

Producer price highlights, 1995

The Producer Price Index for finished goods posted a 2.3-percent increase in 1995; the index for finished goods other than foods and energy rose faster than each of the separate indexes for finished consumer foods and finished energy goods

William D. Thomas

Prices received by domestic producers of finished goods rose 2.3 percent in 1995, following a 1.7-percent increase in 1994 and a 0.2-percent rise in 1993. After increasing 1.1 percent in 1994, the index for finished consumer foods moved up 1.9 percent in 1995. Price increases for finished energy goods slowed to 1.1 percent in 1995 from 3.5 percent in 1994. The "core" index for finished goods—those other than foods and energy, which include consumer goods such as passenger cars and apparel, as well as capital equipment such as trucks and machine tools—advanced 2.6 percent in 1995 after rising 1.6 percent in 1994. (See table 1.)

At the earlier stages of processing, the results were mixed in 1995. The price index for intermediate goods increased 3.3 percent in 1995, following a 4.4-percent advance in 1994 and a 1.0-percent rise in the year before that. This index measures the movement in prices of goods such as flour, steel, lumber, industrial chemicals, diesel fuel, and paper boxes. The index for crude goods turned up 5.5 percent, after edging down slightly in 1994. Items in this index include wheat, scrap metals, logs, crude petroleum, and cotton. Prices for food-related materials at both the intermediate and crude stages of processing rose sharply in 1995, after falling in the previous year. Prices for crude energy goods turned up in 1995, after showing little change in 1994; price increases for intermediate energy goods, however, slowed to 1.1 percent in 1995 from 2.9 percent in 1994. When the more volatile food and

energy components are excluded, price increases slowed from 1994 to 1995 at the intermediate level, while prices for the corresponding category for crude goods turned down following 2 years of double-digit increases.

Economic background

Higher interest rates, along with the effects of the economic crisis in Mexico, dampened economic growth in the first quarter of 1995. A slackening economy was evident as housing starts dropped in the first 2 months of the year. Although housing activity stabilized and then moved slightly higher over the balance of 1995, the fall in starts translated into declines in residential investment during the early months of the year. Motor vehicle sales also weakened from 1994 levels, resulting in a buildup of inventory that reached burdensome proportions by the end of the first quarter. In response, automakers cut production sharply in the second quarter, thereby restraining growth in the gross domestic product. Auto production picked up in the ensuing months, but still did not reach the 1994 level at yearend.

At the beginning of 1995, personal consumption expenditures grew, but at a pace much less than during the last quarter of 1994. The drop in spending growth was concentrated in durable goods, as a result of slackened demand for automobiles. Spending on durables recovered markedly in the other 9 months of the year. However, spending on nondurable goods waned. By yearend, the pace of

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Table 1. Annual percent changes for major categories of the Producer Price Index, by stage of processing, 1991-95

Index	1991	1992	1993	1994	1995
Finished goods	-0.1	1.6	0.2	1.7	2.3
Foods	-1.5	1.6	2.4	1.1	1.9
Energy	-9.6	-3	-4.1	3.5	1.1
Other	3.1	2.0	.4	1.6	2.6
Intermediate materials, supplies, and components .	-2.6	1.0	1.0	4.4	3.3
Foods and feeds	-.2	-.5	5.5	-4.5	10.3
Energy	-11.6	.7	-4.2	2.9	1.1
Other	-.8	1.2	1.6	5.2	3.2
Crude materials for further processing	-11.6	3.3	.1	-.5	5.5
Foodstuffs and feedstuffs	-5.8	3.0	7.2	-9.4	12.9
Energy	-16.6	2.3	-12.3	-.1	3.7
Other	-7.6	5.7	10.7	17.3	-4.2

growth in consumption expenditures was vigorous once again. Real disposable income increased at an annual rate of 5.8 percent in 1995, about the same as in 1994. Hourly compensation in the private sector, as measured by the Employment Cost Index, increased 2.8 percent in the year ending December 1995, compared to a 3.1-percent increase during the previous year. In 1995, payroll employment advanced 1.9 percent; most of the increase was attributable to the services sector, which rose 4.1 percent.

As 1995 unfolded, households continued to take on debt at a rapid rate, raising concerns that they might soon have to reduce their spending in order to meet obligations. Household debt (consumer and mortgage debt) grew faster than disposable personal income, continuing the pattern of the past several years. The burden for this debt, as measured by debt service as a share of disposable personal income, also rose during the year, although it remained below the figure reached during the late 1980s. The 1995 rise in the debt service rates reflected both the sharp rise in interest rates over the year and a sharp rise in the overall debt level.

Business fixed investment grew steadily, but moderately, in 1995. The growth rate of business equipment investment, although not as rapid as in 1994, was sustained by robust investment in computers, which grew much faster in 1995 than in 1994. Investment in structures continued its recovery from the recession of 1990-91 and, like equipment investment, grew about 10 percent in 1995. The extremely slow recovery of investment in structures following the recession appears to have been due in part to an oversupply of office buildings and retail space that characterized the runup and subsequent collapse of the commercial real estate market during the late 1980s and early 1990s. As in the previous 2 years, the vacancy rate for office space continued to decline.

The buildup of excess inventories during the first quarter of 1995 led some producers to cut back output in the second quarter, so as to reduce inventories relative to sales. Produc-

ers continued to pare inventories, especially in the automotive sector, during the third and fourth quarters. By late year, much of the earlier overhang had been worked off. At yearend, however, automobile industry data showed the inventory-to-sale ratio moving back up, although it remained below the levels reached earlier in the year.

Corporate profits increased in 1995 at about the same pace as in 1994. The pattern over the year followed that of overall economic growth, with profits softening during the first half and rebounding strongly during the third quarter. Other components of national income likewise increased at more moderate rates during 1995, with the exception of rental income, which declined through the third quarter.

Finished goods, less food and energy

The index for finished goods other than foods and energy, familiarly called the "core" index, advanced 2.6 percent in 1995, following a 1.6-percent increase in 1994. This modest acceleration in price increases was due in part to an upturn in prices for alcoholic beverages and a more rapid rise in prices for tobacco products and newspapers. The index for consumer goods other than foods and energy climbed 2.8 percent in 1995 after rising 1.4 percent in 1994. Prices for capital equipment moved up about the same in 1995 (2.2 percent) as in 1994 (2.0 percent). (See table 2.)

Among consumer goods other than foods and energy, price increases for sanitary papers accelerated from 0.4 percent in 1994 to 14.3 percent in 1995. Prices also rose much more

Table 2. Annual percent changes in Producer Price Indexes for selected finished goods other than foods and energy, 1991-95

Index	1991	1992	1993	1994	1995
Finished goods other than foods and energy	3.1	2.0	0.4	1.6	2.6
Consumer goods	-.9	1.6	-.2	1.6	2.3
Passenger cars	3.1	.6	3.3	2.1	1.7
Light trucks	5.4	4.8	4.2	3.3	1.5
Prescription drugs	5.1	5.2	2.7	1.7	1.7
Over-the-counter drugs	13.2	6.7	-21.4	.4	3.6
Books	2.3	5.2	.6	5.4	6.5
Periodicals	5.5	4.9	3.1	2.0	3.6
Newspapers	5.9	5.2	4.8	3.9	8.5
Household furniture	1.8	1.6	3.7	2.7	2.7
Capital equipment	2.5	1.7	1.8	2.0	2.2
Heavy trucks	3.7	3.1	3.1	3.0	4.1
Truck trailers	1.3	2.6	3.3	7.7	2.2
Metal cutting machine tools	2.9	3.2	.6	1.8	4.1
Metal forming machine tools	2.6	1.5	2.6	3.5	2.2
Computers	-19.4	-14.9	-12.5	-6.8	-12.7
Agricultural machinery	3.5	3.0	2.9	2.7	4.7
Construction machinery	2.8	3.1	1.1	2.0	2.5

rapidly than in the previous year for tobacco products, newspaper circulation, prescription drugs, periodicals, books, floor coverings, textile housefurnishings, footwear, toys, and sporting goods; prices for tires and tubes moved up after showing no change a year earlier. Following declines in 1994, prices turned up for alcoholic beverages, soaps and detergents, girls' apparel, cosmetics, and household appliances. By contrast, price increases slowed markedly from 1994 to 1995 for motor vehicles: Light trucks were up 1.5 percent in 1995, compared with a 3.3-percent advance in 1994, and the passenger car index moved up 1.7 percent after increasing 2.1 percent a year earlier. Prices also rose significantly, but somewhat less than in the previous year, for mobile homes, household glassware, lawn and garden equipment, and household flatware. The index for women's apparel turned down in 1995 after rising in 1994. Prices for home electronic equipment fell even more than they had fallen a year earlier.

The Producer Price Index for capital equipment increased about 2 percent in both 1994 and 1995. The largest increases in 1995 were for truck trailers, railroad equipment, heavy motor trucks, civilian aircraft, agricultural machinery, pumps and compressors, metalcutting machine tools, commercial furniture, and oil and gas field machinery. Decreases were registered for electronic computers (-12.7 percent) and x-ray equipment.

Motor vehicles. The Producer Price Index for motor vehicles increased 1.9 percent in 1995, after advancing 2.5 percent a year earlier. Price increases slowed from 1994 to 1995 for both passenger cars and light trucks; however, prices for heavy trucks increased somewhat more rapidly than a year earlier. Indexes for 1995 reflect the net effects of quality adjustment in 1996-model vehicles. For passenger cars, 39 percent of the originally reported price increase was deemed to be attributable to quality adjustment and is therefore not reflected in the price index; the corresponding figure for light trucks was 40.5 percent.

Tobacco products and alcohol. The index for tobacco products moved up 3.6 percent in 1995, following a 0.4-percent increase the year before. Strong demand for exports and modest increases in prices for leaf tobacco helped to ease the effects of reduced domestic consumption of tobacco products, particularly cigarettes. Cigarette prices were up in 1995 after dipping slightly in 1994. Cigar prices were up about twice as much as in the previous year. Prices for alcoholic beverages turned up 4.2 percent in 1995, after moving down 0.6 percent in 1994. In 1995, price increases were registered for malt beverages and distilled spirits; wine prices were unchanged, on average.

Drugs and pharmaceuticals. Prices for drugs and pharma-

Table 3. Annual percent changes in Producer Price Indexes for selected food items, 1991-95

Index	1991	1992	1993	1994	1995
Finished consumer foods	-1.5	1.6	2.4	1.1	1.9
Pork	-16.9	-3	4.3	-11.1	15.3
Dairy products	6.4	-2.2	3.1	-2.0	5.4
Fresh fruits and melons	-17.3	-15.7	11.8	-11.2	2.5
Fresh and dry vegetables	-16.3	67.4	27.7	25.6	-36.0
Roasted coffee	-8.2	-6.9	5.5	49.8	-8.2
Intermediate foods and feeds	-2	-5	5.5	-4.5	10.3
Prepared animal feeds	2.9	.6	6.0	-10.6	20.6
Crude vegetable oils	-13.9	5.4	34.3	4.1	-14.1
Flour	13.4	.5	8.6	-1.1	20.1
Confectionery materials	4.0	-8.1	10.4	2.2	1.5
Refined sugar	-1.6	-1.2	-6	.8	.8
Crude foodstuffs and feedstuffs	-5.8	3.0	7.2	-9.4	12.9
Slaughter hogs	-19.5	7.6	-5.0	-21.3	40.6
Soybeans	-7.4	3.3	20.1	-18.1	26.7
Wheat	37.1	-1.2	18.6	-5.6	29.9
Corn	2.2	-10.4	34.7	-22.4	49.4
Fluid milk	16.1	-7.2	6.7	-5.2	8.4

ceuticals increased 3.1 percent in 1995, after a 2.5-percent rise in 1994. The upturn in 1995 was primarily driven by a boost in prices for prescription drugs; the increase for over-the-counter drugs (1.7 percent) was the same as a year earlier. Much effort in the industry in 1995 was focused on cost containment, largely through reengineering of research and development functions, refocusing on smaller segments of the market, and achieving better relations with the managed care industry. Several pharmaceutical firms merged with managed care organizations to gain better market placement and disease management, in which drug therapy is used in combination with other regimens. Many firms have increased their sales forces, and some have invested heavily in upgraded electronic equipment for their sales personnel. There is also a proliferation of "me, too" drugs that perform the same function as existing drugs, but use different active ingredients. Drug manufacturers, saddled with shrinking profit margins as a result of cost containment policies by health care providers, are increasingly looking to foreign markets for expansion. The year 1995 also saw stepped-up efforts to streamline the drug approval process.

Paper products. Prices increased significantly along a broad front for a variety of household paper goods in 1995, including paper towels (26.7 percent), facial tissue (22.1 percent), toilet tissue (17.0 percent), and paper napkins (15.6 percent). Price changes for these consumer goods mirrored increases at earlier stages of processing for woodpulp and semifinished paper.

Computers. As in 1994, price declines for computers were widespread in 1995. The largest decreases were for personal

computers and work stations and for portable computers. Lower prices for components, including memory chips, combined with the increased availability of interchangeable parts from different manufacturers, as well as economies of scale from mass production, have continually dampened prices. More substantial decreases were evident in 1995 for peripheral equipment, particularly printers.

Foods and related products

Farm prices, as measured by the Producer Price Index for crude foodstuffs and feedstuffs, advanced 12.9 percent in 1995, after falling 9.4 percent in 1994. (See table 3.) The 1995 upturn was led by prices for slaughter hogs and soybeans. Sharp upturns in prices were also noted for slaughter broilers, fresh fruits and melons, Irish potatoes for processing, and unprocessed finfish and shellfish. Prices for slaughter cattle fell slightly more than 5 percent for the second consecutive year. However, prices for fresh vegetables except potatoes fell almost 49 percent in 1995, after rising about as much in 1994.

Prices for intermediate foods and feeds increased 10.3 percent in 1995, after declining 4.5 percent in 1994. The index for prepared animal feeds turned up 20.6 percent, after falling 10.6 percent in the previous year. Prices for meats, flour, and dairy products also increased after declining in 1994. Price increases accelerated for malt and malt byproducts and for dry-mix preparations. Prices continued to rise modestly for refined sugar. By contrast, prices for crude vegetable oils turned down in 1995, after rising a year earlier. Price increases slowed from 1994 to 1995 for confectionery materials, soft drink bases, and potato chips, as well as for mayonnaise and dressings.

Prices received by domestic producers of finished consumer foods rose 1.9 percent from December 1994 to December 1995, compared with an increase of 1.1 percent for all of 1994. The slight acceleration was led by a 15.3-percent advance in pork prices, which had fallen 11.1 percent in the previous year. Prices also turned up in 1995 after declining a year earlier for dairy products, processed young chickens, chicken eggs for fresh use, processed fruits and vegetables, fresh fruits and melons, confectionery end products, and milled rice. Price increases accelerated for soft drinks. Beef and veal prices fell 1.4 percent in 1995, after declining 4.8 percent in 1994. Prices for pasta products also fell less than they had fallen a year earlier. By contrast, prices for fresh and dry vegetables turned down 36.0 percent in 1995, following a 25.6-percent rise in 1994. Prices also decreased after moving up a year earlier for roasted coffee and for shortening and cooking oils. The index for finfish and shellfish increased in 1995, but less than in 1994.

Grains and feeds. Food prices in 1995, particularly in the latter half, were driven up by soaring feed grain prices. These higher prices were a mixed blessing for grain farmers, who experienced an unexpected robust demand for exports and, at the same time, weather-induced harvest shortfalls. Ending stock for most grains, particularly wheat, were expected to be down sharply in 1995 from a year earlier as a result of below-average crop yields. Harvests were lowered by late frost and rain in some growing areas, as well as by delayed planting, disease and insect problems, and extreme summer heat. In 1995, sharp increases were registered for wheat (29.9 percent), barley (42.1 percent), corn (49.4 percent), and oats (81.5 percent). The index for prepared animal feeds, which includes formula feeds, turned up 20.6 percent, after falling 10.6 percent in the previous year. Prices for soybeans turned up 26.7 percent in 1995 following an 18.1-percent decline in 1994. The increases in prices for grains and oilseeds affected 1995 and later prices at other stages of processing for a wide variety of food and food-related products, such as meats, poultry, eggs, and vegetable oils.

Slaughter hogs and pork. The index for slaughter hogs jumped 40.6 percent in 1995, after decreasing 21.3 percent the previous year. Strong domestic demand for exports forced this index higher, despite slightly elevated production levels in 1995. Pork production was up, on average, in 1995, as hog farmers, buoyed by larger-than-expected foreign demand, managed to earn favorable returns most of the year, despite experiencing higher feed costs. The United States is now a net exporter of pork, exporting 108 million pounds more than it imported on a carcass weight basis in 1995. Japan remains the largest export market for U.S. pork, accounting for 47 percent of total exports, up from 45 percent in 1994.

Table 4. Annual percent changes in Producer Price indexes for selected energy items, 1991-95

Index	1991	1992	1993	1994	1995
Finished energy goods	-9.6	-0.3	-4.1	3.5	1.1
Gasoline	-25.1	-4.2	-16.8	11.2	2.4
Home heating oil	-30.5	-5.4	-10.1	6.9	11.9
Residential electric power	5.1	1.2	.8	1.5	.9
Residential natural gas .....	.7	4.6	5.4	-2.6	-2.4
Intermediate energy goods	-11.6	.7	-4.2	2.9	1.1
Residual fuels	-39.0	24.3	-17.8	10.2	-4.7
Natural gas to electric utilities	2.2	2.7	-13.0	3.4	-1.4
Diesel fuels	-30.4	-3.8	-15.9	5.9	11.1
Jet fuels	-32.7	-5.4	-11.7	4.3	6.1
Commercial power .....	.3	1.8	3.2	2.3	.6
Crude energy materials	-16.6	2.3	-12.3	-1	3.7
Natural gas	-4.9	7.5	-3.8	-14.0	-3
Crude petroleum	-30.5	-2.4	-27.7	21.1	10.8
Coal	-1.6	.2	1.0	-2.1	-8

Dairy products. Prices for dairy products moved up 5.4 percent in 1995, after falling 2.0 percent in 1994. Price increases were registered for many manufactured dairy products as a result of strong demand, despite increased supplies of ingredient raw fluid milk. Prices turned up in 1995 after falling a year earlier for natural and processed cheese, fluid milk products, and condensed and evaporated milk. Fluid milk prices ended 1995 8.4 percent higher than a year earlier, following a 5.2-percent decline in 1994.

Energy

After decreasing in both 1993 and 1994, the Producer Price Index for crude energy materials turned up 3.7 percent in 1995. (See table 4.) The decline in the index for natural gas to pipelines slowed to 0.3 percent in 1995 from 14.0 percent in 1994. The coal index also fell less than in the previous year. By contrast, the increase in prices for crude petroleum was about halved, from 21.1 percent in 1994 to just 10.8 percent in 1995.

Prices for natural gas to pipelines fluctuated through 1995 as supplies shifted. Prices fell in the first quarter, rose in the second quarter, fell again in the third quarter, and then turned up sharply in the last 3 months of the year. Overall, this index edged down in 1995, reflecting the net effect of the mild 1994-95 winter weather and the continued effects of natural gas deregulation, which encourages more competition among sellers. Lower prices for coal continue to mirror the fact that the industry has been operating at excess production capacity for the past several years. Coal prices fell more in the first half of the year, when mild weather in some industrial regions reduced demand. Prices increased sharply in the second half on the strength of stronger demand for exports.

Prices for crude petroleum were higher than in 1994, reflecting low inventories and increased demand. Although total consumption for refined petroleum products fell in 1995, demand for gasoline and heating oil rose. Members of the Organization of Petroleum Exporting Countries agreed in 1995 to maintain their self-imposed 1993 production ceiling of 24.52 million barrels per day. Throughout 1995, some member nations reneged on their agreement.

The index for intermediate energy goods rose 1.1 percent in 1995, following a 2.9-percent rise in 1994. This deceleration in price increases was led by gasoline prices, which slowed to 2.4 percent from 11.2 percent in the previous year. Prices also rose less in 1995 than in 1994 for commercial power, liquefied petroleum gas, and industrial power. Prices turned down after rising in 1994 for residual fuel, petroleum and coal products not elsewhere classified, and natural gas to electric utilities. By contrast, price increases accelerated in 1995 for no. 2 diesel fuel and jet fuels. Prices for coke oven products turned up after falling in the previous year.

Table 5. Annual percent changes in Producer Price Indexes for selected intermediate and crude materials other than foods and energy, 1991-95

Index	1991	1992	1993	1994	1995
Intermediate goods other than foods and energy	-0.8	1.2	1.6	5.2	3.2
Nondurable manufacturing materials	-4.8	.3	-6	10.4	5.9
Inedible fats and oils	-6.3	16.0	-6.1	48.0	-3.9
Woodpulp	-23.3	5.7	-14.0	38.1	40.7
Basic organic chemicals ..	-8.7	.0	-7	15.7	.4
Durable manufacturing materials	-3.7	1.2	2.5	9.8	1.1
Copper	-6.6	-1.2	-19.7	68.1	-1
Aluminum	-25.8	7.4	-11.1	64.4	-7.3
Lead	-6.7	-8.5	.0	37.5	9.1
Construction materials .....	.8	2.7	5.0	3.9	1.9
Gypsum products	-6.2	4.4	12.8	30.8	1.0
Nonferrous wire and cable	-2.8	-8	-3.1	13.8	1.6
Softwood lumber	11.7	23.1	30.8	-9.6	-10.3
Crude nonfood materials less energy	-7.6	5.7	10.7	17.3	-4.2
Wastepaper	-17.4	11.7	-12.3	179.6	-50.9
Nonferrous scrap	-16.9	.9	-14.0	70.3	-10.3
Raw cotton	-23.7	-2.8	12.9	34.9	4.2

The index for residual fuels, a key component in the intermediate energy goods basket, fell 4.7 percent in 1995, after rising 10.2 percent in the previous year. Warm weather in the first quarter of 1995 and falling natural gas prices throughout much of the year contributed greatly to the decline in residual fuel prices. Consumption of residual fuel declined steeply over the first 6 months of the year. By yearend, however, demand increased, exacerbated by extreme cold weather in some parts of the country, as some utilities and industrial users with fuel-switching capability opted to use less costly residual fuel rather than natural gas.

Prices for finished energy goods increased 1.1 percent in 1995, following a 3.5-percent rise in 1994. Price increases slowed for gasoline and residential electricity. The index for finished lubricants turned down after rising in 1994. Prices continued to fall for residential natural gas. By contrast, price increases accelerated from 1994 to 1995 for home heating oil.

Although prices for premium gasoline fell slightly in 1995, unleaded and midgrade unleaded prices increased. Gasoline inventories were tight throughout the year, with demand for gasoline rising by 2.5 percent. The year 1995 brought to light some oddities in the gasoline market. For instance, during the first quarter, demand for gasoline increased partly in response to an unseasonably warm winter that made for more pleasant driving conditions. Then, during the summer, demand reached a 17-year high, as a weaker U. S. dollar abroad reduced foreign vacation travel by Americans. In addition, increases in

crude petroleum costs and concerns over the possibility of spot shortages, due to low gasoline inventories, combined to boost gasoline prices from April to September. Home heating oil prices fluctuated throughout the year; however, much of the overall rise in prices for home heating in 1995 occurred as a result of harsh winter weather in the latter months of the year, particularly December, when demand for home heating oil surged 17.8 percent.

Intermediate industrial materials

Price increases for intermediate materials other than foods and energy slowed to 3.2 percent in 1995 from 5.2 percent in 1994. The indexes for construction materials, durable and nondurable manufacturing materials, and components for manufacturing all increased less than in 1994. In contrast, price increases accelerated from 1994 to 1995 for supplies and containers for manufacturing.

Nondurable manufacturing materials. The index for nondurable manufacturing materials increased 5.9 percent in 1995, following a 10.4-percent advance in 1994. (See table 5.) This slowdown in price increases was led by industrial chemical prices, which rose just 1.1 percent, compared with an increase of 13.2 percent in the previous year. Price increases also slowed in 1995 for paperboard, fertilizer materials, and botanical chemicals. Prices turned down in 1995 after rising in 1994 for plastic resins and materials, inedible fats and oils, and leather. By contrast, price increases accelerated for paper, synthetic fibers, finished fibers, gray fabrics, woodpulp, paint materials, processed yarns and threads, and synthetic rubber.

In 1995, prices for basic organic chemicals, which are derivatives of gasoline and petroleum, moved up 0.4 percent, following a 15.7-percent advance in 1994. Benzene prices fell about as much in 1995 (23.9 percent) as they had risen in 1994. Benzene prices declined for much of 1995 due to worldwide overcapacity and lackluster demand from users at later stages of processing. By yearend, producers had begun to cut back on production. Prices for toluene, which generally shadow those for benzene, though with less volatility, ended the year 10.1 percent lower than in 1994. Prices for ethylene decreased about 31 percent in 1995, following a 42.9-percent surge in 1994. Ethylene prices were driven down by a number of factors, including high inventory as a result of increased production and a dearth of plant outages, and increased foreign investment in basic-chemical capacity, which closed off some lucrative markets for domestic producers. Increases in prices for petroleum and petroleum derivatives had an upward impact on prices for some other nondurable manufacturing materials, such as fertilizer materials, synthetic fibers and fabrics, and paint materials.

Prices for basic inorganic chemicals moved up 3.3 percent from 1994 to 1995. Significant increases occurred for alkalis and chlorine, on the strength of higher prices for liquid sodium hydroxide. Prices for the latter rose in the early months of 1995, continuing the 1994 recovery; prices peaked in April and remained steady for the rest of the year. Chlorine prices turned down in 1995 after rising in 1994 and nearly tripling in 1993. The reason was an adverse market, probably affected by the imposition of environmental regulations with stringent disposal requirements. As with sodium hydroxide, prices for chlorine were more volatile early in the year and then stayed fairly constant thereafter.

Prices for pulp and paper products generally rose sharply along a broad front in 1995. Prices for woodpulp jumped 40.7 percent, slightly more than in 1994. Woodpulp prices were bolstered by continued domestic and foreign demand. In spite of the price hikes for woodpulp in much of 1995, prices for wastepaper slumped. Stringent recycling efforts in most regions of the country led to a glut of wastepaper; demand from paper manufacturers for virgin woodpulp outpaced that for wastepaper. Paperboard prices rose somewhat less rapidly in 1995 (16.3 percent) than in 1994 (20.1 percent). Price increases throughout 1995 were a function of rising costs for materials and greater demand. Increases in industrial production resulted in more demand for boxes and the paperboard used to produce them. Price increases for paper accelerated from 11.3 percent in 1994 to 20.5 percent in 1995. Prices rose steadily in the first 10 months of the year and then dipped in November and December. For most of the year demand was strong, both domestically and internationally, for coated and uncoated stock, as well as for newsprint. At the end of 1995, prices for newsprint were 46.3 percent higher than in the previous year; prices had risen 14.7 percent in 1994. Domestic producers of newsprint benefited greatly from reduced Canadian production as a result of labor upheaval.

Durable manufacturing materials. In 1995, prices for durable manufacturing materials increased 1.1 percent, following a 9.8-percent advance in 1994. The slower rate of increase was widespread. Price increases decelerated for several materials: copper and brass mill shapes; steel mill products; aluminum mill shapes; cement; and gold, lead, and platinum. In addition, prices for several materials—plywood, building paper and board, flat glass, hardwood lumber, and silver—turned downward after rising substantially the year before. By contrast, price increases accelerated from 1994 to 1995 for prepared paint, unalloyed aluminum ingots, domestic copper cathodes, other miscellaneous metal products, and zinc slab.

Prices for aluminum decreased 7.3 percent in 1995 after increasing 64.4 percent in 1994. Prices were fairly robust during the first quarter of 1995, continuing the steep runup

that occurred in 1994. During the first 3 months of 1995, aluminum prices rose, and London Metal Exchange (LME) inventories were relatively low. However, after peaking in March, prices began to slide in the third quarter. Traders largely discounted the dwindling inventory situation and appeared more concerned that domestic demand was declining and that much idled capacity would be restarted. Prices continued to decline in the second half of the year as LME inventories turned up sharply. The upturn in inventories, combined with persistent rumors of restarts of idled equipment at smelters, sent prices down. Concerns about returning to a supply glut, similar to the one that existed prior to the formalization of a productin pact among aluminum-producing countries in 1994, were so pervasive that a strike at several smelters in Quebec near yearend was insufficient to turn prices around in the fourth quarter.

Copper prices decreased 0.1 percent in 1995 after skyrocketing in 1994. Demand was fairly strong throughout 1995, reflecting steady drawdowns in world inventories. Worldwide demand increased from the electronic and telecommunication industries in emerging markets. Domestically, copper prices mirrored the demand of the construction industry, the largest consumer of copper. Prices for domestic copper cathodes ran up briefly in November; however, the market showed signs of a slowdown at the close of the year, and there were indications that inventories were up at yearend.

Lead prices rose 9.1 percent in 1995 after increasing 37.5 percent in 1994. Most domestically produced lead is used in the manufacture of motor vehicle batteries. The bitter cold weather at the beginning of 1995 boosted demand for replacement batteries. By midyear, demand rose sharply again, this time from automobile manufacturers gearing up for new-model-year production. Prices for zinc slab decreased in 1995, with zinc inventories remaining fairly high by historical standards throughout the year.

Construction materials. A decline in residential investment during the first half of the year was a major factor in slowing the rate of economic growth. The rise in mortgage interest rates in 1994 had a lagged effect on the housing market, which began to lose its footing early in 1995 as housing starts and home sales both fell during the first quarter. Residential investment, which had shown hints of weakness toward the end of 1994, declined abruptly during the first half of 1995. By June, however, declining mortgage rates had revived the housing sector, as both starts and sales regained some ground. The improvement held firm over the summer and was reflected in a bounce back in residential investment during the third quarter.

The Producer Price Index for construction materials rose 1.9 percent in 1995, after increasing 3.9 percent in 1994. Price increases slowed for plastic construction products, nonfer-

rous wire and cable, gypsum products, millwork, concrete products, fabricated ferrous wire products, and cement. After advancing 10.6 percent in the year before, plywood prices turned down 8.5 percent. By contrast, prices rose more rapidly in 1995 than in 1994 for air conditioning and refrigeration, heating equipment, wiring devices, metal valves except fluid power, plumbing fixtures and brass fittings, and steel wire. The index for asphalt felts and coatings moved up in 1995 after showing no change in 1994. Prices continued to rise for fabricated structural metal products and for switchgear and switchboard equipment.

The index for softwood lumber fell 10.3 percent in 1995, after decreasing 9.6 percent in the previous year. Prices fluctuated throughout the year, falling when weather conditions and higher interest rates hampered housing starts, and rising briefly when demand improved. The index registered a decline in 8 months out of the year. This index is closely watched when one assesses changes in prices of homes, because the cost of softwood lumber used as framing is about \$8,000 in a typical new home.

The slump in residential construction had a moderating effect on prices for gypsum products, even though there were signs of steady demand from the home improvement market. The Producer Price Index for gypsum products increased 1.0 percent in 1995, after surging more than 30 percent in 1994. Most (uncalcined) gypsum is used to manufacture prefabricated products such as wallboard. Prices for insulation materials, including mineral wool batts, as well as for gaskets and sealing devices, moved up modestly, buoyed by energy conservation efforts.

Prices for cement increased 6.0 percent in 1995 after rising 7.0 percent in 1994. These price changes translated rather rapidly into higher prices for concrete and concrete products. Much of the 1995 increase in cement prices was due to the imposition of an antidumping duty on imports from Mexico, which led domestic producers to raise prices to close the supply shortfall.

Basic industrial materials

From December 1994 to December 1995, the Producer Price Index for crude nonfood materials other than energy turned down 4.2 percent, following a 17.3-percent advance a year earlier. This index is usually considered an indicator of the future strength of the economy. In the first half of 1995, it moved up at an 11.9-percent annual rate; it then fell at an 18.0-percent annual rate during the second half.

Prices turned down sharply in 1995 after rising significantly in 1994 for wastepaper, aluminum base scrap, and cattle hides. Prices also turned down after increasing in the previous year, although not as dramatically, for iron and steel scrap and for softwood logs. Price increases slowed from

1994 to 1995 for copper base scrap, raw cotton, gold ores, hardwood logs, and leaf tobacco. By contrast, price increases accelerated in 1995 for copper ores, iron ores, sand and gravel, and pulpwood logs. Prices continued to rise markedly for phosphates.

Wastepaper prices were more than halved in 1995, following a rise of almost 180 percent in the preceding year. Successful mandatory campaigns in various parts of the country to recycle paper have caused imbalances from time to time in the supply and demand of wastepaper. Shortages result in prices skyrocketing and make virgin woodpulp a viable substitute, while oversupplies, though often temporary, send prices plummeting. The wastepaper industry continues to reap the benefits of improved rates of usage of recovered paper at new mills, as well as high demand from foreign markets.

Prices for aluminum base scrap dropped 20.8 percent in 1995, after surging 86.4 percent in the previous year. Concerns about the size of LME inventories and weakening prices for primary aluminum along with slackened demand in export markets for aluminum scrap dampened prices. Overall nonferrous exports sank to their lowest level in 9 months during October. Near yearend, LME warehouses were bulging with 31,000 tons of aluminal alloy, after starting the year with only 1,100 tons. In contrast, demand for exports pushed prices for copper base scrap up moderately in 1995. Like prices for aluminum base scrap, those for copper base scrap had risen sharply in 1994. In 1995, prices for copper base scrap peaked in August. A downturn in exports during the third and fourth quarters, coupled with sluggish domestic demand and an oversupply of certain grades of the metal, contributed to lower prices.

Prices for raw cotton moved up 4.2 percent in 1995. Prices were up more than 30 percent in the first 6 months of the year due to heavy use of domestic mills and an anticipated high demand for exports. However, prices fell sharply in the latter half of the year because of the combined effects of slackening domestic demand and resistance to higher prices. In addition, foreign demand fell notably when China brought its boll weevil infestation problem under control. Similarly, raw wool prices fell in 1995 as domestic mill consumption and world demand dropped. Sustained increases in demand for leaf tobacco exports outweighed the effects of decreased domestic tobacco consumption. Leaf tobacco prices fluctuated mildly throughout the year, ending 1 percent higher than in 1994.

Selected industries

Mining. Following a decrease of 0.7 percent in 1994, the index for the net output of total mining industries fell 3.1 percent in 1995. As in 1994, prices for the oil and gas extraction industry group dropped more than 6 percent. The index for the bituminous and lignite mining industry group declined

1.8 percent in 1995, after inching down 0.1 percent in 1994. Prices for the anthracite mining industry group turned down 1.1 percent after increasing 0.9 percent in 1994. By contrast, price increases for the metal mining industry group accelerated from 16.8 percent in 1994 to 24.6 percent in 1995. Prices also rose somewhat faster than in the previous year for the industry group designated mining and quarrying of nonmetallic minerals.

Manufacturing. The Producer Price Index for the net output of the domestic manufacturing sector increased 2.9 percent from December 1994 to December 1995, following a 1.4-percent rise a year earlier. Much of the acceleration in price increases in 1995 was due to the industry groups for petroleum refining and tobacco manufactures, both of whose prices turned up significantly after declining in the previous year. In addition, prices rose more rapidly in 1995 than in 1994 for the industry groups for textile mill products, apparel, paper and allied products, printing and publishing, chemicals and allied products, rubber and plastic products, leather products, primary metal industries, fabricated metal products, and measuring instruments. Prices continued to increase for food and kindred products, nonmetallic mineral products, and the electrical machinery industry groups. By contrast, prices turned down after rising a year earlier for the lumber and wood products industry group. Prices rose less rapidly in 1995 than in 1994 for the industry groups for furniture and fixtures and for transportation equipment.

Services. The index for railroad line haul operations inched down 0.2 percent in 1995, after rising 0.4 percent in 1994. Declines were registered for coal, wood or lumber products, petroleum or coal products, nonmetallic minerals, food products, and transportation equipment operations. These decreases offset increases for farm products, metallic ores, pulp paper products, chemical products, and primary metal products operations. Although the overall decrease in charges for railroad line haul operations in 1995 was marginal, there were several significant developments in the industry. After a lull of several years, merger activity surged during 1995. Mergers have increased productivity in some areas by eliminating parallel lines, creating long-haul corridors, reducing high labor costs, and lowering freight rates. In 1995, there were also signs of increased use of innovative technology and the implementation of new marketing and pricing strategies.

As in 1994, the industries that provide domestic deep-sea transportation of freight experienced increased use of independent or for-hire operators, rather than private carriers, to transport the crude petroleum of their parent companies. Private carriers opted to defer the costly replacement of aging fleets, particularly in light of skyrocketing premiums for required liability insurance coverage.

After rising almost 16 percent in 1994, the index for water transportation of freight (not elsewhere classified) moved up 9.7 percent in 1995, mostly on the strength of a 21.8-percent advance in charges for the shipment of farm products along the Mississippi River. Barge operators reported a banner year, as both shipping rates and tonnage increased. The rise in shipments of farm products reflected a significant increase in demand for exported foods, as well as pent-up demand for shipping services as a result of flooding during early spring in parts of the Midwest. Widespread increases were registered within the tugging and towing services index in 1995. Charges for marine cargo handling, on the other hand, moved down 0.9 percent in 1995, about twice as much as a year earlier. Fierce competition among ports continued in this buyer's market.

The index for the trucking and courier services (except by air) industries increased 1.8 percent in 1995. Slow, steady increases have been registered throughout this grouping in recent years. Fierce intraindustry competition limited rate hikes so that they did not fully cover increased costs for wages, worker benefits, and fuel. The index for local trucking with storage rose 1.9 percent, and that for courier services (except by air) was up 3.3 percent.

The index for scheduled air transportation advanced 8.7 percent in 1995. Practically all of this rise was a result of a 9.8-percent jump in prices for scheduled passenger transportation. After a 3-year slump, major domestic carriers returned to profitability, as strong demand resulted in more seats being filled. Unlike what occurred in recent years, the 1995 increase held, allowing airlines to recoup rising costs, particularly for jet fuel. As in recent years, widespread discounting of fares continued; however, reductions are calculated from much higher base prices. The air courier services index moved up 1.9 percent in 1995, slightly more than a year earlier. During the holiday season in the fourth quarter of 1995, the industry experienced a major work slowdown that sent unaffected couriers scrambling to pick up business from affected ones, as well as handle the usual increased holiday traffic.

The index for airports, flying fields, and airport services increased 2.2 percent in 1995, after rising 1.1 percent in 1994. The 1995 rise mostly reflected increases for leased space for concessions and for services rendered to air passenger and cargo carriers. The U.S. Congress has effectively limited the passenger facility charge as a source of revenue by enacting a cap of \$3.00 per person. This has caused airports to rely more on concessionaire's rents, which are escalated on a percentage of the vendor's gross receipts.

A 13.5-percent decline in commissions for airline arrangements caused the index for travel agents to drop in 1995. The decrease resulted from the decision by airlines to cap commissions at \$50.00 for all domestic flights. The airlines continue to pay a 10-percent commission (with the cap) for do-

mestic tickets and an 8-percent commission (with no cap) for international tickets.

The index for truck rental and leasing increased 3.6 percent in 1995, after rising 2.2 percent in 1994. In 1995, truck rental prices rose by dint of strong demand. Truck leasing rates, which are negotiated for much longer terms than rental rates, also increased in 1995. The index for passenger car rentals, without drivers, rose 7.4 percent in 1995, following a 2.4-percent increase in 1994. In 1995, the index rose during peak travel and vacation periods and fell during offpeak periods. The index for passenger car rentals did not drop much after the summer driving season, because car rental companies experienced higher costs for 1996 fleet purchases.

The hotels and motels index advanced 4.0 percent in 1995, after rising 1.4 percent in 1994. Prices for guestroom rental, which makes up the largest part of the industry, increased 5.3 percent in 1995. Prices for food and beverages moved up 2.7 percent, and prices for other guestroom rentals, including casino hotels, increased 1.4 percent. This segment of the industry experienced strong growth, and there was much optimism about adding more casinos, particularly in the East.

The radio broadcasting index advanced 5.8 percent in 1995, after rising 6.8 percent in 1994. The largest increase was for commercials sold in package plans. The index for cable and other pay television services increased 3.2 percent in 1995. Intense negotiations on telecommunications legislation led cable companies to defer large capital outlays, such as technological upgrades and joint ventures with telephone companies. Slow, steady increases were implemented during the last quarter of the year, and legislation was enacted that preserved controls on large cable companies while abolishing them on smaller ones.

An increase of more than 5 percent in both the index for skilled and intermediate care facilities and the index for medical laboratories caused much of the 3.5-percent overall increase in the health services index in 1995. Most of the change in prices for skilled and intermediate care facilities occurred in July, when annual per diem rates are updated. Much of the yearly advance in the index for medical laboratories was attributable to higher reimbursement rates for urinalysis and hematology. The index for offices and clinics of doctors also moved up in 1995; as in 1994, the largest increase was in the pediatrics index. The medicare treatments category moved up in January, when the Health Care Financing Administration effected the 1995 Resource Based Relative Value Scale payment mechanism for physician services.

The indexes for help supply services increased 3.8 percent in 1995. The increases were widespread, with the largest for office and clerical occupations. These occupations are in competition with employment agencies. The temporary help supply service industry was characterized by robust growth throughout 1995.

The index for building cleaning and maintenance services

(not elsewhere classified) increased 1.6 percent in 1995, which was the first year of publication of this index. About 75 percent of the index represents janitorial/custodial services and other building and cleaning and maintenance services. The remainder of the index covers maid services, window-cleaning services, and chimney sweep services.

After advancing 22.2 percent in 1994, prices for scrap metal collection turned down 6.5 percent in 1995 in response to a drop in demand for scrap metals. Prices for wastepaper collection plummeted almost 50 percent in 1995 from near-record prices at the end of 1994. Prices increased in the first half of 1995, but declined sharply thereafter. □

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