Price Highlights, 1988

The rate of inflation increased somewhat for a number of products during 1988. The Producer Price Index for Finished Goods accelerated from a 2.2-percent rise in 1987 to a 4.0-percent advance in 1988. The Intermediate Goods Price Index climbed 5.6 percent, a little more than in the previous year. The increase in the Crude Goods Price Index, however, slowed to 3.1 percent from an 8.9-percent surge the year before.

The moderate acceleration seen in many PPI series accompanied the completion of the sixth year of recovery following the last recession in 1982. As in previous years, strong consumer demand laid the foundation for continued expansion. Further boosts were provided by two other sources: Exports and capital investment. The relatively low value of the U.S. dollar against other major international trading currencies stimulated foreign demand for American-made products. Spending on capital investments was encouraged by the strength and durability of the expansion, which exerted pressure on capacity and prices in a number of industries. The trend toward rising interest rates during much of the latter part of the year had little immediate impact on either capital spending or residential construction, in part because long-term interest rates moved up far less than short-term rates.

The pressure of foreign and domestic demand was especially strong on several materials-producing industries, particularly nonferrous metals, paper, chemicals, and plastics. As a result, price indexes for both durable and nondurable manufacturing materials climbed at double-digit rates during 1988. Yet these substantial advances in material costs were, for the most part, not fully passed on as price increases of the finished goods made from those materials. Producers of finished goods absorbed escalating material prices without raising their own prices in part by sacrificing profit margins to maintain market share in the face of intense competition from imports. Moderate changes in labor costs and an emphasis on modifying production procedures to enhance productivity also helped to offset the need for a full pass-through of higher material costs.

Special factors drove pricing for food and energy products in opposite directions during 1988. A severe drought over much of the country led to sharply higher prices for many food-related items. However, the liquidation of some livestock due to climbing feed costs led to a temporary glut that lowered meat prices and thereby offset some of the impact of higher prices for most other kinds of foods. Energy prices were generally on a downward trend through most of the year, principally reflecting continued excess supplies of petroleum. Increases in price indexes for items outside of the food and energy sectors accelerated somewhat at the finished and intermediate stages of processing but decelerated at the crude level.