

## Consumer inflation higher in 2000

*Higher prices were recorded for shelter, energy, and medical care services*

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 2000, up from a 2.7-percent rise during 1999.<sup>1</sup> The acceleration mainly reflects increases in charges for shelter, energy (household fuels and motor fuel), and medical care services. Shelter costs also rose more in 2000 than in 1999; within the shelter component (which represents about 30 percent of the CPI), increases in the indexes for rent of primary residence and owners' equivalent rent of primary residence each accelerated. Energy prices continued to rise. Within the energy component (which represents 7 percent of the CPI), double-digit increases were reported for natural gas, fuel oil, and gasoline. Medical care service charges (which represent about 5 percent of the CPI), also accelerated.

Higher increases in charges for services and energy commodities were partially offset by stable prices for commodities excluding food and energy, which increased a modest 0.6 percent last year. Prices decreased for many commodities, including computers, household appliances, new trucks, and clothing. Commodities generally are subject to greater global competition than are services and, in recent years, have tended to have lower price increases, compared with services.

The CPI-U excluding food and energy prices (often called the core CPI-U<sup>2</sup>) increased 2.6 percent, compared with 1.9 percent in 1999. Prices for all commodities, including food and energy, were up 2.7 percent, the same as in 1999. Prices for durables remained unchanged, while prices for nondurables increased 3.6 percent. Prices for services rose 3.9 percent last year, following a 2.6-percent increase in 1999. (See table 1.)

### Other price measures

The Producer Price Index (PPI) for finished goods rose 3.6 percent last year; excluding food and energy, this index rose just 1.2 percent. The PPI for intermediate materials less food and energy was up 1.6 percent. In contrast, the PPI for crude nonfood materials less energy decreased 5.8 percent; iron and steel scrap prices declined nearly 30 percent; wastepaper charges decreased nearly 20 percent; and logs and timber costs fell nearly 10 percent.

Excluding petroleum, import prices for commodities increased 1.4 percent in 2000, after remaining unchanged in 1999, as measured by the Import Price Index. (The PPI does not reflect changes in import prices.) Slightly rising or stable import prices in recent years have dampened input costs for many U.S. businesses. Furthermore, very low import inflation has inhibited price increases by domestic firms facing import competition.

### Energy and food prices

*Energy.* Energy prices increased 14.2 percent in 2000, up from a 13.4-percent increase during the 1999. The natural gas price increase of 36.7 percent was the largest annual increase since the BLS began keeping records in 1935. Natural gas and gasoline inflation each accounted for 0.4 percentage point of the annual increase in the All Items index. For several years prior to 2000, natural gas prices either increased very little or decreased. This slump accompanied declining aggregate demand in East Asia, as many of those countries experienced recessions during the late 1990s. Largely as a result of a softening in natural

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**Table 1.** Annual percent change in the Consumer Price Index for All Urban Consumers (CPI-U), selected expenditure categories, 1991–2000

Expenditure category	Dec. 1999 relative importance	Percent change for 12 months ended December—									
		1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
All items .....	100.00	3.1	2.9	2.7	2.7	2.5	3.3	1.7	1.6	2.7	3.4
Food .....	15.315	1.9	1.5	2.9	2.9	2.1	4.3	1.5	2.3	1.9	2.8
Energy .....	6.954	-7.4	2.0	-1.4	2.2	-1.3	8.6	-3.4	-8.8	13.4	14.2
All items less food and energy .....	77.731	4.4	3.3	3.2	2.6	3.0	2.6	2.2	2.4	1.9	2.6
Commodities less food and energy .....	23.393	4.0	2.5	1.6	1.4	1.7	1.1	.4	1.3	.2	0.6
All items less energy ..	93.046	3.9	3.0	3.1	2.6	2.9	2.9	2.1	2.4	2.0	2.6
Commodities .....	42.141	1.2	2.0	1.5	2.3	1.4	3.2	.2	.4	2.7	2.7
Durables .....	10.934	2.4	2.5	2.7	2.9	1.7	.7	-1.5	-5	-1.2	.0
Furniture and bedding .....	1.096	1.0	4.5	3.6	1.6	4.2	1.0	-7	1.4	-1.3	.4
Televisions .....	0.182	-1.1	-1.2	-1.7	-1.4	-4	-5.3	-4.3	-4.8	-7.3	-10.7
New vehicles .....	4.835	3.2	2.3	3.3	3.3	1.9	1.8	-9	.0	-3	.0
Personal computers and peripheral equipment .....	0.106	-	-	-	-	-	-	-	-35.8	-26.5	-22.7
Nondurables .....	31.208	.8	1.9	1.1	2.0	1.4	4.0	.8	.7	4.1	3.6
Energy											
commodities .....	3.433	-16.1	1.2	-5.1	5.2	-3.3	13.8	-6.9	-15.1	29.5	15.7
Gasoline .....	3.140	-16.2	2.0	-5.9	6.4	-4.2	12.4	-6.1	-15.4	30.1	13.9
Fuel oil .....	0.197	-19.9	-3.4	-4.6	.0	1.5	23.3	-11.7	-15.2	30.9	40.5
Apparel .....	4.684	3.4	1.4	.9	-1.6	.1	-2	1.0	-7	-5	-1.8
Medical care											
commodities .....	1.268	7.5	5.2	3.1	3.0	1.8	2.6	2.3	4.1	4.0	2.8
Services .....	57.859	4.6	3.6	3.8	2.9	3.5	3.3	2.8	2.6	2.6	3.9
Shelter .....	30.235	3.9	2.9	3.0	3.0	3.5	2.9	3.4	3.3	2.5	3.4
Rent of primary residence .....	7.036	2.9	2.3	2.2	2.5	2.5	2.8	3.1	3.4	3.1	4.0
Owners' equivalent rent of primary residence .....	20.470	3.7	3.0	3.2	3.3	3.7	2.8	3.1	3.2	2.4	3.4
Utility natural gas service .....	1.048	.3	5.1	5.8	-3.2	-3.6	11.0	3.3	-3.5	2.1	36.7
Medical care services .....	4.501	8.0	7.0	5.9	5.4	4.4	3.2	2.9	3.2	3.6	4.6
Airline fares .....	0.901	-6.0	6.6	17.0	-9.5	1.8	14.7	-4.8	4.1	10.9	5.9
Telephone services ...	2.274	-	-	-	-	-	-	-	3	.4	-2.3
Medical care .....	5.768	7.9	6.6	5.4	4.9	3.9	3.0	2.8	3.4	3.7	4.2

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

gas prices during that period, a slowdown ensued in exploration and drilling for new gas sources. During 2000, natural gas storage was below prior years' levels. This led to a perception that supplies could be tight going into the winter heating season; reaction to this concern was behind some of the price increase in 2000.

In addition to relatively low natural gas storage levels, higher demand also added upward pressure to gas prices. A rise in demand for this item reflected both an increase in the use of gas-fueled electricity generators, and a growing U.S. economy. Increasingly, States have restricted the use of coal

and fuel oil in the generation of electricity, opting instead for cleaner-burning natural gas. Electricity charges rose 2.6 percent last year.

During 1999 and 2000, prices of crude oil and two of its products, gasoline and household fuel oil, each moved sharply higher. Gasoline price increases slowed to 13.9 percent in 2000, from a 30.1-percent rise during the prior year. Household fuel oil prices rose 40.5 percent, the highest annual increase since 1979, following a 30.9-percent increase in 1999.

In April 1999, the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC members, including Mexico, the Rus-

sian Federation, and Norway, initiated reductions in oil production.<sup>3</sup> By September 2000, following the reduced oil production of the world's leading oil producers, world crude oil prices reached \$31 per barrel, the highest level since the Persian Gulf War period. Another factor behind the increase in crude oil prices is higher demand by recovering Asian economies.

The Environmental Protection Agency's stricter, Phase 2, reformulated gasoline (RFG2) requirements in certain metropolitan areas added upward pressure to gasoline prices in the summer months. Summer prices were particularly high in the Midwest, where distribution problems lessened the available supply of reformulated gasoline. The average price per gallon of unleaded regular gasoline for the U.S. city average rose from \$1.30 in December 1999 to \$1.49 in December 2000.

Besides soaring crude oil prices, other explanations behind the acceleration in the fuel oil index include colder-than-usual weather in January and February, and heating oil distribution problems in the Northeast in early 2000. Additionally, demand for fuel oil was especially high last summer in anticipation of a fall shortage.

*Food.* Food inflation accelerated last year, with prices increasing 2.8 percent, following a 1.9-percent increase during the previous year. Higher inflation for bread, pork, beef, and fresh vegetables offset deflation for dairy products and lower inflation for fresh fruits.

Bread prices rose 4.6 percent, (2 percent in 1999), following a 13.9-percent rise in wheat prices as measured by the PPI.

Pork charges increased 5.8 percent, after rising 3.1 percent in 1999; hog and pig inventories were in short supply. Beef and veal prices rose 5.5 percent, following a 4.4-percent rise during 1999. Increases in beef exports to Japan, Canada, Mexico, and South Korea added upward pressure to U.S. beef prices, while in the United States, demand for beef from restaurants continued to be strong.

Fresh vegetable charges rose 12.2 percent in 2000, after rising 0.8 percent during 1999. Short supplies, especially in December, led to price increases of 32.4 percent for lettuce and 22.5 percent for tomatoes. Inclement weather conditions reduced lettuce supplies. Summer lettuce acreages were reduced, and supplies of lettuce were tight from California and Arizona. Fall tomato acreages were down in both Florida and Mexico.

Dairy products prices declined 0.4 percent, after increasing 2.9 percent in 1999. Milk prices decreased 0.4 percent, and charges for cheese and related products declined 2.5 percent.

The fresh fruits index increased just 0.8 percent in 2000, after increasing 3.2 percent in 1999. Prices for oranges including tangerines decreased 10.3 percent. California and Florida orange and lemon supplies were up, following disappointing supplies during the previous year. (Frostbite reduced Florida citrus supplies in 1999.) Banana supplies were also plentiful in 2000.

The food away from home index increased 2.4 percent in 2000, about the same as during each of the prior 3 years.

## Items other than food and energy

*Shelter.* Shelter costs rose 3.4 percent in 2000, after increasing 2.5 percent in 1999. Higher increases were calculated for rent of primary residence, owners' equivalent rent of primary residence, and charges for hotels and motels. The rent of primary residence index increased 4.0 percent—the largest increase in 10 years—compared with 3.1 percent in 1999. The owners' equivalent rent index rose 3.4 percent, following a 2.4-percent increase during 1999. The increase in 2000 is very close to that of 1997 and 1998. Hotel and motel charges rose 2.7, a percentage point higher than during in 1999.

*Medical care.* The medical care index increased 4.2 percent, the highest calendar-year increase since 1994, following a 3.7-percent advance in 1999. Higher price increases for hospital services, physicians' charges, and nursing homes and adult daycare partially offset lower price increases for prescription drugs and medical supplies.

Fees rose 4.6 percent for medical care services, one percentage point higher than during 1999. Hospital services charges increased 6.3 percent, following a 5.1-percent rise during the prior year. Analysts have identified several factors contributing to the higher costs last year and the resulting higher payments to hospitals. Increases in nursing charges have accelerated due to a growing shortage of nurses in recent years. Accelerating energy inflation moved hospitals to raise fees for services. Many hospitals upgraded their technologies for onsite diagnosis, surgery, and information retrieval. Finally, Medicare restrictions of allowable charges and reductions in Medicare reimbursements have led many hospitals to increase basic fees in an effort to recoup costs. Inpatient services fees that showed notable increases include those for operating and recovery rooms; pediatric rooms, including newborn intensive care units and routine nurseries; inpatient pharmacy items (special drugs); and special care units (including psychiatric and rehabilitation). For outpatient care, noteworthy fee increases occurred for emergency room services, outpatient nuclear and other scans, x-rays, and operating and recovery rooms.

Physicians charges for service rose 3.9 percent in 2000, compared with 2.6 percent in 1999. Medicare reimbursement rates for the services of physicians' rose more in 2000 than they had in either 1999 or 1998. In those 2 years, Medicare reimbursement rates were restricted by a 1996 budget agreement between the President and the Congress that called for deep reductions in future Medicare spending. For the 2000 budget year, the President and the Congress increased Medicare funding. Nursing homes and adult daycare fees rose 4.9 percent in 2000, following a 4.6-percent increase during the prior year.

The index for prescription drugs and medical supplies increased just 3.6 percent last year, compared with 6.1 percent in 1999. Drug manufacturers kept price increases relatively low. Dental service charges also increased less, up 4.3 percent, following a 4.6-percent rise in 1999.

*Apparel.* The apparel index fell 1.8 percent in 2000 (the largest annual decrease since 1952), after decreasing 0.5 percent in 1999. Both apparel sales volumes and consumer confidence remained strong throughout 1999, but turned downward in early 2000. Demand for clothing was down throughout last year, especially at department stores. Moreover, for the past decade, this country has had an oversupply of clothiers and apparel merchandise. Many stores offer identical clothing, so the price of apparel has remained relatively stable over the past 10 years. For the 10-year period December 1990 to December 2000, the apparel index increased only 2.0 percent.

Women's and girls' apparel prices fell 1.7 percent last year. The men's and boys' apparel index decreased 2.7 percent. The index for infants' and toddlers' apparel declined 3.6 percent. Footwear prices increased 0.1 percent. Jewelry and watches charges were down 0.9 percent.

*Telephone services.* The index for telephone services decreased 2.3 percent in 2000, following a 0.4-percent increase during the prior year. A large increase in local charges was offset by a large decrease in interstate long distance calls charges. Local telephone charges increased 5.5 percent—compared with—to 2.8 percent in 1999—the highest increase since 1986. In 2000, the Federal Communications Commission (FCC) approved an 85-cent monthly increase in line access charges (a fee to cover the usage of local telephone equipment and resources during toll calls handled by long distance carriers). Most local telephone companies increased this charge on phone bills during the middle of 2000. Additionally, the FCC approved an increase in the Federal universal surcharge (a fee used to pay for high-speed digital phone lines in rural areas). Many phone companies increased this

surcharge on customers' bills, or began charging this fee for the first time during the second half of 2000.

Interstate long distance telephone call charges decreased 11.2 percent—the largest decline since 1987 (the 1999 decrease was 0.7 percent). The continuing lowering of cellular phone service charges, down 12.3 percent during 2000, both directly and indirectly contributed to the drop in telephone service prices. This index has decreased 28.9 percent since December 1997, when the Bureau of Labor Statistics began calculating the cellular telephone services index. Carriers providing traditional wire telephone services have been subject to increased competition from both cellular service carriers as well as from Internet providers who use new technology that enables subscribers to call long distance over the Internet. As a result of this growing competition, traditional long distance carriers have lowered charges.

Additionally, in an agreement with the FCC, the 85-cent increase in line access charges paid by consumers to local telephone companies was offset by a reduction in access charges paid by long distance companies to local companies. These reduced access-charge payments allowed long distance companies to pass the savings along to consumers in the form of reduced rates or increased discounts.

*New vehicles.* The index for new vehicles prices remained unchanged last year, following a 0.3-percent decrease in 1999. Manufacturers have held down list prices by managing costs and profiting from the sale of high-end vehicles. Furthermore, in recent years, consumers have become increasingly informed and price savvy, using the Internet to compare styles, equipment options, and prices of vehicles conveniently from their homes.

*Airline fares.* The airline fares index increased 5.9 percent in 2000, after rising 10.9 percent in the previous year. The increase reflects a 44.4-percent increase for jet fuels as measured by the PPI. □

## Notes

<sup>1</sup> Annual percent changes are calculated from December to December.

<sup>2</sup> 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 de-

mand for household fuels. Sustained shifts in food and energy prices, of course, will affect overall inflation.

<sup>3</sup> OPEC is an organization of 11 oil-producing and exporting countries from Africa (Algeria, the Socialist People's Libyan Arab Jamahiriya, and Nigeria); Asia (Indonesia); the Middle East (the Islamic Republic of Iran, Iraq, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates); and Latin America (Venezuela). OPEC, formed in 1960, produces about 40 percent of the world's crude oil, and possesses around three-quarters of the world's proven crude-oil reserves.