest annual rate of increase since a 6.1-percent advance in 1990. (See table 1.) Accelerations in energy and food prices were major factors behind the rise in the overall index. While these components represent slightly more than 20 percent of the total expenditure weight in the CPI, they contributed nearly 40 percent of the increase in consumer prices during 1996. Excluding food and energy prices, the (underlying) CPI-U increased only 2.6 percent, down from 3.0 percent in 1995. This was the lowest recorded increase in this index since 1965, with the exception of another 2.6-percent rise in 1994.

The economy

The economy continued to grow steadily in 1996, according to a number of measures produced by the Federal Government. On a fourth-quarter-to-fourth quarter basis, real gross domestic product (GDP) increased 3.2 percent last year, following a 1.3-percent advance during 1995. The civilian unemployment rate eased down to 5.4 percent on average last year, compared with 5.6 percent in 1995. The cost of labor and materials accelerated in 1996. Escalation in wages and salaries for civilian workers, as measured by the Employment Cost Index, increased from 2.9 percent in 1995 to 3.3 percent in 1996. And, the Producer Price Index for finished consumer goods rose 3.6 percent last year, following a 2.3-percent increase in 1995.

Energy and food prices

Energy. The combination of unusually cold winter weather in both the United States and Europe in 1996, together with relatively low stocks of gasoline and fuel oil in both of these regions, led to the highest increase in the energy index since 1990, the period leading up to the Persian Gulf War. For the 12-month period ended in December 1996, energy prices rose 8.6 percent, after declining during the previous year. Last year's increase, which contributed nearly one-fifth of the rise in the All-Items index, mainly reflects higher charges for gasoline, fuel oil, and utility piped gas (natural gas).

During the first half of 1996, crude oil prices reached post-Gulf War highs as gasoline prices increased nearly 12 percent. The Department of Energy reported that, for the most part, unexpectedly late cold weather during the latter part of February, as well as in March and April, in both Europe and the United States, was the chief contributory factor behind the price increases in petroleum and its products.² The weather caused higher-than-forecasted world demand for distillate fuel oil, which is refined from crude oil and consists mainly of home heating oil (also called fuel oil number 2). To satisfy demand for home heating oil, oil refiners emphasized distillate production at the expense of gasoline. Contributing to the supply shortage was the "On Time" delivery system that most oil companies follow. This system maintains stocks or inventories of gasoline, fuel oil, and crude oil at low levels, which resulted in shortages in 1996.

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Table 1. Annual percent change in the Consumer Price Index for All Urban Consumers (CPI-U), selected expenditure categories, 1987-96

Expenditure category	Dec. 1996 relative importance	Percent change for 12 months ended December--									
		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
All Items	100.000	4.4	4.4	4.6	6.1	3.1	2.9	2.7	2.7	2.5	3.3
All Items less energy	92.951	4.1	4.7	4.6	5.2	3.9	3.0	3.1	2.6	2.9	2.9
All Items less food and energy	77.038	4.2	4.7	4.4	5.2	4.4	3.3	3.2	2.6	3.0	2.6
Energy	7.049	8.2	.5	5.1	18.1	-7.4	2.0	-1.4	2.2	-1.3	8.6
Energy commodities	3.596	17.8	-2.3	7.9	35.4	-16.1	1.2	-5.1	5.2	-3.3	13.8
Gasoline	(¹)	18.6	-1.8	6.5	36.8	-16.2	2.0	-5.9	6.4	-4.2	12.4
Fuel oil .....	.293	17.9	-6.3	19.5	29.9	-19.9	-3.4	-4.6	.0	1.5	23.3
Energy services	3.453	.2	3.2	2.8	1.5	3.5	2.8	2.2	-6	.8	3.8
Natural gas	1.119	-2.9	3.6	2.7	1.8	.3	5.1	5.8	-3.2	-3.6	11.0
Food	15.913	3.5	5.2	5.6	5.3	1.9	1.5	2.9	2.9	2.1	4.3
Shelter	28.194	4.8	4.5	4.9	5.2	3.9	2.9	3.0	3.0	3.5	2.9
Medical care	7.346	5.8	6.9	8.5	9.6	7.9	6.6	5.4	4.9	3.9	3.0
Medical care services	6.073	5.6	6.9	8.6	9.9	8.0	7.0	5.9	5.4	4.4	3.2
Medical care commodities	1.273	7.1	6.9	8.2	8.4	7.5	5.2	3.1	3.0	1.8	2.6
Apparel and upkeep	5.330	4.8	4.7	1.0	5.1	3.4	1.4	.9	-1.6	.1	-2
Personal financial services ..	.390	4.1	6.9	5.9	7.7	8.3	5.0	6.6	7.8	7.1	3.4
College tuition	1.638	7.0	7.7	8.1	8.2	12.1	10.0	7.9	6.3	5.7	5.3
Airline fares	1.108	1.6	3.3	5.3	22.7	-6.0	6.6	17.0	-9.5	1.8	14.7
Cable television .....	.554	9.5	10.6	3.8	13.1	8.6	3.7	7.0	-2.6	4.1	7.8

¹ No relative importance is published for gasoline. The relative importance for motor fuel is 3.171, which includes gasoline and diesel fuel.

NOTE: Data are not seasonally adjusted.

Gasoline and fuel oil prices surged again during the fourth quarter of 1996, mainly as a result of continuing rises in the price of crude oil. Higher world oil prices have followed both record cold weather in Europe during late 1996, and low inventories of petroleum and its products in both the United States and Europe. During the last several months of 1996, heating oil stocks in Europe reached extremely low levels. As a result, European petroleum companies purchased supplies of crude oil and fuel oil from the spot market, thereby boosting prices of petroleum and its products worldwide. During 1996, domestic gasoline prices increased over 12 percent, while fuel oil prices rose more than 23 percent.³

Higher charges for natural gas also contributed to the increase in the energy index. For the 12-month period ended December, natural gas prices rose 11.0 percent, the largest annual increase since 1982. Both November rate rises in the Northeast region, and December purchased-gas adjustments, mainly in the Northeast and North Central regions, were the main factors behind the record increase in this component.

Food. Food prices rose 4.3 percent in 1996, contributing about one-fifth of the increase in the All-Items index. This rise compares with a 2.1-percent advance in 1995, and represents the largest annual increase in food prices since 1990. Grocery store food prices (food at home) rose 4.9 percent in 1996, after rising 2.0 percent during the previous year. Double-digit increases in prices for dairy products, fresh fruits, pork, and eggs led the increase.

Prices for dairy products rose 10.1 percent in 1996. A decline in milk production was chiefly responsible for the rise as the number of dairy cows in operation fell, mainly due to an increase in the number of dairy cows slaughtered last year. Slaughter rates were up largely as a result of higher feed-grain prices and adverse forage conditions. An additional factor behind the decrease in milk production included a reduction in the use of the hormone bovine somatotropin (which is used to stimulate milk production in cows).

Fresh fruit prices climbed 12.0 percent last year, more than twice as much as during 1995. Indexes for other fresh fruits and bananas were up 18.3 percent and 7.5 percent, respectively, as supplies were down. Grape supplies were off due to weather damage to California grapes and to an earlier-than-usual end to the California-grape season. Furthermore, cold-weather and freeze damage to pear supplies in the northwest United States was reported. Banana prices rose as cool weather cut supplies from Ecuador and Columbia. The increase in fresh fruit prices was partially offset by a 3.8-percent decline in fresh vegetable costs, largely reflecting a 20-percent decrease in tomato prices.

Pork costs increased 11.3 percent in 1996, reflecting a 24-percent rise in the bacon index. Pork shortages developed as stocks were drawn down in response to relatively

low pork prices in 1995 and an escalation of feed-grain prices in 1996. The surge in the bacon index was also partly attributable to an increase in demand from fast-food restaurants.

The eggs index rose 12 percent last year. Higher feed costs and stronger-than-expected export demand were principal explanations for the increase. Poultry prices increased nearly 8 percent for similar reasons.

A surge in wheat prices was the principal factor behind a 6-percent rise in charges for bakery products.

Prices for food away from home increased 3.1 percent in 1996, the 10th year in a row that this index has registered an increase smaller than or equal to that for all items.

Items other than food and energy

The index for all items less the volatile food and energy components, which is often used as a measure of the underlying (core) rate of inflation, rose 2.6 percent in 1996, down from 3.0 percent during the previous year. Prices for most CPI components within this large category, such as shelter, medical care, apparel and upkeep, personal financial services, and college tuition also advanced at slower rates (or declined) in 1996.

Shelter. The shelter component increased just 2.9 percent in 1996, following a 3.5-percent rise during the prior year. Most of the deceleration can be attributed to the owners' equivalent rent index, which rose just 2.8 percent last year, following a 3.7-percent advance in 1995. Last year's increase in owners' equivalent rent was the smallest annual rise since the Bureau of Labor Statistics began calculating it in 1983. Residential rent rose 2.8 percent in 1996, up slightly from the prior year.

Medical care. Medical care inflation has decreased every year since 1991. In 1996, the medical care index increased 3.0 percent, following a 3.9-percent advance in 1995. Annual percent increases in medical care charges have not been this low since 1965. The medical care services index was responsible for the moderation. The slowdown in the growth of this index was about evenly split between professional medical services and hospital and related services. Within the professional medical care services component, fees for physicians' services rose by just 3.0 percent (the smallest annual increase since 1972), following a 4.4-percent increase in 1995. Explanations for the deceleration in physicians' services include fee decreases due to declining third-party reimbursements, increased competition among providers, and lower medicare rates. Eye care charges rose 1.2 percent, just half of the increase recorded for the prior year.

Under hospital and related services, hospital room charges increased 3.6 percent, after rising 4.7 percent in 1995, as hos-

pital-room reimbursement increases were dampened. Also, there were more signs of competition among hospitals, which are now more in touch with activities and prices of other local hospitals, and are increasingly prone to discounting chargemaster (published) prices.

Deceleration in the medical care services component was partially offset by acceleration in the medical care commodities component, which increased 2.6 percent in 1996, following a 1.8-percent advance during 1995. Higher prices for prescription drugs and for internal and respiratory over-the-counter drugs were responsible.

Apparel and upkeep. The apparel and upkeep index decreased 0.2 percent in 1996, after increasing 0.1 percent during the previous year. The apparel commodities component decreased 0.5 percent last year, after declining 0.1 percent in 1995. As has been the case for several years, consumers have become quite value-minded, forcing retailers to keep prices low. The trend toward more casual dress at work has dampened demand for clothing. Additionally, the overabundance of clothiers that sell the same merchandise has resulted in fierce competition in the apparel industry.

Personal financial services. Fees for personal financial services increased just 3.4 percent last year, following an increase of more than 7 percent in 1995. Last year's rise was the smallest annual increase in the index on record since BLS began tracking this measure in 1987. Decelerations were reported for tax-preparation fees and for bank charges.

College tuition. College tuition continued its 5-year deceleration trend in 1996, increasing 5.3 percent. Last year's rise was the smallest for this measure since BLS began publishing it in 1979. While the rate of increase in college tuition has slowed in recent years, its increases continue to exceed overall consumer inflation.

Airline fares and cable television. Two components that rose significantly in 1996 are airline fares and cable television services and fees. Airline fares increased 14.7 percent last year, following an increase of less than 2 percent during the prior year. Much of the price increase resulted from fares returning to regular rates after being deeply discounted in December 1995, during an industrywide fare war. Another important event that influenced airline fares in 1996 was the reintroduction, in late August, of a 10-percent Federal excise tax, applicable to all regularly scheduled trips. Cable television charges rose 7.8 percent in 1996, nearly double the increase during 1995. Factors behind the rise included steady increases reported for both basic and extended basic (which includes movie channels) services, and installation fees that were returning from 1995 sale-price levels.

TO SUMMARIZE, overall consumer inflation accelerated by nearly 1 percentage point in 1996 to 3.3 percent, mainly because of energy and food prices. Within the energy component, all major items except electricity showed large increases, including gasoline, fuel oil, and natural gas. Cold winter weather and low inventories were the chief contributory factors behind the rises. In the food component, double-digit increases were reported for dairy products, fresh fruits, pork, and eggs. Higher grain prices were

primarily responsible for these increases.

Excluding volatile food and energy prices, the underlying CPI-U registered a 31-year low rate of increase of 2.6 percent. Decelerating or declining prices for shelter, medical care, apparel and upkeep, personal financial services, and college tuition were mainly responsible for the slowdown. Decelerations of these prices were partially offset by substantial accelerations in the indexes for airline fares and cable television.⁴ □

Footnotes

¹ Annual percent changes are December-to-December changes.

² See *An Analysis of Gasoline Markets, Spring 1996* (U.S. Department of Energy, June 1996).

³ For an explanation of gasoline inflation during the first half of 1996, see Todd L. Wilson, "Winter and Spring Gasoline Prices Show Highest Rise

Since Persian Gulf War," *CPI Detailed Report* (Bureau of Labor Statistics, June 1996), pp. 4-6.

⁴ Information on the Consumer Price Index may be obtained through the Internet at: <http://stats.bls.gov> for World Wide Web users, and at: stats.bls.gov for Anonymous FTP or Gopher users.