

Consumer inflation lower in 2001: energy and apparel prices declined

The largest annual decrease in gasoline prices since 1986 occurred in 2001; apparel prices declined for the fourth consecutive year, while food inflation remained the same

Todd Wilson

The Consumer Price Index for All Urban Consumers (CPI-U) for All Items for the U.S. city average increased 1.6 percent in 2001, down from a 3.4-percent rise during the prior year.¹ The 2001 deceleration in this index mainly reflects lower prices for energy (household fuels and motor fuel), apparel, and various commodities excluding food. Within the energy component, which represents almost 8 percent of the CPI-U, double-digit decreases in prices were recorded for gasoline, fuel oil, and natural gas. Apparel prices declined for the fourth consecutive year, and at an increasing rate. The declines were widespread among the major clothing categories, including those for men's and boys', women's and girls', and footwear.

Higher prices for many types of services, such as owners' equivalent rent, rent of primary residence, and medical care services were partially offset by lower prices for many types of commodities such as gasoline, apparel, and durables, including furniture and bedding and computers. Commodities are generally subject to greater global competition than services, and generally increase in price less than services. Actually, in 2001, the commodities index decreased for the first time since 1986 by 1.4 percent, following a 2.7-percent increase in 2000.

The CPI-U excluding food and energy prices (often called the core CPI-U) increased 2.7 percent, after rising 2.6 percent in 2000.² Durables prices declined 1.3 percent in 2001, following no change in 2000. Nondurables prices decreased 1.4 per-

cent, after increasing 3.6 percent during 2000. Prices for services rose 3.7 percent last year, following an increase of 3.9 percent during the earlier year. (See table 1.)

Other price measures

The Producer Price Index (PPI) for finished goods declined 1.8 percent in 2001. Excluding food and energy, the PPI for finished goods rose just 0.7 percent, while the PPI for intermediate materials decreased 1.6 percent. The PPI for crude nonfood materials less energy decreased 9.9 percent. Raw cotton prices decreased 46.7 percent. Wastepaper prices decreased 28.9 percent. Iron and steel scrap prices declined 8.5 percent.

Excluding petroleum, import prices for commodities decreased 4.4 percent in 2001, after increasing 1.3 percent in 2000, as measured by the Import Price Index. (The PPI does not reflect changes in import prices.) Decreasing or slightly rising import prices in recent years have damped input costs for many businesses in this country. Furthermore, very low import inflation has inhibited price increases by domestic firms facing import competition.

Energy and food prices

Energy. Energy prices decreased 13.0 percent in 2001, after increasing 14.2 percent during the prior year. Last year, gasoline prices decreased 24.9 percent—the largest annual decrease since 1986. Household fuel oil prices declined 26.7 percent and

Todd Wilson is an economist in the Office of Prices and Living Conditions, Bureau of Labor Statistics. e-mail: Wilson_T@bls.gov

natural gas prices decreased 15.1 percent. Interestingly, the CPI would have increased approximately one percentage point more, had gasoline and natural gas prices been unchanged.

During 1999 and 2000, crude oil prices moved sharply higher. 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. By May 2001, the average price per gallon of gasoline (all types) had climbed to a record \$1.81. Soaring prices for oil and its products (including gasoline and fuel oil) encouraged increased global production of oil and its products. As world petroleum and its products' supplies rose in 2001, prices for these items decreased.

A decrease in demand for crude oil also played a major role in declining energy prices in 2001. Across the world, anemic economic growth resulted in sluggish aggregate demand and therefore in lower demand for crude oil. Unusually warm winter weather in the United States weakened demand for fuel oil.³ Furthermore, following the September 11 terrorist attacks,

a sharp drop in jet fuel demand resulted in a slight rise in gasoline production.⁴ On a seasonally adjusted basis, the gasoline all types index decreased 24.3 percent during the fourth quarter of last year. By December 2001, the average price per gallon of gasoline all types had fallen to \$1.20.

Higher levels of new natural gas supplies, and lower demand for them, have led to decreasing prices for residential natural gas. Soaring natural gas prices in 2000 created incentives for increased gas exploration and production, resulting in higher-than-expected levels of gas injections into underground storage. The high natural gas prices in 2000 also led to conservation and fuel switching, for example from natural gas to electricity. Additionally, relatively mild winter and summer weather and sluggish economic growth reduced demand for natural gas.⁵ In contrast to the other energy series, electricity prices rose 6.1 percent last year.

Food. Food inflation remained unchanged in 2001—2.8 percent. Slightly lower inflation for grocery store food, 2.6 per-

Table 1. Annual percent change in the Consumer Price Index for All Urban Consumers (CPI-U), selected expenditure categories, 1992–2001

Expenditure category	Dec. 2000 relative importance	Percent change for 12 months ended December—									
		1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
All Items	100.000	2.9	2.7	2.7	2.5	3.3	1.7	1.6	2.7	3.4	1.6
Food	15.217	1.5	2.9	2.9	2.1	4.3	1.5	2.3	1.9	2.8	2.8
Energy	7.681	2.0	-1.4	2.2	-1.3	8.6	-3.4	-8.8	13.4	14.2	-13.0
All items less food and energy	77.102	3.3	3.2	2.6	3.0	2.6	2.2	2.4	1.9	2.6	2.7
Commodities less food and energy	22.768	2.5	1.6	1.4	1.7	1.1	.4	1.3	.2	.6	-3
All items less energy	92.319	3.0	3.1	2.6	2.9	2.9	2.1	2.4	2.0	2.6	2.8
Commodities	41.828	2.0	1.5	2.3	1.4	3.2	.2	.4	2.7	2.7	-1.4
Durables	10.573	2.5	2.7	2.9	1.7	.7	-1.5	-5	-1.2	.0	-1.3
Furniture and bedding	1.064	4.5	3.6	1.6	4.2	1.0	-7	1.4	-1.3	.4	-3.1
Televisions .....	.157	-1.2	-1.7	-1.4	-4.0	-5.3	-4.3	-4.8	-7.3	-10.7	-10.8
New vehicles	4.677	2.3	3.3	3.3	1.9	1.8	-9	.0	-3	.0	-1
Personal computers and peripheral equipment .....	.079	-	-	-	-	-	-	-35.8	-26.5	-22.7	-30.7
Nondurables	31.255	1.9	1.1	2.0	1.4	4.0	.8	.7	4.1	3.6	-1.4
Energy commodities	3.843	1.2	-5.1	5.2	-3.3	13.8	-6.9	-15.1	29.5	15.7	-24.5
Gasoline	3.458	2.0	-5.9	6.4	-4.2	12.4	-6.1	-15.4	30.1	13.9	-24.9
Fuel oil .....	.268	-3.4	-4.6	.0	1.5	23.3	-11.7	-15.2	30.9	40.5	-26.7
Apparel	4.453	1.4	.9	-1.6	.1	-2	1.0	-7	-5	-1.8	-3.2
Medical care commodities	1.261	5.2	3.1	3.0	1.8	2.6	2.3	4.1	4.0	2.8	4.4
Services	58.172	3.6	3.8	2.9	3.5	3.3	2.8	2.6	2.6	3.9	3.7
Shelter	30.251	2.9	3.0	3.0	3.5	2.9	3.4	3.3	2.5	3.4	4.2
Rent of primary residence	7.079	2.3	2.2	2.5	2.5	2.8	3.1	3.4	3.1	4.0	4.7
Owners' equivalent rent of primary residence	20.460	3.0	3.2	3.3	3.7	2.8	3.1	3.2	2.4	3.4	4.5
Utility natural gas service	1.385	5.1	5.8	-3.2	-3.6	11.0	3.3	-3.5	2.1	36.7	-15.1
Medical care services	4.552	7.0	5.9	5.4	4.4	3.2	2.9	3.2	3.6	4.6	4.8
Airline fares .....	.923	6.6	17.0	-9.5	1.8	14.7	-4.8	4.1	10.9	5.9	-3.9
Telephone services	2.150	-	-	-	-	-	-	.3	.4	-2.3	1.3
Medical care	5.813	6.6	5.4	4.9	3.9	3.0	2.8	3.4	3.7	4.2	4.7

NOTE: Data are not seasonally adjusted.

Dashes indicate data are not available.

cent, was offset by slightly higher inflation for restaurant food, 3.0 percent. Price decreases were recorded for fruits and vegetables, and fish and seafood. Pork, cereals and bakery products, and nonalcoholic beverages showed lower price increases than those during 2000, while larger price increases were recorded for beef and veal, dairy products, poultry, and other food at home.

The fresh fruits index increased just 0.6 percent in 2001, after increasing 0.8 percent during the prior year. Higher prices for bananas, apples, and oranges were partially offset by a 5.8-percent decrease in other fresh fruit prices. In 2001, there were increased supplies of grapes, strawberries, melons, and pears. Orange prices rose 12.8 percent, accompanied by a reduction in California orange trees and poor Florida weather.

Fresh vegetable prices decreased 4.1 percent in 2001, after rising 12.2 percent during the prior year. Prices decreased 17.8 percent for lettuce and 7.6 percent for tomatoes. For these two items, acreages increased and supplies were plentiful.

Fish and seafood prices declined 0.1 percent last year, following a 1.4-percent increase in 2000. Tuna imports from Bolivia, Ecuador, Columbia, and Peru increased throughout 2001. In September and October, Alaska experienced a tuna glut. Production was better than normal for shrimp, salmon, and catfish.

Pork inflation decelerated in 2001; after rising 5.8 percent in 2000, pork prices increased 3.7 percent last year. Hog slaughterers in 2001 were practically unchanged from the previous year, with an average 2-pound gain in dressed weights, increasing pork production by 1 percent last year.⁶

Cereal and bakery product prices rose 2.4 percent in 2001, compared with 2.6 percent in 2000. The rice index decreased 1.0 percent. Rice supplies increased last year to near-record levels.

The index for nonalcoholic beverages increased just 1.3 percent last year, following a 1.5-percent rise in 2000. Coffee prices declined 3.5 percent, accompanying a worldwide coffee glut.

Beef and veal prices rose 6.2 percent in 2001, following a 5.5-percent rise during the previous year. Cattle herd reductions limited the supply of high quality beef, and contributed to acceleration in beef inflation last year. These herd liquidations continued for the fifth year last year, following a peak in the herd size in January 1996. Severe winter weather and droughts in 2001 led to another year of herd reductions. Beef cow slaughter increased sharply. Many heifers were placed into feedlots in preparation for slaughter, instead of being retained for herd expansion. Herd reductions often increase supplies of meat in the short run. The herds have apparently been reduced so much over the last few years that last year's herd reductions and slaughter of heifers still resulted in overall lower supplies than those during the prior year. Beef prices rose sharply during the first half of 2001, in part because of

increased demand from the hotel-restaurant and export markets for high quality beef.⁷

Prices for dairy products increased 5.8 percent, after decreasing 0.4 percent in 2000. Average milk output per cow was lowered by the stress of winter weather and by low supplies of good forage.⁸

Poultry prices rose 4.4 percent last year, after increasing 2.0 percent in 2000. Broiler production was up 2.0 percent last year after having been up 2.5 percent in 2000,⁹ yet broiler cold storage stocks at the end of October had declined 16 percent from the prior year. Broiler exports increased sharply. For the first 10 months of 2001, broiler exports to Russia rose 72 percent, versus the same period in 2000. Russia purchased more than one-third of U.S. broiler exports—more than any other country. For the first 10 months of 2001, turkey exports rose 12.5 percent, versus the same period in 2000, reflecting increased sales to Russia and Poland.¹⁰

The other food at home index increased 2.9 percent in 2001, following a 2.0-percent rise during the prior year. Butter prices contributed significantly to the increase, with an 18.8-percent rise in 2001.

Items other than food and energy

Apparel. The apparel index fell 3.2 percent in 2001, after decreasing 1.8 percent in 2000. Each of these annual declines was the largest since 1952. Both apparel sales volumes and consumer confidence declined in 2000 and 2001. Demand for apparel was down during this period, especially at department stores and specialty clothing stores. Last year, even discount clothiers sold fewer clothes than normal. The recession and bearish stock market led many consumers to put off discretionary purchases such as those for clothing. Consequently, retailers were forced to offer more sales prices than usual. Additionally, the warm weather this past fall discouraged many consumers from purchasing cool-weather clothing.

Moreover, for the past decade, an oversupply of clothiers and apparel merchandise has existed in this country. With many stores offering identical clothing, apparel prices have actually declined over the past 11 years. Between December 1990 and December 2001, the apparel index decreased 1.3 percent.

In 2001, the indexes for both women's and girls' apparel and men's and boys' apparel each decreased 4.1 percent. The index for infants' and toddlers' apparel increased 0.2 percent. Footwear prices decreased 2.6 percent. Prices for jewelry and watches were down 0.1 percent.

Shelter. Shelter costs rose 4.2 percent last year, after increasing 3.4 percent in 2000. Higher increases were calculated for rent of primary residence, owners' equivalent rent of primary

residence, and housing at school. The rent of primary residence index showed the largest increase in 15 years—4.7 percent, compared with 4.0 percent in 2000. The owners' equivalent rent index rose 4.5 percent last year, following a 3.4-percent increase during 2000, a reflection of the boom in rent.

Hotel and motel charges decreased 0.8 percent, after rising 2.7 percent during the prior year. Before September 11, demand for hotels and motels was already weak. For the 12-month period ending August 2001, this index rose 1.5 percent, versus 5.1 percent during the prior year. Following September 11, demand further decreased for hotels and motels, especially in New York, Las Vegas, and Orlando. (Demand declined for other travel related services as well, such as airline tickets.) From August to December, hotel and motel charges decreased 2.4 percent, seasonally adjusted, versus a 0.4-percent decline during the same period in 2000.

Airline fares. The airline fares index decreased 3.9 percent in 2001, after rising 5.9 percent in the previous year. Following September 11, demand for flights decreased sharply. From August to December, airline fares decreased 6.3 percent, not seasonally adjusted (no seasonally adjusted data are available), versus a 4.9-percent decline during the same period in 2000. A 44.2-percent decline in jet fuel prices, as measured by the Producer Price Index, contributed to the drop in airline fares.

Vehicles. New vehicle prices decreased 0.1 percent in 2001, following no change in 2000. New car prices remained unchanged. New truck prices declined 0.1 percent. Prior to September 11, demand for new vehicles was already down from 2000. For the first 8 months of 2001, light truck sales decreased 3.9 percent, compared with the same period in 2000. New car sales decreased 5.8 percent. In an effort to encourage buying, manufacturers offered generous rebates and dealerships offered generous discounting. Strong competition among vehicle makers, an economy in recession, and a bearish stock market all served to weaken new car and truck sales, holding these prices flat.

During the week of and the week after the terrorist attacks, new vehicle sales plummeted. During the final week of September, these sales bounced back, thanks to zero-percent and low annual percentage rate (APR) financing offered by manufacturers.¹¹ For the first 9 months of 2001, new vehicle sales decreased 5.8 percent, compared with the same period in 2000. The zero-percent financing offers were extremely popular among vehicle buyers, especially in October. From September to October, sales of new vehicles rose 33.6 percent. The largest vehicle manufacturers continued offering such financing terms through December. Consequently, in 2001, new vehicle sales decreased by just 1.3 percent.¹²

In addition to fierce competition among vehicle makers,

the recession, and the faltering stock market, the Internet has also served to hold new car and truck prices flat. 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.

Used car and truck prices declined 1.9 percent in 2001, after increasing 3.4 percent during the prior year.

Medical care. The medical care index increased 4.7 percent in 2001, the highest calendar-year increase since 1994, following a 4.2-percent advance in 2000. Higher price increases for inpatient hospital services and for prescription drugs offset lower price increases for services by physicians, dentists, outpatient hospitals, and nursing homes.

The index for prescription drugs and medical supplies increased 6.0 percent in 2001, compared with 3.6 percent in 2000. In recent years, there has been a large increase in demand for prescription drugs, in part due to increased advertising aimed directly to consumers by pharmaceutical companies. The drug categories which showed the strongest price gains last year include anti-infectives, antihistamines, gastrointestinals, cardiovasculars, estrogens/progestins and psychotherapeutics. Large increases in spending on prescription drugs by managed care plans in recent years have resulted in sharply increasing premiums for health insurance plans during this period.

Medical care services fees rose 4.8 percent, compared with 4.6 percent in 2000. Physicians' service charges rose 3.5 percent in 2001, compared with 3.9 percent in 2000. Physicians' costs have escalated in part due to the cost of acquiring additional training needed to perform new procedures and to operate new equipment. Fees for dental services increased 3.9 percent last year, following a 4.3-percent rise in 2000.

Hospital services charges increased 7.2 percent, following a 6.3-percent rise during the prior year. A main factor behind last year's high increase in hospital services charges is higher labor costs for nurses. Increases in nursing charges have accelerated in recent years due to a growing shortage of nurses. Additionally, restrictions of allowable charges and reductions in some Medicare and Medicaid reimbursements have led many hospitals to attempt to compensate by increasing fees to private-pay patients. For a number of years, investments in improved information technology have enabled hospitals to monitor, more completely and more frequently, increases in charges by competing hospitals. As a result, many hospitals have routinely raised charges throughout the year, and in 2001, by a higher percentage than that during 2000.

Costs to hospitals for providing medical care services increased, in part, due to both higher demand and higher resource utilization. Demand and utilization rose following the expanded availability of new high-tech equipment used both

for diagnostics and to perform less invasive surgical procedures such as laparoscopy. The increased demand was made possible in part by the exercise of fewer restrictions by managed care organizations over allowable medical procedures during the past 2 years. Another factor leading to higher medical provider and medical insurance costs was the installation and upkeep, by hospitals, of new information technology that has raised productivity related to billing, claims payment, internal analysis of charges, and the scheduling of appointments and procedures.

Miscellaneous personal services. This index was among those that accelerated in 2001, up 5.0 percent, compared with a 3.7-percent increase during each of the prior 2 years. Legal service fees rose 6.5 last year. Increases in legal fees resulted in part from higher labor costs and overhead expenses associated with providing the following ser-

vices: attending depositions; preparing briefs; handling no fault or uncontested divorces, wills and trusts, and driving under the influence.

Prices for financial services increased 4.5 percent, compared with a 3.7-percent rise in 2000. The increase was largely associated with higher fees for making numerous seasonal changes for tax return preparation, in addition to higher fees for electronic tax filing. Banking service fees also rose due to increases in fees for checks, overdraft charges and safe deposit box rental fees.

The funeral expenses index increased 4.5 percent in 2001, following a 2.5-percent rise during 2000. Higher salaries were paid to funeral directors and staff, and prices were increased for caskets, cremation services, memorials, cemetery lots, crypts, grave liners, and automobile related services. Reasons given for the increases include higher costs of commodities and labor used to provide the services. □

Notes

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

² 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 demand for household fuels. Sustained shifts in food and energy prices, of course, will affect overall inflation.

³ *Petroleum Marketing Monthly* (Energy Information Administration, U.S. Department of Energy, *February 2002*), p. viii.

⁴ *Why Are Gasoline Prices Falling So Rapidly?* (Energy Information Administration, U.S. Department of Energy, November 2001).

⁵ *Short-Term Energy Outlook* (Energy Information Administration, U.S. Department of Energy, December 2001), pp. 6 and 7.

⁶ *Livestock, Dairy and Poultry Situation and Outlook* (U.S.

Department of Agriculture, Jan. 16, 2002).

⁷ *Livestock, Dairy and Poultry*, Department of Agriculture, January 2002.

⁸ *Livestock, Dairy and Poultry Situation and Outlook*, (U.S. Department of Agriculture, Dec. 27, 2001).

⁹ *Livestock, Dairy and Poultry Situation and Outlook* (U.S. Department of Agriculture, Jan. 16, 2002).

¹⁰ *Livestock, Dairy and Poultry*, Department of Agriculture, December 2001.

¹¹ The CPI measures a new vehicle’s cash price, reflecting any dealership markups, or manufacturer rebates or concessions, or both. The CPI does not, however, reflect any special finance offers, such as zero-percent financing. In most cases, when zero-percent financing was offered, it was offered along with a smaller rebate than would have been offered in the absence of such financing.

¹² New vehicle sales figures are from *Automotive News*, Crain Communications Inc., September 2001 to January 2002.