

# Consumer Price Movements, First 6 Months 1990

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The Consumer Price Index for All Urban Consumers rose at a seasonally adjusted annual rate of 5.9 percent for the first 6 months of 1990. This compares with a rate of 5.7 percent for the first half of 1989, and a calendar year increase of 4.6 percent for all of 1989. Although the increases for energy and food items were more dramatic than for other components of the CPI, higher rates of increase were widespread throughout the index. The progression of prices was not steady in the first 6 months of 1990, but varied by quarter. (See table C.)

During the first 3 months of 1990, prices rose at an annual rate of 8.5 percent, nearly twice the rise in 1989. The bulk of this increase occurred in January, and was led by weather-related jumps in food and energy costs stemming from the extreme cold which much of the Nation endured during December. The increase in January alone was 1.1 percent, the largest monthly rise since June of 1982. While February and March price movements slowed from January's pace, the CPI still rose 0.5 percent each month.

The months of April, May, and June reflected a slower growth in prices across the board, moderating the effects of the first quarter. For the 3 months ended in June, the CPI rose at an annual rate of 3.5 percent. The CPI in April and May increased just 0.2 percent each month while the June rise was 0.5 percent.

A measure of the underlying rate of inflation, the index for all items less food, shelter, and energy, rose at a rate

of 5.5 percent during the first half of 1990. During the first 3 months of the year this index rose at a rate of 7.9 percent, compared with 3.1 percent for the 3 months ended in June.

The indexes for energy and for food were more volatile than the rest of the CPI and exerted a strong influence on the movement of the total CPI during the first half of 1990. Much of the fluctuation of energy and food can be attributed to the supply and demand effects of cold winter weather.

## Energy

Energy costs rose 3.0 percent, or at a 6.0-percent rate in the first half of 1990. It was not the magnitude of the 6-month rise in energy costs that was most significant, but rather the timing and compressed nature of the increase. Accounting for most of the first-half increase was a 5.1-percent jump in January, equaling the rise for all of 1989. During the following 5 months, energy costs fell 2.0 percent.

The main cause for the dramatic increases in energy costs was the severe cold weather the Nation faced in the early part of this past winter. The extreme low temperatures, especially in the Northeast, caused a sharp increase in the demand for fuel oil for home heating. As refiners attempted to meet the demand for fuel oil, they shifted their production capabilities from motor fuel to fuel oil. This caused the supply of gasoline and diesel fuel to fall. The result was a large price increase for both motor fuel and home heating

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**Table C. Percent changes and seasonally adjusted annual rates in the CPI-U for the first half of 1990**

Index	SAAR 6 months ended June 1989	Percent change 12 months ended Dec. 1989	SAAR		
			3 months ended March 1990	3 months ended June 1990	6 months ended June 1990
All items .....	5.7	4.6	8.5	3.5	5.9
All items less food and energy .....	4.7	4.4	7.5	3.9	5.7
All item less food, shelter, and energy .....	4.5	4.8	7.9	3.1	5.5
Energy .....	16.0	5.1	14.8	-2.0	6.0
Food and beverages .....	6.7	5.5	11.4	2.2	6.7
Housing .....	3.5	3.9	5.5	3.5	4.5
Apparel and upkeep .....	1.9	1.0	21.4	-1.3	9.5
Transportation .....	9.4	4.0	9.4	1.4	5.3
Medical care .....	8.3	8.5	9.1	9.4	9.2
Entertainment .....	5.6	5.1	5.7	3.1	4.4
Other goods and services .....	9.3	8.2	8.4	8.7	8.5

oil. Fuel oil costs surged 26.3 percent in January, the largest rise since 1935, when records were first kept. Motor fuel prices jumped 8.2 percent in January.

The index for energy decreased each month after January until June, when it turned up again with an increase of 0.6 percent. Leading the June turnaround were increased costs of motor fuel, which had either decreased or shown slight rises from February through May. Motor fuel prices rose 2.2 percent in June reflecting increased demand. Fuel oil prices, following January's huge increase, declined in each of the next 5 months.

Prices for electricity and natural gas did not move in concert with petroleum-based energy prices. For the 6 months ended in June, electricity rose at a rate of 1.4 percent while gas decreased at an annual rate of 5.6 percent. Both of these items increased in the first 3 months of 1990, only to decline in the 3 months ended in June. Charges for natural gas decreased at a rate of 11.9 percent from March to June primarily due to utility refunds and rate declines in the Midwest, after having risen at a 1.2-percent rate for the 3 months ended in March. Charges for electricity, which increased at a rate of 4.5 percent in the first 3 months, declined at a 1.7-percent rate for the 3 months ended in June. In June, electricity costs declined 1.6 percent as summer rate increases were not as large as seasonally expected.

## Food

Food and beverage prices rose at a rate of 6.7 percent in the first half of 1990, with the largest increase occurring in January—up 1.8 percent—mainly reflecting supply shortages caused by extreme cold weather. Since January, these food costs have increased at a lesser rate, averaging 3.5 percent over the 5 months.

Accounting for 57 percent of the January increase was a 16.0-percent rise in the prices of fresh fruits and vegetables caused by freezing temperatures in winter crop-growing regions of the United States. A 75.6-percent rise in tomato prices was the most dramatic increase for the month but was assisted by double-digit increases in the indexes for other fresh vegetables (beans, peppers, broccoli, onions, cabbage, mushrooms, and carrots), oranges, lettuce, and other fresh fruits (grapes, peaches, plums, cherries, grapefruits, and berries). Another factor contributing to the steep January rise was an increase in the price of dairy products, which were up 2.4 percent. Strong demand helped push fresh milk and cream prices up 3.2 percent. Also, the index for meats, poultry, fish, and eggs increased 1.9 percent in the first month of 1990.

Prices for eggs rose 9.1 percent in January as the laying flock shortage led to a smaller supply. Beef and veal costs rose 2.0 percent while pork prices increased 1.3 percent as strong demand, especially for export, supported price rises. The indexes for food away from home and alcoholic beverages both increased moderately in January, 0.4 and 0.5 percent, respectively.

After January, food and beverage prices returned to more moderate levels, and even declined in April. Dairy products and fruits and vegetables both increased 0.9 percent in February before turning around and decreasing in March, April, and May. Dairy prices continued to be affected by heavy demand and fruits and vegetables showed the continued effects of weather-related supply reductions. Tomato prices rose 30.7 percent in February, dropped 22.8 percent in March, fell a tremendous 52.7 percent in April, and dropped 7.7 percent in May. In June, the food and beverage index rose 0.7 percent, the largest increase since January. Prices for dairy products rose 1.6 percent during the first half of the year while the more volatile fruits and vegetables index increased 4.4 percent. June saw large increases for pork, tomatoes, other fresh fruit, and carbonated beverages which pushed the index for food and beverages up 0.7 percent. Food away from home and alcoholic beverages continued to move up moderately through the first 6 months, ending the period with annual rate increases of 5.6 and 6.0 percent, respectively.

## Housing

The housing index rose at a rate of 4.5 percent in the first half of 1990, compared with an increase of 3.9 percent in 1989. In the first 3 months the rate of increase in housing costs was 5.5 percent; it then slowed to 3.5 percent in the 3 months ended in June. Costs for fuel oil, gas, and electricity, all mentioned earlier, are components of housing and make up nearly 10 percent of this index.

Shelter costs rose at a rate of 5.8 percent in the first 6 months of 1990, with the increase split fairly evenly between the first and second quarters. The owners' equivalent rent index jumped 1.0 percent in March and 1.1 percent in June. The index for lodging while out of town fluctuated from month to month and ended the first 6 months with an annual rate of increase of 6.6 percent. It increased rapidly in January and February, as price pressures increased for the winter vacation season. For the 3 months ended in March, it rose at a rate of 24.3 percent. As the winter season ended, the index for lodging while out of town decreased for 3 months, and finally turned slightly up in June with the beginning of the summer vacation season.

The index for other utilities and public services rose 8.0 percent in the first 3 months of the year, more than twice the annual rate of in the second 3 months, when it rose at a rate of 3.6 percent. Charges for local telephone service, cable television, and refuse collection (which comprise the other utilities and public services component along with long-distance telephone services and water and sewerage maintenance) all rose at double-digit annual rates in the first quarter. Local telephone service was affected by rate increases, rental increases, and an end to overpayment refunds in the first quarter. Local service actually declined slightly in the second quarter. Throughout the first half of 1990, cable television increases were led by higher installation rates,

resulting especially from the discontinuance of many new subscriber promotions, bringing its 6-month annual rate to 18.2 percent. Refuse collection costs continued to increase rapidly, as growing regulations and a diminishing landfill capacity led to a first-half annual increase of 12.2 percent.

Costs for household furnishings and operation increased at a moderate rate of 2.3 percent in the first half of 1990. This index had risen 1.0 percent in 1989. Textile housefurnishings increased at a rate of 9.3 percent in the 3 months ended in March and fluctuated throughout the second quarter, resulting in no net change for the quarter. Furniture and bedding prices rose at a 9.5-percent rate through March, only to fall at a rate of 5.4 percent between April and June due to weak demand for new furniture. Bedroom furniture alone decreased at a rate of 10.8 percent in the second quarter. Television prices continued their generally downward trend, falling in 4 of the first 6 months. They showed an annual rate of -4.2 percent for the first half of 1990 after having decreased 1.3 percent in all of 1989. Major household appliance prices rose at a rate of 0.8 percent, as small increases for laundry equipment and for stoves, ovens, dishwashers, and air conditioners were largely offset by decreases for refrigerators and home freezers.

### **Apparel and upkeep**

Apparel and upkeep prices rose at a rate of 9.5 percent in the first half of 1990. In the first 3 months of 1990, the index for apparel and upkeep advanced at an annual rate of 21.4 percent. This reflected the introduction of higher priced spring and summer clothing in February and March—up 3.3 and 1.6 percent, respectively. Due to an improvement in CPI pricing methodology, prices for newly arrived spring and summer fashions were collected earlier than they had been in previous years. This contributed to the large increases that seasonal adjustment could not account for early in the year. Whereas in 1989, large increases for apparel due to higher-priced seasonal clothing were reflected in March and April, in 1990 these increases occurred in February and March. February price increases were widespread across nearly all apparel items and included a 35.0-percent rise in women's suits and a 10.3-percent jump in infants' and toddlers' clothing.

Through the first 6 months, women's apparel rose at a rate of 12.7 percent, compared to 8.7 percent for girls', 4.2 percent for men's, and 6.0 percent for boys' clothing. Women's suit prices increased at an annual rate of 64.3 percent for the first half of the year. Apparel prices for infants and toddlers grew at a rate of 22.9 percent. The footwear index increased more slowly, rising at a rate of 5.3 percent with most of that increase occurring in the first quarter. Prices for apparel services rose at a rate of 7.8 percent in the first half of 1990 after rising 3.6 percent in 1989.

### **Transportation**

The behavior of the transportation component during the

first 6 months of 1990 was dominated by the movement in prices for motor fuels. During the first 6 months of the year, transportation costs rose at a 5.3-percent annual rate, after having risen 4.0 percent in 1989. Aside from the large increases in motor fuel prices, components of the private transportation index moved at a more moderate pace. Resulting from a decline in the second quarter due to rebates and price concessions, new vehicle prices showed a slight decline in the first half of 1990. Auto maintenance and repair costs rose at a rate of 4.3 percent. Other private transportation costs (for the components of the other private transportation index, see table 4) increased just 3.5 percent, annualized, and both tires and automobile finance charges declined. Public transportation costs, led by heavy increases in airline fares and intracity public transportation charges, rose at a rate of 15.4 percent in the 6 months ended in June.

### **Medical care**

Medical care costs continued to increase more rapidly than the rest of the CPI, rising at a rate of 9.2 percent in the first half of 1990. Medical care had risen 8.5 percent in 1989, its largest advance since 1982. Large increases were spread throughout the components of the medical care index, with the biggest increases occurring for prescription drugs and outpatient services. Led by increases in brand-name drugs, prescription drug prices rose at a 10.6-percent rate, compared with nonprescription drugs and medical supplies, which rose at a rate of 6.1 percent in the first half of the year. Outpatient services rose at a rate of 10.0 percent.

### **Entertainment**

Entertainment costs, following a 5.1-percent increase in 1989, rose at a rate of 4.4 percent in the first half of 1990. Prices for magazines, periodicals, and books, and club memberships increased at double-digit rates in the first quarter and ended the first half with rates of 7.2 percent and 5.2 percent, respectively. After increasing at a rate of 4.1 percent in the first quarter, prices for photographic supplies and equipment declined in the second quarter resulting in no change in the index for the first 6 months.

### **Other goods and services**

The index for other goods and services rose at a rate of 8.5 percent in the first half of 1990, slightly higher than the annual increase of 8.2 percent for 1989. In the first 6 months of 1990, prices for tobacco and smoking products advanced at a 10.7-percent rate, reflecting a passthrough of wholesale price jumps and increases in local and State taxes. Other large price increases were recorded in the indexes for legal service fees, personal financial services, and school books and supplies. Charges for tuition and other school fees rose at a rate of 8.2 percent in the first half of 1990 reflecting increases at both the college level and the elementary and high school levels.