Consumer prices rise sharply in 1990

A 6.1-percent rise in the Consumer Price Index for All Urban Consumers during 1990 largely reflected price rises in energy, apparel commodities, and most services; the increase was the largest since 1981

Jesse G. Thomas

The Consumer Price Index for All Urban Consumers (CPI-U) rose 6.1 percent in 1990. This figure compares with increases of 4.6 percent in 1989 and 4.4 percent in 1987 and 1988. It was the largest annual change since an 8.9-percent rise in 1981.

While the rise in the CPI-U in 1990 reflects, in large part, the dramatic surge in prices of energy commodities, up 35.4 percent, the rate of inflation excluding the volatile food and energy components also accelerated. The index for all items less food and energy rose 5.2 percent in 1990, following an increase of 4.4 percent in 1989. The 1990 rise reflects larger increases in prices of apparel commodities, up 5.0 percent in 1990 compared to an increase of 0.7 percent in 1989, and larger increases in the cost of most services. Charges for other services rose 7.1 percent in 1990, the largest increase in 7 years. The rates of change for these groups during the past 10 years are shown in table 1.

The Consumer Price Index for all items less food and energy, also known as the underlying rate of inflation, rose at a seasonally adjusted annual rate of 5.7 percent in the first half of 1990, compared with an increase of 4.7 percent during the first half of 1989. The acceleration early in the year probably reflected upward price pressure from increasing labor costs. This index rose at a seasonally adjusted annual rate of 4.8 percent in the second half of the year, reflecting the 1990 recession and its declining labor cost pressures and sluggish demand. Throughout 1990, inflationary pressures from the cost of materials other than energy were less than in recent years.

On the labor cost side, the decline in the civilian unemployment rate that began in 1983 continued through the second quarter of 1990. Wages, salaries, and benefits paid to private industry employees, as measured by the Employment Cost Index, rose 1.6 percent in the first quarter of 1990, as a result of the effects of the tight labor market, the increase in the Social Security tax, and the increase in the minimum wage. This compensation increase compares with quarterly increases of 1.2 percent, on average, in 1989. The first quarter of 1990 appears to have been the point of highest wage-cost inflationary pressure. Wages, salaries, and benefits rose 1.3, 1.0, and 0.8 percent in the second, third, and fourth quarters of 1990, respectively. By December, the civilian unemployment rate—affected by the recession—registered 6.1 percent, compared to 5.3 percent in June 1990.

Costs for materials exerted less inflationary pressure than in the past 2 years. Excluding energy, the Finished Consumer Goods Index, which rose 5.1 and 4.7 percent in 1988 and 1989, respectively, rose only 3.1 percent in 1990.

Energy

The energy component of the CPI-U rose 18.1 percent in 1990, compared with an increase of 5.1 percent in 1989. The 35.4-percent advance in prices for energy commodities in 1990 followed a 7.9-percent rise in 1989 and was the second largest annual increase recorded. Within the

Jesse G. Thomas is an economist in the Office of Prices and Living Conditions, Bureau of Labor Statistics.

energy commodity component, motor fuel and fuel oil prices rose 36.5 and 29.8 percent, respectively, in 1990, reflecting sharp increases in January and during the period August to October.

In December 1989, the weather turned bitterly cold, and the demand for heating oil increased dramatically. The supply of heating oil was insufficient because oil companies had delayed the annual conversion of production facilities from gasoline to fuel oil. To meet the increased demand, production facilities were changed over quickly. This decreased the supply of gasoline and drove up its price 6.0 percent in January. The shortage in the supply of fuel oil drove its price up 28.2 percent, in striking contrast to the experience of the previous 5 years, during which time the January increase in fuel oil prices averaged 2.6 percent. During the period February to July, fuel oil prices declined 26.5 percent after seasonal adjustment, reflecting both a drop in demand following the arrival of warmer weather and increased supplies.

After Iraq's invasion of Kuwait and the resultant United Nations–sanctioned embargo, panic and speculative buying of crude oil and refined oil products occurred. While there was a small shortfall in the stock of both crude oil and gasoline in the month following the invasion, other oil-producing countries soon increased production to make up the loss. Yet prices of motor fuel and heating fuel rose 27.4 and 50.8 percent, respectively, after seasonal adjustment, from July to October. When fears of an oil shortage abated, prices of motor fuels and home heating oil declined during the final 2 months of 1990.

Charges for energy services—natural gas and electricity—rose 1.5 percent, the smallest increase in 3 years. Because of ample supplies and a relatively warm winter, the index for natural gas rose only 1.8 percent. Charges for electricity increased 1.4 percent in 1990. Abundant supplies of coal and natural gas held down generating costs.

Food

Food prices at the retail level rose 5.3 percent in 1990, compared with an increase of 5.6 percent in 1989. All major food groups contributed to the slight moderation. Within grocery store foods, price increases of 11.3 and 10.6 percent for meats and fresh fruits, respectively, accounted for about half of the 5.8-percent annual rise.

The index for meats, poultry, and fish rose 8.8 percent. Pork and beef prices rose at their fastest rate since the late 1970's, reflecting reduced supplies in 1990. Poultry prices, which accelerated slightly in 1990, rose 5.5 percent in the first quarter of the year as a result of strong consumer demand encouraged by relatively higher prices of red meats. Poultry prices advanced again in the summer months, when demand usually increases. However, as demand grew, so did supply, and producers discounted prices when supplies exceeded demand. The index for fish and seafood rose 3.8 percent in 1990, moderately more than in the previous year. A rebound in egg production because of a gradual rebuilding of the egg-laying flock led to a 4.6-percent decline in egg prices over the year.

The index for fruits and vegetables rose 7.2 percent, compared with an increase of 4.4 percent in 1989. Fresh fruit prices rose sharply in 1990. Apple prices rose 21.6 percent, partly because of a 3-percent smaller crop. Higher prices for oranges reflected the effects of adverse weather in the winter and summer months. Production of key noncitrus fruits, such as cherries, grapes, peaches, and plums, was 8 percent lower last season than in the previous season.

Table 1. **Percent changes for commodity, service, and special groups of the Consumer Price Index for All Urban Consumers, 1981-90**

Index group	Percent change for the 12 months ended in December—									
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
All items	8.9	3.8	3.8	3.9	3.8	1.1	4.4	4.4	4.6	6.1
Energy	11.9	1.3	-.5	.2	1.8	-19.7	8.2	.5	5.1	18.1
Energy commodities	10.6	-5.0	-3.2	-1.8	3.4	-30.5	17.8	-2.3	7.9	35.4
Energy services	14.7	14.1	4.1	3.5	-.6	-3.3	.2	3.2	2.8	1.5
All items less energy	8.5	4.2	4.5	4.4	4.0	3.8	4.1	4.7	4.6	5.2
Food	4.3	3.1	2.7	3.8	2.6	3.8	3.5	5.2	5.6	5.3
All items less food and energy	9.5	4.5	4.8	4.7	4.3	3.8	4.2	4.7	4.4	5.2
Shelter	9.9	2.4	4.7	5.2	6.0	4.6	4.8	4.5	4.9	5.2
All items less food, shelter, and energy	9.4	6.1	5.0	4.3	3.7	3.3	3.8	4.7	4.1	5.2
Other commodities	8.0	5.5	5.0	3.1	2.2	1.4	3.5	4.0	2.7	3.4
Other services	11.1	7.3	4.9	6.0	5.4	5.6	4.3	5.6	5.5	7.1

Prices for housing, apparel and upkeep, transportation, and medical care rose at a faster rate in 1990 than in 1989.

Prices of fresh vegetables rose 5.5 percent in 1990, compared with an increase of 2.6 percent in 1989. Increased prices for lettuce and for winter vegetable crops damaged by a freeze in Florida and Texas more than offset lower prices for potatoes and tomatoes.

The index for cereal and bakery products rose 4.6 percent in 1990, following an increase of 7.5 percent the previous year. Increased milk production brought the rise in dairy products prices down to 3.1 percent in 1990, following a 10.3-percent advance a year earlier.

Housing

The housing index rose 4.5 percent in 1990, following an increase of 3.9 percent in 1989. All three major components of this index contributed to the acceleration. Shelter costs rose 5.2 percent, following a 4.9-percent increase in 1989. Within the shelter component, the 4.8-percent increase in owners' equivalent rent was less than in 1989, while renters' costs—up 6.7 percent—rose at a faster rate than a year earlier. Higher charges for lodging while out of town, which primarily includes rent for vacation and resort properties, accounted for half of the increase in renters' costs in 1990. Home maintenance and repair costs rose 3.6 percent in 1990.

The index for fuel and other utilities increased 4.0 percent, compared with a 3.2-percent advance in 1989. The larger increase in 1990 was the result of the sharp jump in fuel oil prices. Partially offsetting the effects of the fuel oil price increases were smaller increases in charges for electricity and natural gas.

The index for utilities and public services rose 3.5 percent, following an increase of 2.2 percent in 1989. Telephone service charges declined slightly for the second consecutive year. However, the cost of water and sewer maintenance rose 6.2 percent due to increased demand for depleted water supplies in some areas. Charges for garbage and trash collection rose 9.8 percent as a result of growing competition for shrinking landfill space.

Prices for household furnishings and operations rose 1.8 percent in 1990, compared with an increase of 1.0 percent in 1989. This acceleration reflected a moderate turnaround in prices for textile housefurnishings and furniture—up 2.5 and 1.1 percent, respectively.

Apparel and upkeep

The index for apparel and upkeep rose 5.1 percent in 1990, compared with an increase of 1.0 percent in 1989. The index rose at a seasonally adjusted annual rate of 9.5 percent in the first half of 1990 and 1.1 percent in the second half.

Price increases in the first half of 1990 followed the partial recovery of the apparel market from the weak 1989 market situation, which was characterized by strong competition from imports, excess inventories, buyouts, mergers, bankruptcies, and store closings. In 1990, the declining value of the dollar in currency markets put domestic apparel producers in a better competitive position than they had been for a while with respect to foreign exporters of apparel earmarked for the U.S. market. Also, apparel retailers maintained better inventory control through the increased use of computer-assisted methods of inventory management.

The last half of 1990 was characterized by a weakening economy and modest retail sales. Many apparel retailers extended end-of-season markdowns for spring and summer inventories and marked down prices of fall and winter inventories in anticipation of sluggish holiday sales.

For the 12 months ended in December, prices for women's and girls' apparel rose 6.1 percent; prices for men's and boys' clothing and infants' and toddlers' apparel rose 2.9 and 8.9 percent, respectively. Prices for footwear moved up 3.2 percent, after rising 1.1 percent in 1989. Prices for domestically produced footwear rose 2.4 percent, while prices for imported footwear, which accounts for nearly 85 percent of the market, rose 7.4 percent in 1990.

The index for apparel services such as shoe repair, laundry, and dry cleaning rose 6.8 percent, the largest increase since 1981. This increase reflected higher costs for labor, petroleum-based materials, and machine repairs.

Transportation

Transportation costs rose 10.4 percent in 1990, following a 4.0-percent increase in 1989. This sharp increase was largely because of the surge in motor fuel prices, which jumped 36.5 percent, compared with an increase of 6.8 percent in 1989. In January, motor fuel prices rose 6.5 percent as a result of the shortfall in the supply of both gasoline and diesel fuel caused by an abrupt switch to production of home heating oil. Prices of motor fuel fell from January to March as imports of low-cost unleaded gasoline increased the supply of motor fuels. From March to June, the price of motor fuel rose 5.9 percent as gasoline inventories returned to normal. As a result of the invasion of Kuwait, motor fuel prices rose 26.1 percent from July to October, the largest 3-month increase ever recorded. As fears of an oil shortage abated, gasoline prices declined 1.4 percent from October to December.

New-car prices advanced 1.4 percent in 1990, after rising 2.3 percent in 1989. For the fourth consecutive year, new-car sales were sluggish as

Table 2. **Percent changes for expenditure categories of the Consumer Price Index for All Urban Consumers, 1981-90**

Expenditure category	Percent change for the 12 months ended in December—									
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Food and beverages	4.3	3.2	2.7	3.8	2.8	3.7	3.5	5.1	5.5	5.3
Housing	10.2	3.6	3.5	4.3	4.3	1.7	3.7	4.0	3.9	4.5
Apparel and upkeep	3.5	1.6	2.9	2.0	2.8	.9	4.8	4.7	1.0	5.1
Transportation	10.9	1.8	3.9	3.1	2.6	-5.9	6.1	3.0	4.0	10.4
Medical care	12.5	11.0	6.4	6.1	6.8	7.7	5.8	6.9	8.5	9.6
Entertainment	7.2	5.6	4.0	4.2	3.1	3.4	4.0	4.6	5.1	4.3
Other goods and services	9.9	12.1	7.9	6.0	6.3	5.5	6.1	7.0	8.2	7.6

consumers retained their vehicles for longer periods. In 1990, new-car sales dropped 8.0 percent. Used-car prices decreased 2.2 percent in 1990, the second consecutive annual decline.

Among other automotive expenses, insurance charges rose 7.5 percent in 1990, while finance charges were unchanged. Costs for automobile maintenance and repair rose 4.4 percent, the same rate as in 1989. The index for other transportation commodities rose 1.5 percent in 1990, with price increases introduced during the Persian Gulf crisis for motor oil, coolant, and other products partially offset by a slight decline in tire prices.

The index for public transportation rose 17.2 percent in 1990, the largest increase since 1981. An increase of 22.7 percent in airline fares accounted for nearly 85 percent of the advance. The shutdown of oil refineries in Kuwait and Iraq sharply curbed supplies of lighter end products such as kerosene and jet fuel sold primarily to Asian customers. Attempts by Asian customers to replace these products by purchasing them elsewhere and increased military demand for jet fuel resulted in a bidding up of prices in September and October. The indexes for other intercity and intracity public transportation rose 6.6 and 7.7 percent, respectively.

Medical care

Medical care costs, which rose 8.5 percent in 1989, increased 9.6 percent in 1990. This was the largest advance since an 11.0-percent rise in 1982. The increase in medical care costs reflected larger price increases for both commodities and services.

Among medical care commodities, for which prices rose 8.4 percent in 1990, the index for prescription drugs rose 9.9 percent, while the index for over-the-counter drugs and medical supplies increased 5.5 percent. The strong competition for market share in the over-the-counter drug market continued to suppress some price increases.

Charges for medical care services rose 9.9 percent, following an increase of 8.6 percent in 1989. The index for professional medical services advanced 6.7 percent, slightly more than in 1989. Charges for hospital and related services (hospital rooms, other inpatient services, and outpatient services) rose 11.3 percent.

Entertainment

Entertainment costs rose 4.3 percent, following a 5.1-percent increase in 1989, reflecting smaller price increases for both commodities and services. The index for entertainment services advanced 5.4 percent in 1990, after increasing 6.8 percent the previous year. In 1990, smaller increases in admission charges, fees for participant sports, and fees for lessons and instructions contributed to the moderation.

The index for entertainment commodities rose 3.0 percent, compared with 3.5 percent in 1989. The moderation was the result of smaller increases in prices for sporting goods and equipment and for toys, hobbies, and other entertainment goods. Prices for reading materials rose 4.6 percent, about the same as in 1989.

Other goods and services

The index for other goods and services rose 7.6 percent in 1990, again notably faster than the increase in the overall CPI-U. Since 1981, this component has advanced at least 1 percent more a year than the all-items index. Personal and educational expenses rose 7.5 percent because of higher tuition and school fees and higher charges for legal, financial, and funeral services. Prices for tobacco and smoking products rose 10.8 percent, after increasing 14.7 percent in 1989. Two wholesale price increases, as well as higher State-imposed excise taxes, pushed cigarette prices higher for the year.

The rates of change for selected expenditure categories during the past 10 years are shown in table 2. □