

Consumer price index, 2004

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new and used motor vehicles, and shelter*

Todd Wilson

The Consumer Price Index for All Urban Consumers (CPI-U) for All Items for the U.S. city average increased 3.3 percent in 2004, up from a 1.9-percent rise during the prior year.¹ Last year's acceleration in this index largely reflects higher price increases for energy (motor fuel and household fuels), new and used motor vehicles, and shelter. Other components contributing to the acceleration include the upturn in the index for household furnishings and operations; a smaller decline in the apparel index; a larger increase in prices for professional medical services; an upturn in the cigarettes index; and a larger increase in prices for water and sewerage maintenance. These higher increases, compared with 2003, offset lower food inflation and declining airline fares.

Excluding both food and energy, slightly higher commodity prices contributed to the acceleration in the all items index last year. The index for commodities less food and energy index rose 0.6 percent last year, after decreasing 2.5 percent in 2003. Commodities are generally subject to greater global competition than services, and generally increase in price less than services. Durable commodities prices (including vehicles, furniture and bedding, computers, and so forth) increased 0.4 percent in 2004, after decreasing 4.3 percent during the prior year. Largely reflecting higher prices for gasoline and household heating (fuel) oil, the nondurables index rose 4.8 percent in 2004, following a 2.4-percent advance during the earlier year. The aggregate commodities index rose 3.6 percent in 2004, following a 0.5-percent increase

in 2003. Services inflation accelerated last year, increasing 3.1 percent, compared with 2.8 percent in 2003, largely reflecting higher prices for shelter and medical care services.

The CPI-U excluding food and energy prices increased 2.2 percent in 2004, after rising 1.1 percent in 2003.² (See table 1.) According to a 2004 Federal Reserve Board monetary report to Congress, this index accelerated last year, in part, as a consequence of the indirect effects of three sources of higher business costs that were passed on to consumers. First, businesses paid sharply higher energy prices. Second, the depreciation of the dollar against major world currencies over the past 3 years led to an increase in non-oil import prices in 2004. Third, global prices for primary commodities surged last year—for example, for metals such as iron, steel, copper, and aluminum.³

Other price measures

The Producer Price Index (PPI) for finished goods increased 4.1 percent last year, compared with 4.0 percent in 2003. Excluding food and energy, the PPI for finished goods increased 2.2 percent in 2004. The PPI for intermediate materials less foods and energy increased 8.3 percent last year. The PPI for crude nonfood materials less energy increased 20.1 percent in 2004. Various domestic (and imported) metals prices, which are crude commodities, advanced dramatically in 2004. Iron and steel scrap prices rose 48.6 percent, while copper base scrap prices increased 35.5 percent. The PPI does not reflect changes in import prices.

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Table 1. Annual percent change in the Consumer Price Index for All Urban Consumers (CPI-U), selected expenditure categories, 1995–2004

| Expenditure category | Dec. 2004 relative importance | Percent change for 12 months ended December— | | | | | | | | | |
|--|-------------------------------|--|------|-------|-------|-------|-------|-------|-------|-------|-------|
| | | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| All Items | 100.000 | 2.5 | 3.3 | 1.7 | 1.6 | 2.7 | 3.4 | 1.6 | 2.4 | 1.9 | 3.3 |
| Food | 14.295 | 2.1 | 4.3 | 1.5 | 2.3 | 1.9 | 2.8 | 2.8 | 1.5 | 3.6 | 2.7 |
| Energy | 7.991 | -1.3 | 8.6 | -3.4 | -8.8 | 13.4 | 14.2 | -13.0 | 10.7 | 6.9 | 16.6 |
| All items less food and energy | 77.714 | 3.0 | 2.6 | 2.2 | 2.4 | 1.9 | 2.6 | 2.7 | 1.9 | 1.1 | 2.2 |
| Commodities less food and energy | 21.674 | 1.7 | 1.1 | .4 | 1.3 | .2 | .6 | -.3 | -1.5 | -2.5 | .6 |
| All items less energy | 92.009 | 2.9 | 2.9 | 2.1 | 2.4 | 2.0 | 2.6 | 2.8 | 1.8 | 1.5 | 2.2 |
| Services less energy services | 56.040 | 3.6 | 3.3 | 3.0 | 3.0 | 2.7 | 3.4 | 4.0 | 3.4 | 2.6 | 2.8 |
| Commodities | 40.239 | 1.4 | 3.2 | .2 | .4 | 2.7 | 2.7 | -1.4 | 1.2 | .5 | 3.6 |
| Durables | 10.967 | 1.7 | .7 | -1.5 | -.5 | -1.2 | .0 | -1.3 | -3.3 | -4.3 | .4 |
| Furniture and bedding | .979 | 4.2 | 1.0 | -7 | 1.4 | -1.3 | .4 | -3.1 | -1.1 | -1.6 | -.2 |
| Televisions | .132 | -4.0 | -5.3 | -4.3 | -4.8 | -7.3 | -10.7 | -10.8 | -10.6 | -14.3 | -12.3 |
| New motor vehicles | 4.692 | 1.9 | 1.8 | -.9 | .0 | -.3 | .0 | -.1 | -2.0 | -1.8 | .6 |
| Used cars and trucks | 2.037 | 4.4 | -1.6 | -4.9 | 3.5 | 1.2 | 3.4 | -1.9 | -5.5 | -11.8 | 4.8 |
| Personal computers and peripheral equipment | .192 | - | - | - | -35.8 | -26.5 | -22.7 | -30.7 | -22.1 | -17.8 | -14.2 |
| Nondurables | 29.271 | 1.4 | 4.0 | .8 | .7 | 4.1 | 3.6 | -1.4 | 3.1 | 2.4 | 4.8 |
| Energy commodities | 4.269 | -3.3 | 13.8 | -6.9 | -15.1 | 29.5 | 15.7 | -24.5 | 23.7 | 6.9 | 26.7 |
| Gasoline | 3.934 | -4.2 | 12.4 | -6.1 | -15.4 | 30.1 | 13.9 | -24.9 | 24.8 | 6.8 | 26.1 |
| Fuel oil | .204 | 1.5 | 23.3 | -11.7 | -15.2 | 30.9 | 40.5 | -26.7 | 14.7 | 7.8 | 39.5 |
| Apparel | 3.841 | .1 | -.2 | 1.0 | -.7 | -.5 | -1.8 | -3.2 | -1.8 | -2.1 | -.2 |
| Medical care commodities | 1.484 | 1.8 | 2.6 | 2.3 | 4.1 | 4.0 | 2.8 | 4.4 | 3.1 | 2.1 | 2.2 |
| Prescription drugs and medical supplies | 1.092 | 2.0 | 3.2 | 2.5 | 4.9 | 6.1 | 3.6 | 6.0 | 4.5 | 2.5 | 3.5 |
| Services | 59.761 | 3.5 | 3.3 | 2.8 | 2.6 | 2.6 | 3.9 | 3.7 | 3.2 | 2.8 | 3.1 |
| Shelter | 32.686 | 3.5 | 2.9 | 3.4 | 3.3 | 2.5 | 3.4 | 4.2 | 3.1 | 2.2 | 2.7 |
| Rent of primary residence | 6.133 | 2.5 | 2.8 | 3.1 | 3.4 | 3.1 | 4.0 | 4.7 | 3.1 | 2.7 | 2.9 |
| Owners' equivalent rent of primary residence | 23.158 | 3.7 | 2.8 | 3.1 | 3.2 | 2.4 | 3.4 | 4.5 | 3.3 | 2.0 | 2.3 |
| Utility natural gas service | 1.317 | -3.6 | 11.0 | 3.3 | -3.5 | 2.1 | 36.7 | -15.1 | 6.7 | 17.4 | 16.4 |
| Medical care services | 4.649 | 4.4 | 3.2 | 2.9 | 3.2 | 3.6 | 4.6 | 4.8 | 5.6 | 4.2 | 4.9 |
| Airline fares | .605 | 1.8 | 14.7 | -4.8 | 4.1 | 10.9 | 5.9 | -3.9 | -2.4 | -.1 | -1.5 |
| Telephone services | 2.187 | - | - | - | .3 | .4 | -2.3 | 1.3 | .2 | -2.7 | -2.5 |
| Motor vehicle fees | .496 | - | - | - | 3.1 | 1.4 | 3.5 | 2.0 | 3.3 | 6.8 | 8.6 |
| Medical care | 6.132 | 3.9 | 3.0 | 2.8 | 3.4 | 3.7 | 4.2 | 4.7 | 5.0 | 3.7 | 4.2 |

NOTE: Data are not seasonally adjusted. Dash indicates data are not available.

Excluding petroleum, import prices advanced 3.7 percent in 2004, the highest increase in 10 years, following a 1.2-percent increase in 2003, as measured by the Import Price Index. The base metals and articles of base metal import price index—which represents nearly 6 percent of the All Commodities import price index—rose 26.7 percent, reflecting double-digit increases in prices for iron and steel; articles of iron or steel; copper and articles thereof; aluminum and articles thereof; and miscellaneous nonferrous metals and articles, including scrap.

A 2005 Federal Reserve Board monetary report to Congress suggests that even though the value of the dollar has declined against most major world currencies since early 2002, most exporters to the United States seem to have avoided raising prices in 2002 and 2003 in an effort to maintain their market share. During that time, many exporters to

this country apparently decided to absorb declining dollar values by reducing their profit margins, rather than resorting to raising dollar prices. However, by 2004, the dollar's value had declined to such a low level that many exporters to this country increased prices to offset the increasing cost of exchanging dollars for foreign currencies.⁴ After peaking in 1995, import prices excluding petroleum in this country declined at an average annual rate of 1.2 percent through 2003. Prior to 2004, these declining import prices damped input costs for many businesses in this country. Furthermore, these lower import prices have inhibited price increases by domestic firms facing import competition.

Energy and food prices

Energy. Energy prices increased strongly in 2004, 16.6 percent, after rising 6.9 percent in 2003. The energy index, which

represents about 8 percent of the All items index, comprises two fairly equally weighted components: motor fuel and household fuels. Energy commodity prices, mainly gasoline and home heating (fuel) oil, rose 26.7 percent. Energy services charges—gas (piped) and electricity—rose 6.8 percent.⁵

Last year, sharply higher crude oil prices led to increases for, among others, two crude oil products: gasoline and fuel oil. Both crude oil and fuel oil inventory levels remained in the lower half of a 5-year range throughout 2004. Meanwhile, during the first half of 2004, gasoline inventory levels fell in the lower half of such a range. Gasoline prices increased 26.1 percent in 2004, after increasing 6.8 percent in the prior year. Fuel oil prices rose 39.5 percent in 2004, after rising 7.8 percent during the earlier year.

During 2004, crude oil prices soared as the world's oil-production capacity utilization neared historically high levels, and as the world's demand for oil continued to rise strongly. Last year, oil prices rose sharply despite a 7.5-percent increase in the average daily number of barrels of petroleum supplied by the Organization of Petroleum Exporting Countries (OPEC)—from 30.6 million in 2003, to 32.9 million in 2004. OPEC petroleum production in 2004 accounted for about two-fifths of the world's petroleum production.⁶ (OPEC holds about two-thirds of the world's proven oil reserves.)⁷ According to the U.S. Department of Energy's *OPEC Revenues Fact Sheet*, the following events during 2004 contributed to the sharp advance in prices for world crude oil and its products, including gasoline and fuel oil.⁸

- low stocks of crude oil stored commercially
- uncertainty about the size of Iraqi oil exports amid the continuing terrorist attacks on that country's oil infrastructure
- disruptions in U.S. Gulf Coast and offshore oil production following Hurricanes Charley, Frances, and Ivan, with Ivan being the most severe
- a surprisingly large increase in world demand for crude oil—especially from China, accompanying that country's economic expansion
- worldwide oil production capacity constraints
- Venezuelan political instability
- labor strikes in Nigeria
- internal strife between the Russian government and Russia's Yukos oil and gas company

The United States is quite dependent on the Gulf of Mexico for both oil and natural gas production. In mid-September, Hurricane Ivan destroyed offshore drilling infrastructure and

oil and gas pipelines in the Gulf, curtailing both crude oil and natural gas production. Production losses during September amounted to 11 percent of total U.S. oil production, and 3.3 percent of total U.S. natural gas production. The production losses resulted from damage by Hurricane Ivan that included the following: 7 platforms destroyed, 13 leaks of oil and gas pipelines, 2 spars and 4 mobile rigs heavily damaged.⁹

As noted above, China's demand for petroleum grew last year, up 17.8 percent—from an average of 5.6 million barrels per day in 2003, to 6.6 million in 2004, primarily reflecting an increase in demand for oil-generated power. Demand for petroleum in the United States grew 2.5 percent over the same period, from an average of 20.0 million barrels per day in 2003, to 20.5 million in 2004. (Last year, the United States purchased about one quarter of the petroleum sold in the world.)¹⁰

The price of world crude oil advanced from about \$29 per barrel in December 2003, to about \$38 per barrel in December 2004. This price peaked at about \$46 per barrel in October.¹¹ In December 2003, the average price per gallon of regular unleaded gasoline was \$1.49. By December 2004, that price had risen to \$1.88.

Prices for energy services, natural (utility piped) gas and electricity, rose 6.8 percent. Natural gas prices rose 16.4 percent. Many industrial users and electric power companies have the ability to substitute natural gas for fuel oil. As a result, prices for the two goods often move similarly. Natural gas prices rose sharply, accompanying both rising crude oil prices and declining natural gas production in 2004. About two-thirds of last year's increase in natural gas prices occurred during the fourth quarter. According to the U.S. Department of Energy, U.S. natural gas production decreased 1.9 percent during the first 11 months of 2004, compared with the same period in 2003. Consumption decreased 0.6 percent over the same period.¹² Electricity prices increased 2.1 percent in 2004.

Food. Food inflation was lower in 2004, 2.7 percent, compared with 3.6 percent during the prior year. Decreases in beef and veal and egg prices—along with lower price increases for pork, fish and seafood, and cereals and bakery products—offset higher increases in prices for chicken, dairy products, and fresh fruits and vegetables. The food at home (grocery store food) index advanced 2.4 percent last year, down from a 4.5-percent advance during the prior year. The food away from home (restaurant food) index rose 3.0 percent, up from a 2.3-percent increase in 2003.

Beef and veal prices declined 0.9 percent in 2004, following a 23.5-percent increase in 2003. Last year's price decrease, led mainly by a dramatic reduction in beef and veal products exports, occurred despite a 6.5-percent decrease in beef production.¹³ The number of cattle slaughtered in the United

States declined sharply in 2004, resulting from extremely low cattle inventory levels. Meanwhile, the exporting of U.S. beef and veal products fell dramatically. The discovery on December 23, 2003, of a dairy cow infected with mad cow disease in Washington State, which had been born in Canada, led to a ban on U.S. beef by most major importers. After exporting nearly 10 percent of U.S. beef and veal production in 2003, U.S. exports plummeted in 2004, when less than 2 percent of production was exported. Comparing 2003 exports with those for 2004, beef and veal product exports plummeted from 2.5 billion pounds to 434 million pounds. More than 2 billion pounds of these products, intended for export, remained in this country last year. Per capita U.S. beef consumption rose 1.5 percent. Over the same period, beef and veal imports rose 18.5 percent, adding further downward pressure to these prices in this country. The majority of this increase came from Canada and Uruguay. (Last year, Canadian beef imports rebounded following an international ban on Canadian cattle and beef during part of 2003. The ban followed the discovery on May 20, 2003, that a cow in Canada had mad cow disease.)¹⁴

The eggs index declined 19.9 percent in 2004, after increasing 30.1 percent in 2003. Table egg production rose to a record high due to a sharp rise in the number of U.S. layer flocks. The increase in the layer numbers resulted from the repopulation of laying flocks following the widespread infection of Exotic Newcastle Disease during the first half of 2003. Economic incentives also contributed to the rise in layer numbers following rapidly increasing producer returns during the second half of 2003, led by quickly rising egg prices. The quick increase in laying flock numbers created the biggest U.S. egg-type layer inventory since the inception of this measure, by the U.S. Department of Agriculture, in 1980.¹⁵

Pork prices advanced 4.7 percent in 2004, slightly less than the 5.2-percent 2003 increase. Despite a 3.0-percent increase in pork production in 2004, pork prices still rose in 2004 almost as much as during the prior year. Demand for pork was brisk last year for both domestic and export markets. In 2004, the United States exported 24.3 percent more pork products than in 2003. Japan, Mexico, and Canada account for about three-quarters of U.S. pork-product exports. Taiwan moved up to become the fourth largest importer of U.S. pork products last year. For the first 11 months of 2004, Taiwan imported 50.3 percent more U.S. pork products than during the same period in 2003, mainly due to the prevalence of the disease Porcine Circovirus in the Taiwanese swine herd.¹⁶

Chicken prices rose 5.8 percent last year, after increasing 4.7 percent in 2003. During the first 5 months of 2004, cold storage stocks of broiler products were below year-ago levels. Accordingly, chicken prices increased during that time, through August. Beginning in June, storage stocks began increasing again.¹⁷ During the last 4 months of 2004, chicken

prices declined. Broiler consumption rose 3.7 percent. Broiler production and export data, on the other hand, reflect downward pressure on chicken prices. Broiler production rose 4.1 percent in 2004. Broiler exports decreased 5.2 percent last year, reflecting decreases in shipments chiefly to Hong Kong, the rest of China, Korea, Japan, and Russia.¹⁸ There were outbreaks of Avian Influenza among chickens in Delaware, New Jersey, Pennsylvania, Texas, and Maryland. The decrease in broiler exports followed a ban by many foreign countries on broilers from these States.¹⁹

Prices for dairy products advanced 4.1 percent last year, after increasing 3.4 percent in 2003. Milk prices rose 5.9 percent. Cheese prices increased 5.3 percent. Milk production was about unchanged in 2004, while commercial use of milkfat rose 0.8 percent. Commercial use of skim solids rose 4.2 percent. Government net removals of both milkfat and skim solids decreased dramatically. Commercial exports of skim milk powder supplies, which absorbed almost all of the domestic surplus of skim solids, were at least the second-largest on record, but most likely did not match the 1989 record.²⁰

According to the U.S. Department of Agriculture (USDA), milk powder demand from eastern Asia was strong, reflecting growing economies in that region. Latin American imports remained robust in 2004. The USDA also found that higher crude oil prices and profits led to an advance in milk powder demand from oil-producing countries in the Middle East and North Africa, among other countries. The rebuilding of Iraq and Afghanistan also led to an increase in milk powder demand in those countries.²¹

Fresh fruit prices rose 7.3 percent in 2004, after rising 1.4 percent in the prior year. Last year, citrus fruit prices increased 11.8 percent; prices for oranges, including tangerines, rose 6.6 percent; and other fresh fruit prices increased 11.5 percent. Florida orange and grapefruit supplies were down sharply during 2004 due to the hurricanes in September. Grape production and imports were down. Pear production declined last year.

Fresh vegetable prices rose 11.9 percent last year, compared with 7.6 percent in 2003. Tomato prices increased 49.5 percent. The September hurricanes wiped out more than half of the Florida tomato crop. Potato prices rose 7.5 percent.

Items other than food and energy

Vehicles. Used car and truck prices rose 4.8 percent in 2004, after decreasing 11.8 percent in 2003, even though demand for used vehicles was down. The total number of used vehicles sold at the retail level decreased 2.4 percent. These prices increased mainly as a result of a large decline in the supply of retail consumer vehicles coming off lease (lease terminations)—a 19.9-percent decline, amounting to 690,000

cars and trucks, comparing off-lease volume in 2003 with that in 2004. The number of off-lease consumer vehicles sold at auctions declined 28.5 percent in 2004. The number of lease terminations has been declining for 4 years. The number of new vehicle lease originations plummeted during the 4-year period ending 2003, by approximately 50 percent. Between 1991 and 1999, the number of new vehicle lease originations surged from 700,000 to 3.7 million. During the second half of that decade, the supply of used cars and trucks on the market from lease terminations had risen to such a large extent that the residual values of those vehicles—the value at the end of the lease period—ended up being a lot less than lessors had forecasted. As a result, many lessors incurred large residual losses in the late 1990s. Several banks left the leasing market beginning in 2000. Consequently in the early 2000s, vehicle manufacturers offered consumers added incentives to finance rather than lease new vehicles, including higher cash rebates, lower interest rates, and fewer lease promotions. Another key factor that led to the reduction in the number of new vehicle lease originations was the lowering, by lessors, of forecasted residual values that resulted in higher monthly lease payments.

Leased cars and trucks prices decreased 4.2 percent in 2004, following an 11.8-percent decrease in the prior year. The decline in the leased cars and trucks index only partially offset the advance in the used cars and trucks index because the relative importance of the former is less than half of that of the latter.

New vehicle prices, following a 1.8-percent decrease in 2003, remained nearly unchanged last year—increasing 0.6 percent, the first increase since 1996. Both new car and new truck prices each increased 0.5 percent in 2004. New vehicle sales, by volume, rose 1.4 percent last year, after decreasing 1.0 percent in 2003.²² Production in the United States rose 0.4 percent.²³ Foreign automakers continued to compete intensely with U.S. manufacturers last year. Each year, competition intensifies among automakers as additional new models become available, especially foreign models. Foreign manufacturers continued to cut costs last year and hold steady the prices of new vehicles. Also, foreign vehicle makers are able to create new models in less than the time required by domestic makers, a practice that allows them to set new trends in vehicle design.

Increased manufacturer rebates and dealer discounting also served to hold down new vehicle prices in 2004.

Shelter. Shelter costs rose 2.7 percent last year, following a 2.2-percent advance in 2003, which was the lowest calendar-year increase since 1965. About 90 percent of the shelter component is made up of owners' equivalent rent of primary residence plus rent of primary residence. These two indexes accelerated very slightly in 2004. The remaining three

components of shelter—hotels and motels, lodging while at school, and tenants and household insurance—each advanced much more in 2004 than did the two rent indexes.

The index for hotels and motels rose 5.0 percent in 2004, the highest increase in 7 years, following a 3.1-percent rise in 2003. These prices rose more in the third quarter than in others, when travel and tourism were reported to be strong.²⁴ Hotel and motel charges also rose during the first quarter in ski and beach resorts, and hotel occupancy rates rose in many cities.²⁵

On balance, for all of 2004, demand for popular vacation destinations and convention centers marked a return to pre-September 11, 2001, levels. In August and September, Las Vegas hotels reported an increase in demand from travelers who changed their travel plans following the hurricanes. During the fourth quarter of last year, Las Vegas resorts reported a surge in demand, largely from convention business.

The index for housing while at school, excluding board, rose 6.9 percent in 2004—the highest increase in 12 years—following a 5.7-percent rise during the prior year. As in prior years, State budget cuts for education continued to lead to higher costs of school housing.

Tenants' and household insurance charges rose 3.8 percent last year, after increasing 1.8 percent in 2003. Insurance premiums were often increased to recoup both investment losses and policyholder claims for natural disasters, including damages sustained from the hurricanes in August and September, from the past several years.

The rent of primary residence index increased 2.9 percent last year, up a little bit from a 2.7-percent rise in 2003, which was the lowest calendar-year increase since 1995. Over the past 3 years, both an increasing supply of rental units and an increasing incidence of households moving out of rental units and into purchased homes may have served to hold rental increases at relatively low levels. The annual average vacancy rate of residential rental units climbed to a record 10.2 percent in 2004, the highest rate since the inception of this measure by the Commerce Department in 1956. Last year was the fourth year in a row this vacancy rate has risen.²⁶ In 2004, the supply of multi-unit housing increased sharply. Last year, the number of new privately owned housing units completed (containing five units or more) rose 10.2 percent. After bottoming out in 1993, the number of these structures completed has surged by 126.2 percent, adding downward pressure to residential rents.²⁷

In response to low mortgage interest rates and high real economic growth in recent years, households have increasingly moved out of rental properties and into purchased homes. This growing trend may have served to hold down increases in residential rents over the past 3 years. Homeownership rates for the United States reached a record high in 2004 at 69.0 percent of households, up from 68.3 percent in 2003.²⁸

The supply of new housing, both for multi-units and single units, has greatly increased in recent years following price incentives for home builders during a booming real estate market. (On a fourth-quarter to fourth-quarter basis, the economy grew at a real rate of 3.7 percent.)²⁹ Moreover, declining long-term interest rates over the past several years have encouraged a sharp increase in new residential construction activity. During the past 2 years, mortgage interest rates have reached their lowest levels in more than 40 years. From 1994 to 2004, 30-year conventional fixed mortgage interest rates declined from 8.4 percent to 5.8 percent.³⁰

The owners' equivalent rent index rose 2.3 percent in 2004, up modestly from a 2.0-percent advance in 2003, the lowest December-to-December increase since BLS began keeping records in 1983. This index is weighted more highly than any other component of shelter. It represents approximately 71 percent of the shelter index, and approximately 23 percent of the All items index.

Medical care. The medical care index increased 4.2 percent last year, following a 3.7-percent rise in 2003, the lowest calendar-year advance since 1999. The index for medical care services accelerated last year, increasing 4.9 percent, following a 4.2-percent rise in 2003, reflecting a sharp acceleration in the professional (medical) services index. The latter index advanced 4.0 percent in 2004, after rising 2.8 percent during the prior year. The increase for every sub-component of professional services accelerated, especially that for physicians' services. Hospital and related services charges rose 5.2 percent in 2004, compared with 6.4 percent in the earlier year. Increases for each sub-component of this category decelerated last year, including both inpatient and outpatient hospital services, as well as nursing homes and adult daycare. The medical care commodities index rose 2.2 percent last year, after increasing 2.1 percent in 2003. Higher prices paid for prescription drugs and medical supplies were partially offset by lower prices paid for internal and respiratory over-the-counter drugs.

Fees for physicians' services rose 4.0 percent in 2004, the highest increase in 9 years, following a 2.3 percent advance in 2003. Charges for dental services increased 4.9 percent in 2004, the highest rise in 8 years, after rising 4.4 percent in 2003. Eyeglasses and eye care charges increased 2.9 percent last year, following a 1.5-percent rise during the prior year.

Prices for hospital services increased 5.2 percent in 2004, following a 6.4-percent rise during the prior year. The deceleration in this index reflects a deceleration in the outpatient hospital services index, which increased 4.5 percent last year—the lowest increase in 6 years, after rising 6.6 percent in 2003.

The index for prescription drugs and medical supplies increased 3.5 percent last year, compared with 2.5 percent in 2003. Some of the 2004 acceleration in this index was due to a decrease, compared with 2003, in the number of brand-to-generic substitutions within the prescription drug sample following patent losses on name-brand drugs. In other words, last year there was a lower incidence of drugs losing their patent and becoming generic (much lower-priced) drugs. Additionally, last year far fewer prescription drugs switched to over-the-counter (much lower-priced) status, compared with 2003. When this change in status occurs, the over-the-counter version is priced in place of the prescription version; the item remains in the prescription drugs and medical supplies index sample until the next sample rotation.

Charges for nonprescription drugs and medical supplies decreased 1.3 percent in 2004, the largest calendar-year decrease since the inception of this index in 1986, after increasing 1.2 percent in 2003. Price declines for internal and respiratory over-the-counter drugs offset slightly higher prices for nonprescription medical equipment and supplies.

College costs. The college tuition and fees index advanced 8.6 percent last year, compared with 9.8 percent in 2003. Prices for housing at school, excluding board, advanced 6.9 percent in 2004—the highest increase in 12 years, after rising 5.7 percent in 2003. According to the College Board, for the 2004–05 school year, the average cost of in-State tuition and fees at public 4-year colleges and universities was \$5,132—\$487 higher than for the prior school year. The average cost of room and board at these colleges was \$6,222—\$337 higher than for the prior school year—representing a 5.7-percent advance.

Tight State budgets nationwide led to substantial reductions in public college and university funding by States. As a result, tuition and fee charges increased sharply. State schools receive more than one-third of their revenue from State governments. Not surprisingly, tuition and fees percent increases for 4-year public institutions were higher for the 2004–05 school year than those for private institutions—10.5 percent compared with 6.0 percent.³¹ The economic recession of 2001 reduced tax revenues, leading to lower State-government appropriations made to public colleges and universities over the past several years. These appropriations actually began declining in 2000. As a result, State officials may have raised tuition by more than they would have had the economy not fallen into a recession in 2001. Between December 1999 and December 2004, the CPI for college tuition and fees rose 41.7 percent.

The College Board points out that public college and university charges are influenced by the amount of funding allocated by State governments. Tuition and fees tend to move

cyclically in response to the cyclical nature of State appropriations, increasing significantly when State appropriations either decrease or grow at relatively small rates. For 6 years in a row, ending with the 1992–93 school year, appropriations per full-time equivalent student decreased 14 percent in constant dollars. Then for the next 7 years in a row, ending with the 2000–01 school year, real appropriations increased 19 percent. Finally, for 2 years ending with the 2002–03 school year, appropriations declined 9 percent in constant dollars.

The percentage of revenues of public universities and colleges paid by government appropriations decreased from 50 percent in 1980 to 36 percent in 2000. For the same period, tuition and fees, as a percentage of revenues, increased from 13 percent to 18 percent.³²

The index for educational books and supplies (for all educational levels) rose 3.8 percent in 2004, compared with 6.0 percent in 2003.

Cable and satellite television. Cable and satellite television service charges rose 4.0 percent 2004, about the same increase as 3.8 percent in 2003. These two increases are lower than the average annual rate of 5.3 percent over the past 10 years, on a December-to-December basis. Since 1993, cable television companies have faced sharply increasing competition from satellite television providers, whose market share since then

has been growing swiftly—from approximately 3 percent of multichannel video programming distribution (MVPD) subscribers to approximately 25 percent. Between June 2003 and June 2004, the number of direct broadcast satellite television (DBS) subscribers rose 13.7 percent, from 20.4 million households to 23.2 million. Meanwhile, in the last several years, the number of cable subscribers has declined. Ten years ago, cable companies served nearly 100 percent of subscribers to MVPD. As of June 2004, cable’s share had declined to about 72 percent of all MVPD subscribers. Satellite television’s share was up to 25.1 percent. Today, nearly all consumers can choose between air broadcast television, a cable service, and at least two satellite providers.³³ In some locations of the country, consumers may also choose emerging delivery technologies as well, such as digital broadcast spectrum, fiber to the home, and video over the Internet.

Accompanying increasing competition from satellite providers, cable companies in recent years have invested heavily in offering subscribers increased channel offerings and new advanced services. The latter include video on demand, home networking, high-speed Internet access, and telephony.³⁴

When cable and satellite providers raise fees that are accompanied by added channels, BLS makes a quantity adjustment that results in a more modest increase in this index than would otherwise be the case. □

Notes

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

² Economists often exclude food and energy price movements when evaluating the underlying 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 *Testimony of Chairman Alan Greenspan: Federal Reserve Board’s Semiannual Monetary Policy Report to the Congress, Before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate* (Federal Reserve Board of Governors, July 20, 2004).

⁴ *Testimony of Chairman Alan Greenspan: Federal Reserve Board’s Semiannual Monetary Policy Report to the Congress, Before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate* (Federal Reserve Board of Governors, February 16, 2005).

⁵ Sharply rising energy costs affect consumers not only directly, through rising household fuel bills and motor fuel charges, but also indirectly by raising businesses’ input costs and eventually consumer prices charged by those businesses for goods and services. Increases in energy costs affect

businesses in the same way increases in taxes affect them. They raise the cost of doing business. The higher prices charged to consumers in order to recoup higher energy-related input costs are the “indirect effects” of an increase in energy prices. Commonly, businesses pass some or all of these higher input costs through to consumers with a lag of up to several months. The extent to which businesses pass along these higher costs depends on how competitive the marketplace is for the goods or services they sell.

⁶ *Short-Term Energy Outlook, December 2004 and January 2005* (Energy Information Administration, U.S. Department of Energy, December 6, 2004, and January 11, 2005, respectively).

⁷ *OPEC* (Energy Information Administration, U.S. Department of Energy, January 11, 2005). OPEC members include Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.

⁸ *OPEC Revenues Fact Sheet* (Energy Information Administration, U.S. Department of Energy, January 2005).

⁹ *Winter Fuels Outlook: 2004–2005* (Energy Information Administration, U.S. Department of Energy, October 2004).

¹⁰ *Short-Term Energy Outlook, December 2004 and January 2005* (Energy Information Administration, U.S. Department of Energy, December 6, 2004, and January 11, 2005, respectively).

¹¹ World crude oil prices are officially called “Refiner Acquisition Cost of Crude Oil, Composite (of both Domestic and Imported oil),” published in

Petroleum Marketing Monthly (Energy Information Administration, U.S. Department of Energy, January 31, 2005).

¹² *Monthly Energy Review, February 2005* (Energy Information Administration, U.S. Department of Energy, February 24, 2005).

¹³ Food data regarding levels of production, imports, exports, and cold storage reflect weight in pounds, not value in dollars.

¹⁴ *Livestock, Dairy and Poultry Outlook* (U.S. Department of Agriculture, January 25, 2005).

¹⁵ *Livestock, Dairy and Poultry Outlook* (U.S. Department of Agriculture, November 23, 2004).

¹⁶ *Livestock, Dairy and Poultry Outlook* (U.S. Department of Agriculture, January 25, 2005).

¹⁷ *Livestock, Dairy and Poultry Outlook* (U.S. Department of Agriculture, December 28, 2004).

¹⁸ *Livestock, Dairy and Poultry Outlook* (U.S. Department of Agriculture, January 25, 2005).

¹⁹ *Livestock, Dairy and Poultry Outlook* (U.S. Department of Agriculture, March 23, 2004).

²⁰ *Livestock, Dairy and Poultry Outlook* (U.S. Department of Agriculture, January 25, 2005).

²¹ *Livestock, Dairy and Poultry Outlook* (U.S. Department of Agriculture, December 28, 2004).

²² Sales volume and lease volume data are from *The 2005 Used Car Market Report, Tenth Anniversary Edition, 2004 Year in Review* (Manheim, January 29, 2005).

²³ *Automotive News* (Crain Communications, Inc., January 10, 2005).

²⁴ *The Beige Book Summary* (Federal Reserve Board of Governors, September 8, 2004).

²⁵ *The Beige Book Summary* (Federal Reserve Board of Governors, March 3, 2004 and April 21, 2004).

²⁶ *Census Bureau Reports on Residential Vacancies and Homeownership* (U.S. Department of Commerce, Census Bureau, January 27, 2005).

²⁷ *New Privately Owned Housing Units Completed, Annual Data* (U.S. Department of Commerce, Census Bureau, January 19, 2005).

²⁸ *Census Bureau Reports on Residential Vacancies and Homeownership* (U.S. Department of Commerce, Census Bureau, January 27, 2005).

²⁹ *Gross Domestic Product: Fourth Quarter 2004, Advance* (U.S. Bureau of Economic Analysis, January 28, 2005).

³⁰ *Mortgage Interest Rate, 30-Year Conventional Mortgages, Fixed-Rate* (Federal Home Mortgage Corporation, February 07, 2005).

³¹ *Trends in College Pricing, 2004* (The College Board, 2005).

³² *Ibid.*

³³ Some jurisdictions allow multiple cable companies to compete within their area. Usually, competition provides both better service and lower rates than are found with monopolies. However, in locations where a cable company is the sole cable provider, the affected jurisdictions often work with the carrier to maintain satisfactory service and to minimize fee increases.

³⁴ Video on demand allows digital cable subscribers, at no extra cost, to select at any time after they are broadcast up to as long as a week later, or else at their regularly scheduled times, various programming from a selection of titles stored on a remote server. Home networking is a service provided by cable companies that connects, using a cable modem and router, a given household's computers and gaming consoles, creating a home network in which files, printers, and an Internet connection can be shared. Telephony is a technology that uses a toll-free Internet connection to transmit voice, fax, and video information.