

Growth rate slows down in consumer prices, 1993

Although food prices rose slightly above the overall rate of inflation, price declines in petroleum-based energy, tobacco and smoking products, and moderate costs for medical care were among the major causes of low inflation in 1993

Eddie Lamb

The Consumer Price Index for all Urban Consumers (CPI-U) rose 2.7 percent in 1993, its smallest annual rise since a 1.1-percent rise in 1986, and the second lowest rate since 1965.¹ (See chart 1.) During the past 3 years, changes in energy costs have helped to hold down the overall rate of inflation. While prices for energy moved up slightly in 1992, energy prices in both 1991 and 1993 declined. Prices declined for tobacco and smoking products and moderated for medical care, contributing to the general slowing of consumer price increases in 1993. The rates of change for selected categories of expenditures over the past 10 years are shown in table 1.

The economy

The economy generally improved as 1993 progressed. The Nation's gross domestic product (GDP) rose at a faster rate each quarter; the 2.9-percent increase in GDP for 1993 as a whole was its best showing in 5 years. The unemployment rate, which was 7.3 percent in December 1992, fell to 6.4 percent in December 1993. The number of payroll jobs rose by about 2 million in 1993, as measured by the survey of establishments.

While output and employment grew in 1993, there was little evidence of increasing inflationary pressures. Total labor compensation costs

paid by U.S. nonfarm business employers (which include wages, salaries, and benefits paid to their employees) increased 2.8 percent in 1993, after advancing 5.2 percent in 1992. Also, productivity was up 1.9 percent over the past year, offsetting part of the rise in compensation. As a result, labor costs per unit of output rose only 0.9 percent from the fourth quarter of 1992 to the fourth quarter of 1993. In 1993, the Producer Price Index moved up only 1.0 percent for intermediate materials, supplies, and components and 1.9 percent for capital equipment. In addition, long-term interest rates remained relatively low, keeping the cost of financing capital equipment purchases moderate.

Energy

During the past 3 years, generally falling prices for energy have helped to hold down the overall rate of inflation. In 1993, energy costs fell 1.4 percent, after increasing 2.0 percent in 1992 and dropping 7.4 percent in 1991. Prior to the 1993 and 1991 decreases, the last time that energy costs declined was in 1986 (by 19.7 percent), when world oil prices collapsed. The 1993 decline in energy costs was attributable to a drop in the prices of petroleum-based energy commodities. Prices for energy commodities declined 5.1 percent in 1993 after moving up 1.2 percent in 1992. Despite the Federal gasoline tax increase

Eddie Lamb is an economist in the Division of Consumer Prices and Price Indexes, Bureau of Labor Statistics.

of 4.3 cents a gallon in October 1993, gasoline prices dropped 5.9 percent in 1993. Gasoline prices had increased 2.0 percent in 1992 after dropping 16.2 percent in 1991. The decline in gasoline prices in 1993 reflects a drop in the cost of crude oil in world markets, as the Organization of Petroleum Exporting Countries (OPEC) was unsuccessful in enforcing strict production levels.

Food

Prices for food, which rose substantially less than overall inflation in 1991 and 1992, increased 2.9 percent in 1993, slightly above the overall rate of 2.7 percent. Price increases for fruits and vegetables, along with meats, poultry, and fish accounted for more than half of the increase in food prices in 1993.

Grocery store food (food at home). Prices rose 3.5 percent in 1993, after advancing 1.5 percent in 1992. Prices for fruits and vegetables increased 6.6 percent in 1993, following a 2.2-percent rise in 1992. Fresh fruit prices rose 13.0 percent in 1993, reflecting increases in prices for apples and oranges. Fresh vegetable prices moved up 5.3 percent in 1993, reflecting higher prices for potatoes. Potato prices rose 20.3 percent in 1993, as stocks fell from 1992 levels while the demand

for potatoes, especially for processed potatoes, increased. Prices of other fresh vegetables moved up 7.3 percent in 1993, after advancing 2.5 percent in 1992.

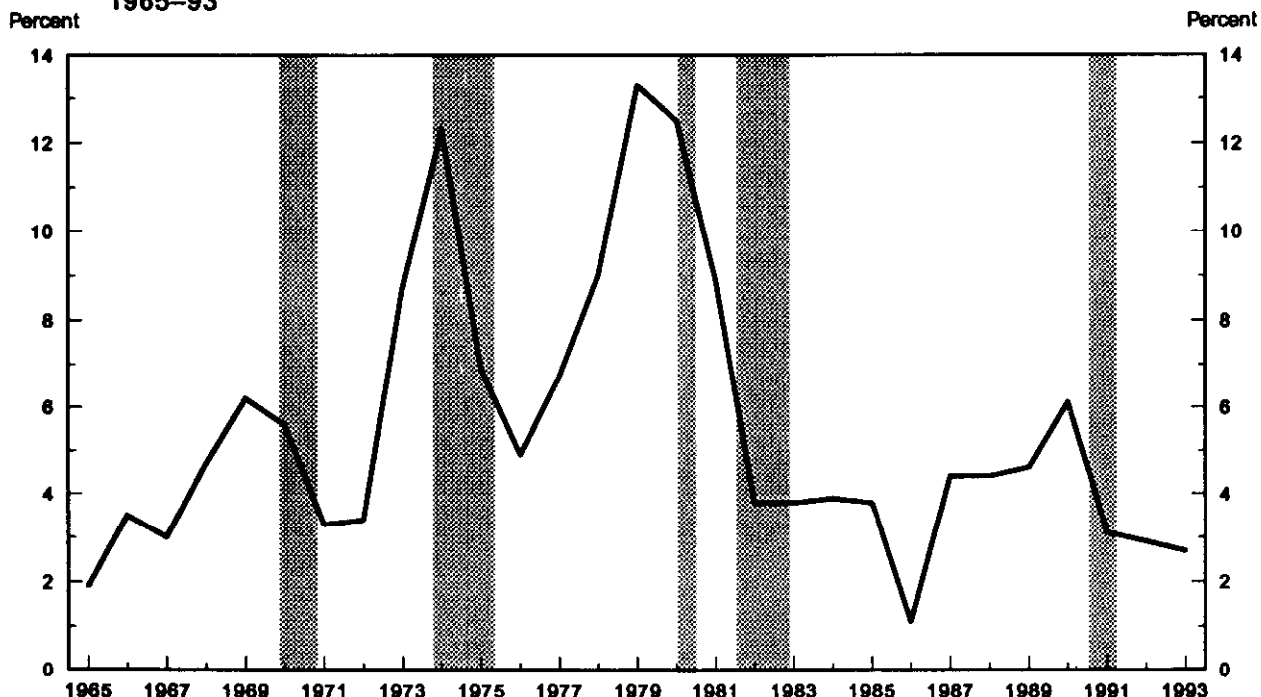
Prices for meats, poultry, and fish rose 4.1 percent in 1993, after increasing 0.8 percent in 1992. Beef and veal prices rose 3.7 percent in 1993, following a 0.8-percent increase in 1992. Prices for pork moved up 4.5 percent in 1993, after dropping 6.1 percent in 1991 and 0.9 percent in 1992. Poultry prices accelerated in 1993, rising 5.5 percent, following a 2.7-percent increase in 1992, reflecting strong domestic demand. Fish and seafood prices moved up 4.4 percent in 1993 after a rise of 1.1 percent in 1992.

Food away from home. Prices for food eaten in restaurants, fast-food outlets, and at snack machines, rose 1.9 percent in 1993, following an increase of 1.4 percent in 1992.

All items less food and energy

The index for items other than the volatile food and energy components, which is often used as a measure of the underlying rate of consumer price inflation, moved up 3.2 percent in 1993. This was the smallest increase in this index since

Chart 1. Annual percent changes in the Consumer Price Index for all urban consumers, all items, 1965-93



NOTE: Annual changes are from December to December. Shaded areas denote recessions as designated by the National Bureau of Economic Research.

Table 1. Annual percent change in the Consumer Price Index for All Urban Consumers (CPI-U), selected expenditure categories, 1984-93

Expenditure category	12 months ended December —									
	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
All Items	3.9	3.8	1.1	4.4	4.4	4.6	6.1	3.1	2.9	2.7
Energy2	1.8	-19.7	8.2	.5	5.1	18.1	-7.4	2.0	-1.4
Energy commodities	-1.8	3.4	-30.5	17.8	-2.3	7.9	35.4	-16.1	1.2	-5.1
Energy services	3.5	-.6	-3.3	.2	3.2	2.8	1.5	3.5	2.8	2.2
Food	3.8	2.6	3.8	3.5	5.2	5.6	5.3	1.9	1.5	2.9
Food at home	3.6	2.0	3.7	3.5	5.6	6.2	5.8	1.3	1.5	3.5
Fresh fruits	22.6	1.3	5.9	10.5	13.4	8.1	10.6	10.2	-3.6	13.0
Food away from home	4.2	3.8	4.3	3.7	4.4	4.6	4.5	2.9	1.4	1.9
All items less food and energy	4.7	4.3	3.8	4.2	4.7	4.4	5.2	4.4	3.3	3.2
Shelter	5.2	6.0	4.6	4.8	4.5	4.9	5.2	3.9	2.9	3.0
Residential rent	5.9	6.4	5.0	4.0	3.6	4.2	4.1	2.9	2.3	2.2
Lodging while out of town	6.3	6.4	4.4	3.9	4.5	5.4	15.8	8.5	3.8	3.8
Homeowners' costs	5.1	5.9	4.6	5.3	4.7	5.1	4.7	3.7	2.9	3.2
Medical care	6.1	6.8	7.7	5.8	6.9	8.5	9.6	7.9	6.6	5.4
Medical care commodities	7.7	6.3	6.8	7.1	6.9	8.2	8.4	7.5	5.2	3.1
Medical care services	5.8	6.8	7.9	5.6	6.9	8.6	9.9	8.0	7.0	5.9
Apparel and upkeep	2.0	2.8	.9	4.8	4.7	1.0	5.1	3.4	1.4	.9
College tuition	10.1	8.6	7.4	7.0	7.7	8.1	8.2	12.1	10.0	7.9
Alcoholic beverages	2.7	5.5	2.0	3.3	3.9	4.8	4.2	9.9	2.9	1.5
Tobacco products	5.0	7.2	5.9	7.9	9.4	14.7	10.8	11.1	8.1	-5.9
Auto finance charges	6.8	-8.3	-7.3	5.9	8.3	4.3	.0	-7.1	-13.9	-5.6

NOTE: Data are not seasonally adjusted.

1972, a period characterized by price controls. In 1992, the index for all items less food and energy increased 3.3 percent, after increasing 4.4 percent in 1991. Prices for most CPI components within this broad category (such as medical care, shelter, and apparel) have advanced at slower rates during the 1991-93 period than during the 1988-90 period.

Tobacco and smoking products. A sharp drop in the prices for tobacco and smoking products also helped to slow consumer inflation in 1993. The 5.9-percent decline for this component was the biggest drop on record, and only the second annual decrease since its introduction in the CPI in 1935. The 1993 decline was a result of a price war on premium brands among major cigarette manufacturers.

Medical care. Medical care costs, which have increased faster than the overall consumer inflation rate each year since 1980, advanced 5.4 percent in 1993. While this increase was twice that of the all-items inflation rate, it was nonetheless the smallest advance in the medical care component in 20 years. Medical care costs have risen less rapidly each year starting in 1990. All major components of medical care rose less rapidly in 1993 than the year before.

Medical care services, which represent about 80 percent of total medical care costs, rose 5.9 percent in 1993, following an increase of 7.0

percent in 1992. The 1993 increase in medical care services was the smallest annual change since a 5.6-percent increase in 1986.

Both major components of medical care services (professional services and hospital and related services) had substantially smaller increases in 1993, compared with those in 1992. The professional services index rose 4.5 percent in 1993, following an increase of 5.7 percent for 1992. The index for physicians' services, the largest component of the professional services index, rose 5.1 percent in 1993, compared with a 6.3-percent increase in 1992. The cost of dental services rose 4.4 percent in 1993, its smallest increase since 1973. Eye care prices rose 2.0 percent, the smallest annual increase for this index since it was first published in 1987. Hospital and related services rose 7.6 percent in 1993, after increasing 8.8 percent in 1992.

The medical care commodities index rose 3.1 percent in 1993, substantially lower than its 5.2-percent increase in 1992. Both major components of this index (prescription drugs and nonprescription drugs and medical supplies) rose more slowly in 1993 than in the previous year.

Shelter and other selected household costs. Price increases for shelter showed little change from 1992. Shelter costs moved up 3.0 percent in 1993, after increasing 2.9 percent in 1992. (The 1992 change was the smallest advance since a 2.4-percent rise in 1982, at the depth of the 1981-

82 recession.) Residential rent rose 2.2 percent in 1993, its smallest annual rise since a similar increase in 1967.

Charges for lodging while out of town, which include hotel and motel charges and rent for vacation and resort properties, rose 3.8 percent in 1993, the same as in 1992, but less than half the 8.5-percent increase recorded in 1991. The 1993 and 1992 rise in this component was the smallest increase since a 2.6-percent advance in 1972. Homeowners' costs moved up 3.2 percent in 1993, after increasing 2.9 percent in 1992.

Water and sewerage maintenance charges, which increased 6.6 percent in 1992, rose 4.8 in 1993. Cable television charges moved up 7.0 percent in 1993, more than the 3.7-percent increase in 1992, but less than increases seen in 1990 and 1991.

Price changes for other selected items. In 1993, new car prices rose 2.8 percent, while automobile finance charges fell 5.6 percent. Prices for used cars moved up 8.0 percent in 1993, after increasing 7.4 percent in 1992. Airline fares rose 17.0 percent in 1993, compared with a 6.6-percent increase in 1992, and a decline of 6.0 percent in 1991.

Apparel and upkeep prices continued to slow in 1993, rising 0.9 percent, after increasing 3.4 percent in 1991, and 1.4 percent in 1992. The

1993 increase was the smallest annual rise since 1986, when prices also rose 0.9 percent. Many apparel retailers continued to moderate price increases to avoid a further softening of sales volume.

College tuition rose 7.9 percent in 1993, after rising 12.1 percent in 1991 and 10.0 percent in 1992. The increase in 1993 was its smallest annual rise since the 7.7-percent increase in 1988.

IN SUM, factors that influenced the deceleration in inflation in 1993 were lower prices for energy commodities and tobacco, and a moderation in medical care inflation. The decline in energy prices in 1993 was a result of an oversupply of oil in world markets.

The economy improved in 1993, attributable to the unemployment rate which has been falling since the middle of 1992, and minimal cost pressures at the retail level, resulting from relatively small price increases for intermediate materials and capital goods during 1993, as well as low interest rates.

Inflation has been slower. The inflation rate for the last 3 years (9.0 percent) was the lowest since 1965-67, when prices rose 8.7 percent.

Footnote

¹ Annual percent changes are from December to December, unless otherwise noted.