

# Inflation continues to abate during the first quarter

*The rate of price increases decelerated in both the retail and primary markets, with the Consumer Price Index posting its lowest quarterly rise since 1965*

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After slowing substantially in 1981, inflation continued to decelerate in both the retail and primary markets during the first quarter of 1982. The Consumer Price Index for All Urban Consumers (CPI-U) advanced at a seasonally adjusted annual rate of increase of 1.0 percent, the lowest quarterly rise since 1965.<sup>1</sup> (See table 1.) The recession and a continued abundance of oil were among the principal influences pushing inflation down. The housing and auto industries, particularly hard hit by slumping demand, showed significant price decreases. Retail gasoline prices fell at a record rate, as supplies remained high.

One measure of the underlying rate of inflation—the CPI for all items less food, energy, and mortgage interest costs—increased at an annual rate of 5.7 percent in the first quarter. This was slightly more than in the preceding 3 months but was somewhat slower than the 8.0-percent rise in 1981. Replacing the present homeownership component with the future rental equivalence measure (CPI-U-X1),<sup>2</sup> the index would have advanced at a rate of 2.7 percent, compared with 8.5 percent in 1981.

At the primary market level, the Producer Price Index (PPI) for Finished Goods edged up at a seasonally

adjusted annual rate of 0.6 percent, the slowest quarterly advance for this index since it dipped during the first quarter of 1976. The finished energy goods index fell at a rate of 18.5 percent, a drop approached only by a 14.2-percent rate of decline in the first quarter of 1976. Price increases for capital equipment and for finished consumer goods other than foods and energy both slowed to rates below 4 percent, considerably less than in other recent quarters. The index for finished consumer foods moved up moderately. Prices for intermediate goods declined slightly in the first 3 months of 1982, the first decrease since the second quarter of 1975. Because of higher raw foodstuff prices, the crude materials index rose at a rate of 1.0 percent, following sharp declines in the third and fourth quarters of 1981.

The continuing deterioration of the economy and the persistence of the highest levels of real (that is, inflation-adjusted) interest rates since the Great Depression restrained inflation in many retail and primary markets. Consumer reluctance to expand purchases of goods and services reflected such factors as fears of possible unemployment, the rising burden of interest costs on debts incurred in more inflationary times, and the difficulty of obtaining home mortgages. Some business firms canceled or postponed capital expenditures in the face of uncertain demand and their own strained profit and cash flow positions. Many companies liquidated excessive inventories because of poor

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sales and high interest costs, or delayed rebuilding inventories until an end to the recession was more apparent. By boosting the value of the American dollar in international currency markets, high interest rates tended to price American exports out of foreign markets, while improving the competitive standing of imports in this country.

**New car prices decline**

Retail prices for commodities other than food and energy increased at a seasonally adjusted annual rate of 4.5 percent, a larger increase than in the fourth quarter of 1981, but somewhat below the 1981 yearly rate of 5.9 percent. (See table 2.) Prices of most commodities

**Table 1. Changes in selected components of the Consumer and Producer Price Indexes, 1981-82**

Grouping	Relative importance Dec. 1981	Percent change Mar. 1981 to Mar. 1982	Compound annual rates, seasonally adjusted except as noted, for 3 months ended—			
			1981			1982
			June	Sept.	Dec.	Mar.
<b>Consumer Price Index for All Urban Consumers (CPI-U)<sup>1</sup></b>						
All items	100.0	6.8	8.1	12.8	5.4	1.0
Food and beverages	17.5	4.0	2.3	7.6	1.8	4.2
Food at home	11.3	3.2	0.3	7.8	-0.3	4.9
Food away from home	5.2	5.7	6.6	7.1	6.1	2.8
Alcoholic beverages	1.0	4.8	5.6	7.0	1.4	5.6
Housing	46.0	8.5	13.0	16.9	3.6	1.3
Shelter	31.9	8.6	15.1	19.8	1.8	-0.9
Rent, residential <sup>2</sup>	5.1	8.2	7.7	10.2	9.0	5.9
Homeownership	26.1	8.6	16.9	21.5	0.3	-2.4
Home purchase <sup>2</sup>	9.6	3.1	8.7	12.4	-5.7	-1.9
Financing, taxes and insurance <sup>2</sup>	12.9	13.6	25.9	33.1	3.6	-4.2
Maintenance and repairs	3.6	6.9	10.7	8.9	5.6	2.4
Fuel and utilities	6.9	10.0	8.6	14.8	9.3	7.5
Household furnishings and operation	7.2	6.8	7.8	6.9	6.8	5.7
Apparel and upkeep	4.6	3.2	2.6	6.4	0.8	3.2
Apparel commodities	4.0	2.6	1.8	5.5	-0.2	3.2
Apparel services	.7	7.5	8.9	9.8	7.7	3.6
Transportation	19.3	4.2	2.3	11.6	11.6	-7.2
Private transportation	18.0	3.5	1.6	10.0	12.0	-8.3
Public transportation <sup>2</sup>	1.3	14.6	14.3	37.5	5.8	3.5
Medical care	4.9	12.0	11.8	14.4	11.7	10.2
Medical care commodities	.8	10.7	12.3	11.9	9.1	9.5
Medical care services	4.1	12.2	11.6	14.9	12.3	10.4
Entertainment	3.6	6.7	5.1	6.9	7.3	7.4
Other goods and services	4.0	10.3	11.3	10.8	8.4	10.1
All items	100.0	6.8	8.1	12.8	5.4	1.0
Food	16.6	4.0	2.2	7.7	1.7	3.9
Commodities less food and energy	32.8	6.2	8.7	9.5	2.2	4.5
Energy <sup>2</sup>	11.1	-8	4.7	3.0	-2.4	-8.0
Services less energy	39.5	10.9	14.8	19.1	7.6	2.4
All items	100.0	6.8	8.1	12.8	5.4	1.0
Services	43.2	11.3	14.8	19.2	7.8	3.5
Commodities	56.8	3.6	3.2	8.5	3.6	-0.8
All items less food, energy and mortgage interest costs	61.5	7.7	8.6	11.4	5.2	5.7
All items (X-1 approach)	—	6.4	5.9	10.1	7.5	2.7
<b>Producer Price Index (PPI) by stage of processing<sup>1</sup></b>						
Finished goods	100.0	4.1	7.1	3.4	5.2	0.6
Finished energy goods	12.7	-2.8	3.5	-3.6	9.7	-18.5
Finished consumer goods	21.9	1.8	3.5	1.6	-3.7	5.8
Finished goods less foods	78.1	4.8	8.1	4.0	7.7	-7
Finished goods less foods and energy	65.3	6.3	9.0	5.6	7.4	3.2
Finished consumer goods less foods	57.2	4.0	7.6	3.2	7.2	-1.7
Finished consumer goods less foods and energy	44.5	6.0	8.8	5.4	6.4	3.6
Capital equipment	20.8	6.8	10.0	5.7	9.7	2.1
Intermediate materials, supplies and components	100.0	2.9	7.4	3.8	2.0	-1.2
Intermediate energy goods	17.0	-5	1.9	-2.1	4.2	-5.6
Intermediate foods and feeds	5.3	-7.0	-3	-18.3	-12.9	5.6
Intermediate materials less foods and feeds	94.7	3.6	8.0	5.2	2.8	-1.5
Intermediate materials less foods and energy	77.6	4.6	8.8	7.1	2.4	.3
Crude materials for further processing	100.0	-4.3	10.8	-9.7	-16.6	1.0
Crude energy materials <sup>2</sup>	33.6	.4	4.3	1.1	2.9	-6.5
Crude foodstuffs and feedstuffs	50.6	-5.4	6.4	-18.2	-25.5	23.3
Crude nonfood materials	49.4	-2.7	16.1	1.1	-5.6	-18.4
Crude nonfood materials less energy	15.8	-9.7	47.7	1.2	-22.5	-40.3

<sup>1</sup> See "Definition" and "Notes" preceding tables 19-27 of Current Labor Statistics in this Review.

<sup>2</sup> Not seasonally adjusted.

NOTE: PPI data shown above and elsewhere in this article may differ from those previously reported because PPI data through November 1981 have been revised to reflect the availability of late reports and corrections by respondents.

related to the depressed housing and automotive industries decelerated or declined. The home purchase component of the index decreased for the second consecutive quarter. Furniture price advances slowed, as the low level of new housing construction contributed to sluggish demand. Prices for textile housefurnishings also rose less than in the previous 3 months. However, price increases accelerated for many household appliances and equipment, reflecting the annual introduction of new models at higher prices.

New car prices dropped at a rate of 3.0 percent primarily because of rebates by domestic manufacturers. Despite the rebates and lower automobile finance charges, demand remained low throughout the quarter. Used car price increases slowed considerably, following large increases in the second half of 1981. Advances in tire prices continued to decelerate, reflecting the year-long slump in the market.

Retail prices of apparel other than footwear rose at an annual rate of 3.9 percent, after declining in the fourth quarter. The upturn reflected the end of discounts and higher prices for spring merchandise. Price increases for tobacco products, toilet goods, housekeeping supplies, and school books accelerated to double-digit rates.

The PPI for finished consumer goods other than foods and energy moved up at a seasonally adjusted annual rate of 3.6 percent. This represented a substantial slowdown from the 6.4-percent rate of advance at the end of 1981 and the 6.9-percent increase from December 1980 to December 1981. Unusually large rebates for some passenger cars and light motor trucks accounted for much of this deceleration. Continued rapid declines in precious metal prices were reflected in sharply lower prices for gold jewelry, silver flatware, and photographic film (which requires much silver to manufacture). Primary market prices for leather footwear, floor coverings, and televisions and radios also dropped in the first quarter. Price increases slowed markedly for soaps and detergents, books, and household furniture, while prices for sanitary paper products, tires and tubes, and glassware continued to show little or no change.

In contrast, inflation accelerated to double-digit rates in the PPI for a number of consumer products, including newspapers, periodicals, tobacco products, textile housefurnishings, cosmetics, household appliances, and prescription drugs. Each of these indexes climbed at a faster pace during the first 3 months of 1982 than in 1981 as a whole.

*Capital equipment.* The Producer Price Index for capital equipment rose at a seasonally adjusted annual rate of 2.1 percent, considerably less than in any other recent quarter and the slowest rate of advance since the final 3 months of 1972. (See table 3.) Most of this deceleration

**Table 2. Changes in retail prices for selected commodities less food and energy, 1981-82**

CPI grouping	Relative importance Dec. 1981	Percent change Mar. 1981 to Mar. 1982	Compound annual rate, seasonally adjusted except as noted, for 3 months ended --			
			1981			1982
			June	Sept.	Dec.	Mar.
Commodities less food and energy .....	100.0	6.2	8.7	9.5	2.2	4.5
Alcoholic beverages .....	2.9	4.8	5.6	7.0	1.4	5.6
Home purchase <sup>1</sup> .....	29.2	3.1	8.7	12.4	-5.7	-1.9
Maintenance and repair commodities <sup>1</sup> .....	1.0	4.6	6.2	1.8	2.6	7.7
Textile housefurnishings .....	1.5	9.0	8.4	10.3	11.7	5.4
Furniture and bedding .....	3.5	5.2	3.2	9.0	5.1	3.5
Appliances, including radio and TV <sup>1</sup> .....	4.0	4.1	6.0	3.9	.5	6.1
Other household equipment <sup>1</sup> .....	2.7	6.4	6.0	6.6	2.7	10.2
Housekeeping supplies <sup>1</sup> .....	4.4	7.6	8.8	5.3	6.1	10.2
Apparel commodities less footwear .....	10.2	2.4	1.2	6.1	-1.4	3.9
Footwear .....	1.9	3.8	5.2	3.9	5.0	1.0
New cars .....	9.5	6.3	20.9	3.6	5.0	-3.0
Used cars .....	9.1	19.3	8.5	44.2	22.7	5.5
Auto parts and equipment <sup>1</sup> .....	1.8	4.4	4.0	8.0	3.6	2.1
Medical care commodities .....	2.4	10.7	12.3	11.9	9.1	9.5
Entertainment commodities .....	6.5	6.5	6.3	6.2	7.0	6.5
Tobacco products <sup>1</sup> .....	3.2	10.2	13.0	4.8	9.5	13.5
Toilet goods and personal care appliances <sup>1</sup> .....	2.2	8.2	11.6	4.6	6.2	10.4
Schoolbooks and supplies .....	.5	14.2	9.2	35.8	2.1	12.7

<sup>1</sup> Not seasonally adjusted.

was caused by the downturn in the motor vehicles index, reflecting manufacturers' rebates on some new cars and light trucks; prices for heavy trucks continued to rise, although at a slower pace than in any other recent quarter. Prices for generators, textile machinery, and food products machinery turned down in the first quarter, and increases slowed for railroad equipment, printing trades machinery, agricultural machinery, metal cutting machine tools, and transformers. Construction machinery prices jumped sharply as the year began but had retreated somewhat by March, reflecting the distressed state of the construction sector.

In contrast, accelerated advances were registered for commercial furniture, photographic equipment, wood-working machinery, metal forming machine tools, and pumps and compressors. Even though demand for most kinds of capital equipment weakened markedly at the end of 1981 and into early 1982, producers of these goods felt that demand was strong enough to permit price boosts. Recent changes in tax depreciation rules were especially beneficial to commercial furniture manufacturers.

Prices for oilfield and gasfield machinery climbed at a 12.3-percent rate, twice as much as in the previous quarter, but not as fast as the 17.7-percent increase registered in 1981. Demand for these goods, which had

**Table 3. Changes in producer prices for selected capital equipment, 1981-82**

PPI grouping	Relative importance Dec. 1981	Percent change Mar. 1981 to Mar. 1982	Compound annual rate, seasonally adjusted except as noted, for 3 months ended—			
			1981		1982	
			June	Sept.	Dec.	Mar.
Capital equipment .....	100.0	6.8	10.0	5.7	9.7	2.1
Agricultural machinery and equipment .....	5.9	8.9	12.7	7.3	9.5	6.1
Construction machinery and equipment <sup>1</sup> .....	6.9	7.9	9.7	8.2	6.9	6.7
Metal cutting machine tools .....	1.7	8.2	4.0	7.6	12.7	8.7
Metal forming machine tools .....	1.0	6.5	5.2	11.3	2.5	7.1
Pumps, compressors, and equipment .....	2.1	9.7	12.5	13.4	5.3	8.0
Industrial material handling equipment .....	3.5	5.5	5.4	8.9	3.6	4.1
Food products machinery .....	1.8	8.4	12.5	12.5	10.9	-1.8
Textile machinery .....	1.4	5.6	15.3	4.5	5.2	-1.9
Generators and generator sets .....	2.4	10.4	10.1	13.5	20.8	-1.8
Transformers and power regulators <sup>1</sup> .....	2.3	9.5	12.0	10.2	10.1	5.8
Oilfield and gasfield machinery <sup>1</sup> .....	.9	14.3	11.2	28.8	6.1	12.3
Mining machinery and equipment .....	.7	8.2	7.2	12.0	7.4	6.1
Office and store machines and equipment <sup>1</sup> .....	5.8	2.7	.5	6.4	-3	4.4
Commercial furniture <sup>1</sup> .....	3.7	8.1	7.3	5.9	3.9	15.7
Passenger cars .....	10.9	6.9	15.6	-7.7	26.7	-3.3
Light motor trucks <sup>1</sup> .....	6.8	3.3	15.9	-26.9	76.4	-23.9
Heavy motor trucks <sup>1</sup> .....	5.3	8.8	13.8	12.6	5.8	3.3
Fixed wing, utility aircraft .....	4.4	7.9	12.2	11.3	2.8	5.3
Railroad equipment .....	2.1	5.7	-1.4	9.6	11.5	3.5
Photographic equipment .....	2.2	3.3	0	-1.5	4.1	11.2

<sup>1</sup> Not seasonally adjusted.

been largely impervious to sluggishness in the overall economy over the past several years, became much weaker as 1982 began. The worldwide glut of oil and its downward pressure on prices of many kinds of petroleum products led to a marked drop in domestic oil exploration and development.

### Gasoline cheaper, utilities higher

**Consumer energy prices.** Energy items in the CPI dropped at an annual rate of 8.0 percent in the first 3 months of 1982, the largest quarterly decrease since 1962. (See table 4.) Prices for all petroleum-based products continued the downward trend experienced since the spring of 1981. Gasoline and home heating oil supplies remained at very high levels relative to demand, leading to lower prices.

Retail gasoline prices plunged at a record rate of 27.8 percent, a dramatic contrast to the 50.4-percent rate of increase recorded for the first quarter of 1981. On an unadjusted basis, gasoline prices dropped each month without interruption from March 1981 to March 1982. The major factors pushing prices down were abundant supplies and lower demand. In addition, large supplies of low-cost Chinese gasoline were shipped to the Pacific and Gulf Coast areas. These additional supplies also reduced prices, particularly on the West Coast. Competitive pressures led to price wars in certain sections of the

country, with a resultant squeeze on retailer profit margins.

Fuel oil prices decreased at an annual rate of 10.4 percent for the first quarter, the largest decline since 1965, in spite of extremely cold weather in much of the country. Factors affecting gasoline prices had a similar impact on fuel oil prices. Fuel oil prices decreased continually from March 1981 through March 1982, except when increased seasonal demand pushed prices up slightly in December and January.

In contrast to the declining trend in prices of petroleum products, consumer price increases for gas and electricity accelerated to an annual rate of 15.4 percent in the first quarter, from a 10.6-percent rate in the fourth quarter. Utility rate increases in the West and fuel adjustment increases in the North Central and South regions contributed greatly to the rise in the electricity index. Higher purchased-gas adjustments and rate increases in the South were the major factors pushing up the natural gas index.

**Industrial fuels.** The PPI for intermediate energy goods turned down with a 5.6-percent seasonally adjusted annual rate of decline, after advancing at a 4.2-percent rate in the fourth quarter. Continued weakening of industrial demand coupled with lower costs of crude oil resulted in price decreases for all fuels derived from petroleum.

The index for liquefied petroleum gas plummeted at a 47.3-percent annual rate; as a result, by the end of the quarter, this index was at the lowest level since the end of 1979. Prices for residual fuel, diesel fuel, and commercial jet fuel continued to fall, but less rapidly than liquefied petroleum gas prices. In marked contrast, the electric power index rose even more sharply than in the fourth quarter. Regulatory authorities granted rate increases to cover greater capital construction costs resulting from high long-term interest rates; likewise, fuel adjustment charges had an upward effect on prices in areas where coal and natural gas are used for power generation.

**Crude energy.** The crude energy materials index declined at a 6.5-percent annual rate in the first quarter because of sharp decreases in the index for crude petroleum (which reflects only domestic prices). Demand for crude oil continued to slide, as evidenced by the reduced volume of imports (23 percent lower than in the first quarter of 1981 and the lowest level since 1974) and the record-low rate of refinery capacity utilization (65 percent). Domestic crude oil prices fell at a rate of about 20 percent, and import prices showed similar declines. The pricing structure of the Organization of Petroleum Exporting Countries (OPEC) continued to break down, as Libya, Iran, and some other members cut

their prices by more than \$4 per barrel in an effort to increase their share of a shrinking market. After an emergency meeting of OPEC in March, Saudi Arabia agreed to further reduce its production levels.

Producer prices of natural gas continued to advance, but less than in other recent quarters. The slowdown was concentrated in the intrastate portion of the market, where prices had jumped sharply at the end of 1981. In contrast, somewhat larger advances occurred for interstate gas prices, reflecting the growing share of more expensive "new" gas.<sup>3</sup> Price increases accelerated for coal, as a weather-related surge in demand quickly affected prices because of relatively slim inventories on hand.

### Food prices spurt, then dip

After showing small increases in each of the last three months of 1981, the food component of the Consumer Price Index increased rapidly in January and February, before turning down in March. The net annual rate of increase for the quarter was 3.9 percent after seasonal adjustment. The Producer Price Index for finished consumer foods showed a similar pattern during the first quarter, but rose at a net rate of 5.8 percent. The behavior of both indexes paralleled developments in the PPI category for crude foodstuffs and feedstuffs, which declined beginning in August 1981, surged in January, and then moderated in February and March.

Fresh vegetable prices showed the greatest volatility. Decreased winter acreage, the mid-January freeze in Florida, insect damage, shifts in production areas, and reduced imports from Mexico combined to lead to sharply reduced supplies as the year began. The PPI component for fresh vegetables jumped 14.7 percent in December, while the corresponding CPI measure rose 16.8 percent in January. Lettuce was particularly hard hit by whitefly damage in California and Arizona; in the CPI, prices doubled from November to January. By March, the downturn was just as sharp, with lettuce prices approaching the November level. Prices for tomatoes and many other fresh vegetables had a similar pattern. The PPI for fresh vegetables ended with a net decline for the quarter, while the corresponding CPI category ended with a net increase. Citrus fruits were also hit hard by the freeze, and retail prices for both oranges and orange juice rose substantially in January and February. Fresh orange prices had started to fall by March, though, after the extent of the damage turned out to be less than from the 1977 and 1981 freezes.

Cattle prices rose 7.8 percent; hog prices, 17.6 percent; and poultry prices, 9.7 percent over the first quarter as harsh winter weather disrupted production and marketing activity, especially in the North Central States where hog production is concentrated. In addition, hog inventories were down from year-earlier levels as farmers cut back production for 1982. Producer

**Table 4. Changes in retail and producer prices for energy items, 1981-82**

Item	Index	Relative importance Dec. 1981	Percent change Mar. 1981 to Mar. 1982	Compound annual rate, seasonally adjusted except as noted, for 3 months ended-			
				1981			1982
				June	Sept.	Dec.	Mar.
<b>Finished items (sold to consumers)</b>							
Energy items <sup>1</sup> .....	CPI	100.0	-0.8	4.7	3.0	-2.4	-8.0
Finished energy goods .....	PPI	100.0	-2.8	3.5	-3.6	9.7	-18.5
Motor fuels <sup>2</sup> .....	CPI	54.5	-8.5	-15.7	1.9	12.1	-27.3
Gasoline <sup>3</sup> .....	CPI	52.7	-8.7	-16.1	1.8	12.3	-27.8
.....	PPI	55.2	-8.0	-8.9	-8.4	14.7	-25.2
Household fuels .....	CPI	45.5	9.3	9.1	11.3	9.1	8.5
Fuel oil <sup>1,3,4</sup> .....	CPI	12.5	-4.2	-6.4	-4.9	5.5	-10.4
.....	PPI	14.8	-6.3	3.8	-5.8	1.2	-22.0
Gas (piped) <sup>2,5</sup> .....	CPI	13.4	16.0	17.5	15.6	9.9	21.2
.....	PPI	20.3	22.9	47.0	16.6	17.4	13.4
Electricity .....	CPI	19.7	14.4	15.5	20.6	9.9	11.7
<b>Intermediate goods (sold to business)</b>							
Intermediate energy goods .....	PPI	100.0	-5	1.9	-2.1	4.2	-5.6
Diesel fuel <sup>3,5</sup> .....	PPI	9.5	-3.8	4.9	-10.5	-2.1	-6.9
Commercial jet fuel <sup>3,5</sup> .....	PPI	8.5	-4	19.0	-10.9	-4.6	-2.8
Residual fuel <sup>3</sup> .....	PPI	14.1	-12.1	-9.1	-12.5	-17.2	-9.4
Liquefied petroleum gas <sup>5</sup> .....	PPI	4.4	-15.7	1.3	-7.9	2.5	-47.3
Electric power .....	PPI	30.6	15.1	11.5	19.6	12.2	17.1
<b>Crude materials</b>							
Crude energy materials <sup>5</sup> .....	PPI	100.0	4	4.3	1.1	2.9	-6.5
Natural gas <sup>2,5</sup> .....	PPI	31.5	22.9	47.0	16.6	17.4	13.4
Crude petroleum <sup>5</sup> .....	PPI	55.3	-11.6	-12.2	-9.0	-4.6	-19.9
Coal <sup>5</sup> .....	PPI	13.2	9.5	9.1	15.9	4.3	9.1

<sup>1</sup> Not seasonally adjusted in the CPI.

<sup>2</sup> Includes motor oil, coolant, and similar products.

<sup>3</sup> Prices for these items are lagged one month in the PPI.

<sup>4</sup> Includes coal and bottled gas in the CPI.

<sup>5</sup> Not seasonally adjusted in the PPI.

prices for beef and veal, pork, and processed poultry also increased, although not as sharply. The 9.2-percent increase in producer pork prices translated into a 2.5-percent rise at the retail level.

Corn prices rose 8.7 percent in the first quarter, with virtually all of the increase occurring in January. Cold weather increased demand for feed grains. In addition, large quantities of corn were placed into the Federal grain reserve program. Wheat prices advanced 2.6 percent after seasonal adjustment. Export demand for wheat remained strong. Although cold weather did only minimal damage, the winter wheat crop was not in as good condition as last year's. Nevertheless, larger planted acreage may result in another record harvest. In contrast, milled rice prices continued to fall because of record harvests in the United States and some other rice exporting countries and improved harvests in several rice importing nations. Soybean prices also fell, as the Brazilian crop entered export markets.

Government price support programs played a key role for some farm commodities. Raw sugar prices initially rose in response to new duties and fees on imports designed to prop up domestic prices, but the target price was not achieved before prices started falling to nearly the December level.<sup>4</sup> Prospects of a large European sugar beet crop, large stockpiles of sugar imported before the duty was imposed, and the possibility of duty-free imports of Caribbean sugar all served to hold down prices. Because of a static support price, dairy products showed small retail price increases for four consecutive quarters despite chronic surpluses.

### **Rent increases ease**

The services less energy component of the CPI moved up at a rate of 2.4 percent, compared with a 7.6-percent rate of increase in the previous quarter. The slowdown was largely due to a downturn in contracted mortgage interest costs, as well as slower rates of advance for a broad range of other items, including residential rent, housekeeping services, transportation services, and apparel services. The categories for medical care services and for personal and educational services continued to move up at double-digit rates, although not as fast as in other recent quarters.

Contracted mortgage interest costs declined at a rate of 6.5 percent, following a 2.8-percent rate of increase in the fourth quarter and rapid runups earlier in 1981, reflecting decreases both in house prices and in mortgage interest rates. The component for mortgage interest rates fell at a rate of 5.1 percent, in line with other long-term interest rates. The increase in the residential rent component slowed to a rate of 5.9 percent, following a 9.0-percent rate in the fourth quarter.

The transportation services category moved up at a 6.0-percent rate, considerably less than in the previous

quarter. Auto finance charges moved down as some domestic car manufacturers slashed finance rates to make monthly car payments more affordable. The public transportation index (which includes fares for airlines, intercity buses and trains, and intracity mass transit) advanced at a 3.5-percent rate, somewhat less than in the preceding quarter and far less than earlier in 1981. The recent declines in fuel prices were a major factor in this slowdown.

The medical care services component of the CPI moved up at a rate of 10.4 percent, somewhat less than in other recent quarters. Charges for physicians' services moved up at a 9.7-percent rate, also less than in the fourth quarter. The index for hospital rooms rose at a rate of 12.7 percent.

### **Steel prices steady; gold, silver drop**

The Producer Price Index for intermediate materials except foods and energy edged up at a seasonally adjusted annual rate of just 0.3 percent in the first quarter, compared with a rate of 2.4 percent in the fourth quarter. The index for durable manufacturing materials declined at a rate of 7.8 percent, an even larger decrease than at the end of 1981. Lower prices were recorded for most nonferrous metals and mill shapes, jewelers' materials, and hardwood lumber. Steel prices continued to show virtually no change, as high interest rates both weakened domestic demand and encouraged a high level of imports as the dollar rose overseas.

Prices for primary nonferrous metals continued to move down substantially, although not quite as sharply as in the fourth quarter. High interest rates and weak domestic and export markets contributed to the decreases for these metals. The end of massive support buying that had kept tin prices artificially high in late 1981 caused prices to drop severely; by March, the tin index had retreated to virtually the same level as last summer just before the runup began. Copper prices, which had declined in most months since late 1980, were further weakened by high production levels in several South American and African countries.

Gold and silver prices fell 20.3 and 18.4 percent before annualizing. Among the major reasons for these steep declines were large sales of gold by Eastern bloc countries to pay their debts, silver auctions by the General Services Administration, and the attraction of high-yielding financial investments. Prices for jewelers' materials plummeted because of falling gold prices.

Hardwood lumber prices turned down partly because of poor demand from furniture manufacturers resulting from the weak residential construction market. But prices rose for foundry and forge shop products, chiefly because of increased labor and overhead costs.

The nondurable manufacturing materials category dropped at an annual rate of 3.9 percent, following a

small rise at the end of 1981. Prices for organic chemicals continued to recede because of low demand and strong competition from imports. The depressed housing and automotive industries caused a sharp downturn in the plastic resins index; prices for these materials had advanced in almost every month of 1981. An oversupply of cotton fabrics, coupled with a drop in domestic demand, meant lower prices for finished fabrics and processed yarns. Following several increases in late 1981, leather prices turned down, partly because tanners and shoe manufacturers were reluctant to rebuild inventories.

However, price increases for inorganic chemicals accelerated, with prices for caustic soda leading the way. Demand for caustic soda, particularly from the printing and publishing industry, remained relatively strong in spite of the recession. A strengthening in domestic demand for gray fabrics and synthetic fibers, especially nylon yarn, caused these prices to advance. Improved export demand led to higher prices for fats and oils.

The PPI measure for construction materials and components showed virtually no change from December to March, following generally small increases during the latter part of 1981. The poor state of construction activity permitted only marginal advances for most construction materials. Prices for a number of items, including plastic construction products, asphalt roofing, concrete products, and millwork, turned down after rising moderately in the closing months of 1981.

At the same time, the reverse was true for prices of gypsum products, building paper, and plywood. These prices advanced following declines at the end of the year, partly reflecting low supplies. Prices for refractories climbed at an unusually rapid pace; recent increases in charges for natural gas, a crucial element in the production of refractories, were the principal cause.

Among other intermediate goods, prices for machine tool parts moved up sharply during the first quarter, as

orders for new machine tools sagged and producers took advantage of the consequent firming of demand for replacement parts. Glass container prices moved up substantially in February and March, after showing very little change over the preceding 8 months; the increases passed through higher natural gas costs. The index for unsupported plastic film and sheeting also rose sharply, after edging down slightly over the last half of 1981. Prices for wooden pallets, a close indicator of the state of demand in the industrial sector, continued to fall, reaching their lowest level since May 1978.

### **Sensitive crude material prices drop sharply**

Producer prices for crude nonfood materials except energy, which tend to be highly responsive to shifts in general economic conditions, plunged at a seasonally adjusted annual rate of 40.3 percent. Prices for aluminum and copper base scrap and for iron and steel scrap continued to move down sharply in the first quarter, largely because of a lack of industrial and construction demand, weak export markets, and high interest rates. Wastepaper prices continued to fall, although not as sharply as in the fourth quarter. By the end of the first quarter, paper manufacturers had used only a portion of their wastepaper stockpiles but were purchasing additional supplies because prices were attractively low.

Crude rubber prices, which had fallen through most of 1981, continued to decline in the first quarter, largely because of persistent weakness in the automotive and tire industries. Prices for potash turned down because of an oversupply of fertilizers, excessive potash inventories, and a dwindling export market.

However, temporary short supplies of high quality cotton fibers, coupled with improved Far East and domestic demand, led to an upturn in prices for raw cotton. Prices for cattle hides also turned up as tanners began to replenish their inventories, which had been allowed to decline to unusually low levels. □

### **FOOTNOTES**

<sup>1</sup> For a report on the CPI in relation to the PCE Deflator, see Julie A. Bunn and Jack E. Triplett, "Reconciling the CPI and the PCE Deflator: first quarter 1982," pp. 37-38.

<sup>2</sup> For details on changing the homeownership component, see Robert Gillingham and Walter Lane, "Changing the treatment of shelter costs for homeowners in the CPI," *Monthly Labor Review*, June 1981, pp. 9-14.

<sup>3</sup> Under the Natural Gas Policy Act of 1978, higher prices are

allowed for gas produced from wells drilled since 1978.

<sup>4</sup> Effective December 23, 1981, the Government raised duties and fees to bring the price of imported sugar to 19.08 cents per pound, up from 15 cents. This would eliminate the need for the Government to stockpile domestic sugar at the support price of 16.75 cents per pound. However, after an initial sharp increase in price when the duty was raised, raw sugar prices fell in March to just over the support price.