

Core consumer prices in 1999: low by historical standards

*In 1999, consumer prices
accelerated slightly, but core inflation
remained at a 34-year low*

Todd Wilson

The Consumer Price Index for All Urban Consumers (CPI-U) for All Items for the U.S. city average increased 2.7 percent in 1999, up from a 1.6-percent rise during the prior year.¹ The acceleration mainly reflects higher gasoline prices. The CPI-U excluding food and energy prices (often called the core CPI-U) increased only 1.9 percent, the smallest rise since 1965.²

Commodities less food and energy prices remained nearly unchanged, rising only 0.2 percent in 1999, the lowest increase since 1960, following a 1.3-percent increase in 1998. Lower prices were reported for many different commodities—computers, new vehicles, clothing, and household appliances, to name a few. Commodities generally are subject to greater global competition than are services; therefore, prices for these items tend to increase less than prices for services. Prices for all commodities including food and energy increased 2.7 percent. Charges for durables decreased 1.2 percent, and charges for nondurables increased 4.1 percent. Services fees rose 2.6 percent, the same as during the prior year. (See table 1.)

Other measures

Excluding food and energy, the Producer Price Index (PPI) for finished consumer goods rose just 1.2 percent last year, while the PPI for intermediate materials rose 1.9 percent. In contrast, the PPI for crude nonfood materials less energy increased 13.6 percent. Wastepaper prices increased nearly 110 percent. Double-digit price increases were reported for cattle hides, iron and steel scrap,

copper-base scrap, and aluminum-base scrap. (The PPI does not reflect changes in import prices.)

Import prices, excluding petroleum commodities, remained unchanged in 1999, following a decline of 3.3 percent in 1999, according to the Import Price Index. Declining or stable import prices in recent years have decreased input costs for many businesses in this country. Furthermore, lower import prices have inhibited price increases by domestic firms facing import competition.

Energy and food prices

Energy. Energy prices increased 13.4 percent in 1999, after decreasing 8.8 percent during the prior year. Gasoline prices increased 30.1 percent. The other main component of energy, household fuels, which includes electricity, natural gas, and heating oil, increased 2.4 percent.

During 1999, prices of crude oil and two of its products, gasoline and household heating oil, moved sharply higher. In March, the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC members, including Mexico, the Russian Federation, and Norway, announced plans for reduced oil production.³ In April, these countries initiated the reductions. Curtailed output served to reverse the sharp decrease in crude-oil prices that occurred between late 1997 and early 1999, when world oil prices collapsed to below \$10 a barrel.⁴

By December, following the reduced oil production of the world's leading oil producers, world crude-oil prices reached about \$25 per barrel, the highest level since the Persian Gulf

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Table 1. Annual percent change in the Consumer Price Index for All Urban Consumers (CPI-U), selected expenditure categories, 1990-99

Expenditure category	Dec. 1998 relative importance	Percent change for 12 months ended December 1999—									
		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
All Items	100.000	6.1	3.1	2.9	2.7	2.7	2.5	3.3	1.7	1.6	2.7
Energy	6.294	18.1	-7.4	2.0	-1.4	2.2	-1.3	8.6	-3.4	-8.8	13.4
Food	15.422	5.3	1.9	1.5	2.9	2.9	2.1	4.3	1.5	2.3	1.9
All items less food and energy	78.284	5.2	4.4	3.3	3.2	2.6	3.0	2.6	2.2	2.4	1.9
Commodities less food and energy	23.967	3.4	4.0	2.5	1.6	1.4	1.7	1.1	.4	1.3	.2
Commodities less food ...	26.688	7.4	.8	2.4	.6	1.9	1.1	2.6	-.5	-.7	3.2
All items less energy	93.706	5.2	3.9	3.0	3.1	2.6	2.9	2.9	2.1	2.4	2.0
Commodities	42.109	6.6	1.2	2.0	1.5	2.3	1.4	3.2	.2	.4	2.7
Durables	11.356	.9	2.4	2.5	2.7	2.9	1.7	.7	-1.5	-.5	-1.2
Furniture and bedding	1.139	1.1	1.0	4.5	3.6	1.6	4.2	1.0	-.7	1.4	-1.3
Televisions	0.201	-3.6	-1.1	-1.2	-1.7	-1.4	-4.0	-5.3	-4.3	-4.8	-7.3
New vehicles	4.983	2.0	3.2	2.3	3.3	3.3	1.9	1.8	-.9	.0	-.3
Motor vehicle parts and equipment	0.549	.9	1.6	-.6	-1.6	.5	.5	-.1	-.9	-.2	-.4
Sporting goods	0.482	1.8	3.7	.1	.3	3.2	-.6	-.1	-.4	-.6	-3.0
Nondurables	30.753	8.5	.8	1.9	1.1	2.0	1.4	4.0	.8	.7	4.1
Energy commodities	2.720	35.4	-16.1	1.2	-5.1	5.2	-3.3	13.8	-6.9	-15.1	29.5
Gasoline	2.476	36.8	-16.2	2.0	-5.9	6.4	-4.2	12.4	-6.1	-15.4	30.1
Fuel oil	0.155	29.9	-19.9	-3.4	-4.6	.0	1.5	23.3	-11.7	-15.2	30.9
Apparel	4.831	5.1	3.4	1.4	.9	-1.6	.1	-.2	1.0	-.7	-.5
Medical care commodities	1.252	8.4	7.5	5.2	3.1	3.0	1.8	2.6	2.3	4.1	4.0
Toys	0.416	1.5	1.1	2.5	1.5	-.9	1.0	2.8	-1.6	-6.1	-8.0
Services	57.891	5.7	4.6	3.6	3.8	2.9	3.5	3.3	2.8	2.6	2.6
Shelter	30.283	5.2	3.9	2.9	3.0	3.0	3.5	2.9	3.4	3.3	2.5
Airline fares	0.834	22.7	-6.0	6.6	17.0	-9.5	1.8	14.7	-4.8	4.1	10.9
Medical care services	4.461	9.9	8.0	7.0	5.9	5.4	4.4	3.2	2.9	3.2	3.6
Information and information processing other than telephone services	0.253	-2.6	-4.1	-6.1	-7.6	-9.1	-10.7	-11.6	-12.1	-26.6	-19.0
Medical care	5.713	9.6	7.9	6.6	5.4	4.9	3.9	3.0	2.8	3.4	3.7

NOTE: Data are not seasonally adjusted.

War period. Early in the year, U.S. crude oil and gasoline supplies were each down by about 10 percent from the prior year.⁵ In late March 1999, the explosion and fire at a key oil refinery near San Francisco added upward pressure to gasoline prices. The average price per gallon of unleaded regular gasoline rose from 96 cents in February to \$1.30 in December. Household heating oil charges increased 30.9 percent.

Energy services (electricity and natural gas) costs increased just 1.2 percent. Electricity prices increased 0.7 percent in 1999, compared with a 3.2-percent decrease in 1998. Natural gas charges increased 2.1 percent, compared with a 3.5-percent decrease in 1998.

Food. Food inflation decelerated in 1999, with prices increasing only 1.9 percent, following a 2.3-percent increase during the previous year. Lower inflation or deflation for chicken, fish and seafood, dairy, fresh fruits, and fresh vegetables off-

set higher inflation for beef and pork.

Prices for chicken decreased 2.1 percent, after decreasing 5.8 percent in 1998. Explanations behind the decrease include record-level poultry production, shrinking net exports of chicken, and increased foreign competition. Fish and seafood charges increased only 1.7 percent, following a 3.7-percent rise during the previous year. Imports of shrimp and salmon increased sharply.

Dairy prices rose 2.9 percent in 1999, less than half as much as during the prior year. Milk prices increased 3.4 percent, following a 6.1-percent rise in 1998.

Prices for both fresh fruits and fresh vegetables increased much less in 1999 than in 1998. The fresh fruits index rose 3.2 percent, following an 8.1-percent increase in 1998. Banana imports were up. Fresh vegetables charges rose only 0.8 percent, after increasing 3.5 percent in 1998. Tomato supplies from Mexico and Florida were abundant in 1999.

Beef and pork prices put some upward pressure on the food index. The beef and veal index increased 4.4 percent, following a 0.1-percent rise during the earlier year. Beef production has been declining since the fourth quarter of 1999. Pork prices increased 3.1 percent, after decreasing 5.8 percent in 1998.

Items other than food and energy

Shelter. Shelter inflation rose only 2.5 percent in 1999, the smallest annual increase since 1982. In 1998, shelter costs were up 3.3 percent. Lower increases were reported for owners' equivalent rent of primary residence, tenants' rent of primary residence, and hotels and motels. The owners' equivalent rent index showed the smallest increase since publication of this index began in 1983, up just 2.4 percent, compared with a 3.2-percent increase in 1998. Decreasing mortgage rates may have led renters to move to home ownership, possibly dampening demand for rental units, and reducing rental increases. Hotel and motel costs increased just 1.7 percent, the smallest increase since 1994.

Apparel. The apparel index fell 0.5 percent in 1999, following a 0.7-percent decrease in 1998. In January, clothiers, particularly large discount chains, and also department stores, offered deeply discounted sale prices, following disappointing sales of cold-weather clothing during the prior fall. Even though, on balance, apparel prices declined, apparel stores reported solid business. Retailers kept costs low by holding down inventories at low levels.

Decreasing prices for women's and girls' apparel, footwear, and jewelry and watches were partially offset by increasing prices for men's and boys' apparel, and for infants' and toddlers' clothing. Women's and girls' clothing prices fell 0.5 percent in 1999. The footwear index decreased 3.0 percent. Jewelry and watches charges were down 1.8 percent. Meanwhile, men's and boys' apparel increased 0.9 percent, and the index for infants' and toddlers' apparel rose 2.6 percent.

Medical care. The medical care index increased 3.7 percent, slightly more than the 3.4-percent increase in 1998. Prescrip-

tion drugs and medical supplies charges rose 6.1 percent, compared with 4.9 percent in 1998. In recent years, there has been a large increase in demand for prescription drugs, in part due to increased advertising by pharmaceutical companies directly to consumers. This increased advertising has followed the Food and Drug Administration's decision in 1997 to relax advertising regulations affecting drug companies. Some drug categories that showed large increases included name brand and generic versions of cardiovasculars, anti-infectives, gastrointestinal, psychotherapeutics, and nonnarcotic analgesics.

The hospital services index rose 5.1 percent, following a 3.1-percent increase during the previous year. Hospital fees increased as insurance companies renewed contracts with hospitals that permitted higher reimbursements for hospital services, especially for outpatient services. Outpatient services charges tend to be reimbursed based on chargemaster (book-rate) prices. Physicians' fees increased by just 2.6 percent. Dental service charges increased 4.6 percent.

New vehicles. New vehicles prices decreased 0.3 percent, following no change in the index in 1998. Dealers and manufacturers gave consumers increased rebates and concessions. Moreover, 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 fare index increased 10.9 percent, after rising 4.1 percent in 1998. The increase resulted in part from a 97.3-percent increase for jet fuels as measured by the PPI.

Cigarettes. Charges for cigarettes rose 11.5 percent, after increasing 33.7 percent during the prior year. In late November 1998, cigarette manufacturers raised wholesale prices. Some of this increase was not reflected in the CPI until early 1999. Effective January 1, 1999, California's "Proposition 10" increased the California tobacco tax 50 cents per pack. In late August, cigarette manufacturers announced another wholesale increase of 18 cents per pack, mostly to cover rising settlement costs. □

Notes

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

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 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 about three-quarters of the world's proven crude-oil reserves.

⁴ *Weekly Petroleum Status Report* (Energy Information Administration, Department of Energy, 2000).

⁵ *Ibid.*