

Price Highlights, 1997

Prices received by domestic producers of finished goods fell 1.2 percent in 1997, following a 2.8-percent rise in 1996 and a 2.3-percent advance in 1995. The last calendar-year decline for finished goods was in 1986, when the index dropped 2.3 percent due to falling energy prices. The index for finished energy goods moved down 6.4 percent from December 1996 to December 1997, after an increase of 11.7 percent a year earlier. Prices for foods, such as pork and fresh fruits and melons, fell 0.8 percent in 1997, following a 3.4-percent increase in 1996. However, prices for finished goods other than foods and energy, a category that includes consumer goods such as passenger cars and apparel, were unchanged in 1997, after a 0.6-percent rise in 1996. (See table A.)

At the earlier stages of processing, the directions in price changes for intermediate goods were the same as those for crude goods. The index for intermediate goods declined 0.8 percent in 1997, after a 0.7-percent rise in 1996. This index measures the price movements of goods such as flour, steel, lumber, industrial chemicals, diesel fuel, and paper boxes. Prices for crude goods fell 11.3 percent in 1997 after rising 14.7 percent in 1996. Crude goods include wheat, scrap metals, logs, crude petroleum, and cotton. Prices for food-related materials at the intermediate stage of processing also fell from 1996 to 1997; at the crude level, price declines accelerated for foodstuffs and feedstuffs. However, when the effects of price changes for energy and food-related materials are excluded, the core indexes for both intermediate and crude goods turned up somewhat in 1997 after decreasing in 1996.

The past year saw the Nation's economy turn in its best performance in a generation. Over the course of 1997, output growth and job creation remained vigorous, while inflation declined. Real (inflation-adjusted) gross domestic product grew 3.9 percent, and employment rose by 3.4 million, for an average rate of 284,000 jobs created per month. The unemployment rate dropped below 5 percent for the first time in 24 years, yet core inflation (as measured by the Consumer Price Index, excluding its volatile food and energy components) averaged only 2.2 percent, its lowest rate in more than 30 years. A principal force behind the current expansion has been private fixed investment. One benefit of this burst of investment has been a rapid expansion of industrial capacity.

Economic growth exceeded expectations in 1997, and the unemployment rate

declined to a 24-year low. Households and firms increased their spending at robust rates as continued low inflation, low unemployment, declining costs of business equipment, and lower long-term interest rates contributed to a favorable economic environment for both consumers and producers. Net exports continued to be a restraining influence on growth.

Strong investment in new productive capacity in the past few years has helped the economy accommodate higher spending without rising inflation. Chief among the factors that have combined to hold back inflation have been the rise in the value of the dollar on foreign exchange markets (which makes imports cheaper), unusually steep declines in prices for computers, and continued moderation in employer costs of health insurance.

Household income, consumer sentiment, and household net worth were all favorable in 1997: real disposable personal income grew over the four quarters of the year, and yearend stock market values were up about 30 percent from a year earlier. Outlays grew even faster than income, and as a result, the personal saving rate edged down.

Table A. Annual percent changes for major categories of the Producer Price Index, by stage of processing, 1993-97

Index	1993	1994	1995	1996	1997
Finished goods	0.2	1.7	2.3	2.8	-1.2
Foods	2.4	1.1	1.9	3.4	-0.8
Energy	-4.1	3.5	1.1	11.7	-6.4
Other4	1.6	2.6	.6	.0
Intermediate materials, supplies, and components	1.0	4.4	3.3	.7	-0.8
Foods and feeds	5.5	-4.5	10.3	2.1	-1.7
Energy	-4.2	2.9	1.1	11.2	-7.0
Other	1.6	5.2	3.2	-0.9	.3
Crude materials for further processing1	-0.5	5.5	14.7	-11.3
Foodstuffs and feedstuffs	7.2	-9.4	12.9	-1.0	-4.0
Energy	-12.3	-1	3.7	51.2	-23.1
Other	10.7	17.3	-4.2	-5.5	.0

The standout categories of business equipment investment in 1997 were office and computing equipment and telecommunications equipment. Growth in real computer spending was fueled, in part, by price declines that were even sharper than normal. One factor possibly boosting sales in this industry is the rapidly expanding capacity and availability of cellular telephone and other wireless services. Investment in nonresidential structures was about flat in 1997, following solid gains in 1996. Construction of new office buildings made substantial gains, as the strength of the economy allowed this sector to grow out from under an overhang of empty office buildings at the beginning of the decade. These gains were offset by small declines in the construction of industrial, utility, and mining structures.

Inflation remained remarkably subdued in 1997. Core CPI inflation slowed over

the course of the year, continuing a decline that began in 1995. Surprisingly, this deceleration in price increases occurred in an economic environment that was characterized by extremely low unemployment. The pace of job creation was quite swift. Among the service-producing industries, growth was particularly rapid in computers and data processing and in engineering and management services. These hiring gains were matched by large increases in industrial capacity. Nevertheless, labor markets were tight, and wages accelerated continuously during the year. Hourly wages, as measured by the employment cost index, rose by 3.9 percent in 1997, 0.5 percentage point faster than in 1996. Growth in output per hour worked picked up in 1997: over the year, the official measure of productivity in the nonfarm business sector rose at an average annual rate of 1.7 percent.

Price Highlights, 1998

Prices received by domestic producers of finished goods showed no change in 1998, after falling 1.2 percent in 1997. From December 1997 to December 1998, prices for finished goods other than foods and energy increased 2.5 percent, after showing no change a year earlier. Prices for finished consumer foods rose 0.1 percent in 1998, after decreasing 0.8 percent in 1997. However, the index for finished energy goods fell 11.7 percent, after declining 6.4 percent over the previous 12 months.

At the earlier stages of processing (SOP), the index for intermediate materials, supplies, and components fell 3.3 percent, after declining 0.8 percent a year earlier. Prices for crude goods for further processing also fell in 1998, declining 16.7 percent, after falling 11.3 percent in 1997. Prices for energy- and food-related materials in both the intermediate and crude stages of processing fell more than a year earlier. Excluding price changes for foods and energy, intermediate goods fell 1.6 percent, after moving up 0.3 percent the year before. For crude nonfood materials less energy, a 16.0-percent decline in 1998 followed no change in the previous year. (See table A.)

Finished goods other than foods and energy. The index for finished goods other than foods and energy advanced 2.5 percent in 1998, after showing no change in 1997. Much of this upturn was due to an acceleration in price increases for cigarettes and prescription drugs. The SOP component index for finished consumer goods other than foods and energy increased 4.2 percent in 1998, after rising 0.3 percent a year earlier. Prices for capital equipment showed no change, following a 0.6-percent decline in 1997.

Foods and related products. Prices received by domestic producers of finished consumer foods inched up 0.1 percent in 1998, after falling 0.8 percent in 1997. Contributing to this turnaround, the indexes for natural, processed and imitation cheese, fluid milk products, fresh vegetables (except potatoes), and shortening and cooking oils all displayed accelerating rates of inflation. The index for intermediate foods and feeds fell 7.3 percent, following a 1.7-percent decline a year earlier. Prepared animal feed prices declined 20.4 percent, after registering a much smaller, 3.1-percent drop in 1997. Prices for pork also fell at a faster rate, tumbling 27.3 percent, following an already steep, 13.6-percent rate of decline. The index for crude foodstuffs and feedstuffs decreased 11.0 percent in 1998, after declining 4.0 percent

in 1997. The index for slaughter cattle declined 12.0 percent, slaughter-hog prices plunged 76.8 percent, and prices turned down after rising for corn, soybeans, and alfalfa hay.

Energy. The Producer Price Index for Crude Energy Materials fell 23.8 percent during 1998. This follows a similarly large, 23.1-percent drop during 1997. Price declines were across the board for crude-stage fossil fuels. The index for intermediate energy goods decreased 12.1 percent in 1998, after registering a 7.0-percent decrease in 1997. Gasoline prices fell 33.1 percent, following a 15.0-percent drop a year earlier. Diesel fuel and liquefied petroleum gas prices finished 1998 at levels not seen since the mid-to-late 1980s. Prices for gasoline, kerosene, and jet fuels ended the year at levels not seen in over 20 years. Prices for finished energy goods declined 11.7 percent in 1998, after posting a 6.4-percent decline in 1997. As in the intermediate stage-of-processing, the number one cause of this accelerating rate of decline was due to falling gasoline prices. In addition, the index for residential electric power fell 2.5 percent, after a 0.2-percent drop in 1997.

Table A. Annual percent changes for major categories of the Producer Price Index, by stage of processing, 1994-98

Index	1994	1995	1996	1997	1998
Finished goods	1.7	2.3	2.8	-1.2	0.0
Foods	1.1	1.9	3.4	-0.8	0.1
Energy	3.5	1.1	11.7	-6.4	-11.7
Other	1.6	2.6	.6	0	2.5
Intermediate materials, supplies, and components	4.4	3.3	.7	-0.8	-3.3
Foods and feeds	-4.5	10.3	2.1	-1.7	-7.3
Energy	2.9	1.1	11.2	-7.0	-12.1
Other	5.2	3.2	-0.9	.3	-1.6
Crude materials for further processing	-5	5.5	14.7	-11.3	-16.7
Foodstuffs and feedstuffs	-9.4	12.9	-1.0	-4.0	-11.0
Energy	-1	3.7	51.2	-23.1	-23.8
Other	17.3	-4.2	-5.5	0	-16.0

Intermediate industrial materials. The PPI for intermediate materials other than foods and energy declined 1.6 percent during 1998, after registering a 0.3-percent rise in 1997. Leading the way were steadily falling prices for materials for nondurable manufacturing; in 1997, prices increased modestly. After posting no change in 1997, prices for materials for durable manufacturing also declined. The index for materials and components for construction rose at a much slower rate than in 1997. The materials and components for construction index was the only major stage-of-processing category within intermediate goods to show rising prices in 1998.

Basic industrial materials. The PPI for basic industrial materials—crude nonfood materials other than foods and energy—declined 16.0 percent in 1998, after posting no change in 1997. Leading the way were falling scrap metal prices. The index for iron and steel scrap declined 39.9 percent in 1998, following a 14.5-percent rise in 1997. The index for aluminum base scrap decreased 24.5 percent, after rising 9.6 percent in the prior year. Prices for copper base scrap fell more than a year earlier. Also contributing to this price deceleration were downturns for wastepaper; logs, bolts, timber, and pulpwood; and wool.

Mining. The PPI for the net output of total domestic mining industries tumbled 19.7 percent in 1998, after falling 20.2 percent in 1997. Prices for the oil and gas extraction industry group decreased 25.6 percent in 1998, following a 24.6-percent decline the year before. The index for the metal mining industry group decreased 7.1 percent, whereas prices received by the coal mining industry group fell 1.9 percent. The index for the non-metallic minerals mining industry group increased 2.2 percent, the same rate of advance observed in 1996 and 1997.

Manufacturing. The PPI for the net output of total domestic manufacturing industries moved down 0.9 percent in 1998, after posting a 0.8-percent decline in 1997. Among manufacturing industries in 1998, price increases were registered for the industry groups for tobacco manufactures; printing, publishing and allied industries; transportation equipment; non-metallic mineral products; and furniture and fixtures. Declining prices occurred for the industry groups for petroleum refining and related products; food and kindred products; paper and allied products; primary metal industries; textile mill products; and electrical and electronic machinery and equipment.

Health care. Prices for health care services rose 1.9 percent in 1998, after increasing 1.0 percent in 1997. The index for offices and clinics of doctors of medicine led the way, with a 2.6-percent rise, after registering a 1.2-percent gain a year earlier. Prices received by general medical and surgical hospitals and by specialty hospitals (except psychiatric) also rose at a faster rate in 1998 than in 1997. As has been the case since 1994, when the index for skilled and intermediate care facilities first became available, this index increased steadily. By contrast, price increases slowed for home healthcare services and for medical laboratories.

Distribution. From December 1997 to December 1998, the index for trucking (except local) rose 3.4 percent, following a 2.6-percent rise in 1997. The local trucking (without storage) industry also raised prices in 1998. The index for railroad line-haul operations rose 0.5 percent in 1998, after rising 1.0 percent in 1997. Other distribution services industries that raised prices in 1998 included each of the four warehousing and storage related PPIs, as well as prices for water transportation services. The indexes for courier services, both by land and by air, also advanced.

Real estate. The index for real estate agents and managers rose 2.6 percent in 1998, after rising 1.4 percent in 1997. Housing demand remained solid throughout the year, as many current owners and first-time buyers entered the market. The index for operators and lessors of nonresidential buildings rose 1.2 percent, following a 2.2-percent advance the year before. The strong economy helped keep retail and industrial vacancies low, and markets readily absorbed space, as it became available, allowing these indexes to rise.

Professional, scientific, and technical. Domestic economic strength has also served to further increase demand for activities such as advertisement creation and placement; corporate, real estate, banking and commercial-type legal counsel; as well as auditing and tax preparation and consulting. The indexes for all these service lines increased in 1998. Prices received by establishments engaged in engineering and architecture also advanced in 1998. Strength in the residential and commercial construction sectors contributed to these broad-based increases.

Communications. The index for cable and other pay television services rose 3.7 percent in 1998, following a 4.7-percent increase in 1997. Price increases were observed for both subscriber services and cable advertising. By contrast, the index for telephone communication (except radiotelephone) fell 1.7 percent in 1998, after posting a much smaller, 0.4-percent drop in 1997. Competition among long-distance carriers forced public switched toll prices down a full 3.2 percent. However, the index for local service (except private lines) fell only 0.1 percent. The radio broadcasting index increased a scant 0.8 percent, following a 3.1-percent rise in 1997. This slower rate of increase resulted partly from falling prices for network time sales, as well as from slowing rates of increase in prices of local station time sales.

Other service industries. Price increases for scheduled air transportation accelerated from 0.9 percent in 1997 to 2.5 percent in 1998. The index for the nonscheduled air transportation industry also rose, on the strength of an 8.3-percent jump in charter service prices. A 24.7-percent drop in the index for the arrangement of international flights led to a 2.3-percent decline in the index for travel agents. The index for hotels and motels advanced 4.2 percent in 1998, in line with most recent yearly advances. Prices for prepackaged software increased 0.9 percent in its first year of publication. Introduced in June of 1998, the index for property and casualty insurance advanced 0.1 percent, during its first 6 months of publication.