Energy, food prices helped slow inflation in 1991

The major cause of lessened inflation in 1991 was the decline in energy prices, following a runup due to concerns about the Persian Gulf war; slack economic conditions and movements in food prices also curbed inflation

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The Consumer Price Index for All Urban Consumers (CPI-U) increased 3.1 percent in 1991, following a 6.1-percent advance in 1990.[1] The 1991 price rise was the lowest annual rate of increase since a 1.1-percent advance was posted in 1986, and the second smallest since 1967. Sluggish economic conditions tended to dampen inflation, but developments for energy and food were major factors in the general slowing of consumer price increases.

The economy

The sluggish economy reduced inflationary pressure on consumer prices during 1991, as the recession that officially began in July 1990 continued. On an annual basis, real gross domestic product remained relatively flat in both 1990 and 1991. The civilian unemployment rate, which rose from 6.1 percent in December 1990 to 7.1 percent in December 1991, has generally been increasing since the recession began. And although consumer confidence, as measured by the Conference Board, turned up briefly in first-quarter 1991 following the outcome of the war in the Persian Gulf, it declined later in the year.

The cost of labor and materials also moderated in 1991. Total labor compensation costs paid by U.S. employers (which include wages, salaries, and benefits paid to employees in private industry and State and local government) increased 4.3 percent in 1991 after advancing 4.9 percent in 1990. The Producer Price Index for finished consumer goods excluding energy rose only 1.6 percent in 1991, its smallest annual increase since 1987. As a result, the CPI for commodities rose only 1.2 percent in 1991, the smallest rise in 5 years.

Energy and food prices

Energy. As the acceleration of inflation in 1990 was due primarily to a sharp increase in petroleum-based energy prices, the moderation in 1991 was caused largely by a drop in these prices.

Prices for energy, particularly for energy commodities such as motor fuel and fuel oil, skyrocketed with the Iraqi invasion of Kuwait in early August of 1990. Prices for energy commodities rose 27.9 percent from July to October 1990, the sharpest 3-month increase ever recorded. Prices for motor fuel reached an all-time high in November 1990, as speculation associated with the risks to supply drove up crude oil prices.

The oil shortage anticipated because of the hostilities in the Middle East never materialized, however. As prices on world oil markets soared, other oil-producing countries quickly increased production, making up for the loss of Iraqi and Kuwaiti oil. Crude oil prices stabilized as supplies became more plentiful and secure and as fears of further Iraqi aggression, particularly against Saudi Arabia, dissipated.

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With increasingly reliable and ample oil supplies, energy prices started to fall even before the air war against Iraq by United Nations coalition forces began in January 1991. Prices for energy commodities fell 18.5 percent from December 1990 to March 1991, the second sharpest 3-month decline on record. This dramatic decrease occurred despite the December 1990 increase of 5 cents per gallon in the Federal tax on gasoline.

For calendar year 1991, prices for energy commodities fell 16.1 percent, after rising 35.4 percent in 1990. Except for a 30.5-percent drop in these prices caused by the collapse of oil prices in 1986, the 1991 drop in prices for energy commodities represented their steepest annual decline since the data series was first published in 1957. Motor fuel and fuel oil prices fell 16.0 and 19.9 percent, respectively, in 1991, after increasing 36.5 and 29.9 percent in 1990.

Food. Food prices rose 1.9 percent in 1991. This compares with a 5.3-percent advance in 1990, and represents the smallest annual increase in food prices since a 0.5-percent advance was recorded for 1976.

Grocery store prices increased 1.3 percent in 1991, after rising 5.8 percent during the previous year. While price increases for most grocery items were smaller in 1991 than in 1990, the deceleration in grocery store prices was due in large part to a sharp turnaround in meat prices, which fell 2.1 percent in 1991, after rising 11.3 percent in 1990. A decline in pork prices, caused primarily by increased supplies, was especially significant. These prices fell 6.1 percent in 1991 after increasing 16.7 percent in 1990. Prices for beef and veal, which also had risen in 1990 (8.9 percent), fell 1.0 percent in 1991.

Prices for fish and seafood rose 1.3 percent in 1991, their smallest increase since 1967. Egg prices fell for the second straight year as a larger, younger, and more productive egg-laying flock furnished ample supplies. Prices for dairy products increased 0.6 percent in 1991, their smallest advance since a 0.6-percent drop was posted in 1985.

Prices of fruits and vegetables rose 4.4 percent in 1991 after increasing 7.2 percent in 1990. Price indexes for most categories of fresh fruits and vegetables increased sharply during the first half of 1991, then fell during the last half of the year. Fresh fruit prices rose 19.4 percent during the first 6 months of 1991, largely as the result of a December 1990 freeze in California. The orange crop was particularly hard hit by the freeze, as production of California navel and Valencia oranges was cut by slightly more than half. Consequently, orange prices jumped 34.7 percent in January 1991 (their largest 1-month increase ever), and more than doubled from December 1990 to September 1991. The sharp increase in orange prices resulted in increased demand for bananas, for which prices jumped 34.8 percent in the first quarter of 1991. Banana supplies also were curtailed by poor weather in Costa Rica.

Prices for food away from home rose 2.9 percent in 1991, their smallest advance since a 1.4-percent increase in 1964, as eating establishments were forced to hold down prices to maintain market share in a sluggish economy.

Items other than food and energy

The index for all items less the volatile food and energy components, which is often used as a measure of the underlying rate of inflation, rose 4.4 percent in 1991, after increasing 5.2 percent in 1990. Prices for most CPI components within this broad category, such as shelter, apparel, and medical care, also advanced at slower rates in 1991. However, the change in the index for all items less food and energy was in line with the 4.5-percent average annual increase posted by this component over the 10 years ended December 1991.

Shelter and other selected household costs. The recession and the slowdown in the housing market had a significant moderating impact on costs for shelter. These costs were up 3.9 percent in 1991, less than the 5.2-percent rise in 1990, and the smallest advance since a 2.4-percent increase in 1982, at the depth of the last (1981–82) recession. Residential rent rose 2.9 percent in 1991, its lowest rate of increase since 1968. Homeowners' costs were up 3.7 percent in 1991, the smallest annual rise since the rental equivalence approach was adopted in January 1983.[2]

However, price increases for some household goods and services accelerated in 1991. Water and sewerage maintenance charges advanced 7.8 percent, their fastest increase since 1983, due in part to the continued drought in the West and stricter environmental standards. Refuse collection charges rose 11.5 percent, as shrinking landfill space and higher costs associated with sorting recyclable trash contributed to the sharpest increase since the index for this component was first published in December 1983. A 16.1-percent rise in postal rates became effective in early February 1991, the first since April 1988.

Other significant price movements. Medical care costs, which have outpaced the overall inflation rate in each year since 1980, continued that trend in 1991, increasing 7.9 percent. However, the advance in 1991 was less than the 9.6-percent increase in 1990. Prices for physicians' services rose 5.5 percent in 1991, the smallest such increase since a 3.9-percent advance in 1973.

Table 1. **Annual percent change in the Consumer Price Index for All Urban Consumers (CPI-U), selected expenditure categories, 1982-91**

Expenditure category	Percent change for 12 months ended December—									
	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
All Items	3.8	3.8	3.9	3.8	1.1	4.4	4.4	4.6	6.1	3.1
All items less energy	4.2	4.5	4.4	4.0	3.8	4.1	4.7	4.6	5.2	3.9
All items less food and energy	4.5	4.8	4.7	4.3	3.8	4.2	4.7	4.4	5.2	4.4
Energy	1.3	-.5	.2	1.8	-19.7	8.2	.5	5.1	18.1	-7.4
Energy commodities	-5.0	-3.2	-1.8	3.4	-30.5	17.8	-2.3	7.9	35.4	-16.1
Motor fuel	-6.5	-1.7	-2.4	3.1	-30.7	18.7	-2.1	6.8	36.5	-16.0
Fuel oil	-.7	-10.8	.0	5.4	-33.3	17.9	-6.3	19.5	29.9	-19.9
Energy services	14.1	4.1	3.5	-.6	-3.3	.2	3.2	2.8	1.5	3.5
Food	3.1	2.7	3.8	2.6	3.8	3.5	5.2	5.6	5.3	1.9
Shelter	2.4	4.7	5.2	6.0	4.6	4.8	4.5	4.9	5.2	3.9
Medical care	11.0	6.4	6.1	6.8	7.7	5.8	6.9	8.5	9.6	7.9
Apparel and upkeep	1.6	2.9	2.0	2.8	.9	4.8	4.7	1.0	5.1	3.4
College tuition	12.5	9.6	10.1	8.6	7.4	7.0	7.7	8.1	8.2	12.1
Alcoholic beverages	4.0	3.4	2.7	5.5	2.0	3.3	3.9	4.8	4.2	9.9
Tobacco products	20.0	10.1	5.0	7.2	5.9	7.9	9.4	14.7	10.8	11.1

NOTE: Data are not seasonally adjusted.

Changes in medicare reimbursements to physicians contributed to the slower rise.

Prices for apparel and upkeep advanced 3.4 percent in 1991, after rising 5.1 percent in 1990. Apparel retailers, faced with minimal growth in sales during a period in which many national chains have felt the effects of significant debt burdens, moderated price increases to avoid further softening of consumer demand in a weak economy.

College tuition, which had increased between 7.0 percent and 8.6 percent each year from 1985 to 1990, advanced 12.1 percent in 1991. This represented its sharpest rise since a 12.5-percent in-crease was posted in 1982. The acceleration in 1991 was due in part to larger-than-usual tuition hikes necessitated by reductions in funding from State governments, which support many universities.

Prices of alcoholic beverages increased 9.9 percent in 1991, the largest advance since a 10.5-percent increase in 1974. The 1991 price rise was primarily due to the increase in Federal excise taxes that became effective January 1, 1991. At that time, for example, the tax on a six-pack of beer doubled (from 16 to 32 cents); tax increases also affected wine and liquor prices.

Prices for tobacco and smoking products rose about the same—11.1 percent—in 1991 as they had in 1990—10.8 percent. Price increases for tobacco products have exceeded the All-Items inflation rate in each year since 1981. The 1991 advance reflected wholesale price increases for cigarettes, imposition of a January 1991 Federal excise tax increase on cigarettes and other tobacco products, and cigarette excise tax hikes in 11 States. The Federal tax on cigarettes, which included a 4-cent increase per pack of 20, had not changed since January 1983.

THE DECELERATION IN INFLATION in 1991 was due primarily to the sharp turnaround in prices for energy commodities. The rise of energy prices in late 1990 can be largely attributed to fears that oil supplies could be curtailed as a result of the invasion of Kuwait by Iraq. The subsequent decline in these prices in early 1991 reflects increased supplies from other oil producers and the conclusion of the Persian Gulf war.

The sluggish economy also contributed to the relatively low rate of inflation, as 1991 price increases for many categories of goods and services moderated compared with those posted in 1990. This deceleration, however, does not necessarily translate into a long-term drop in the underlying rate of consumer price inflation. While the index for all items, less the volatile food and energy components, rose 5.2 percent in 1990, the increase of 4.4 percent in 1991 is in line with the average annual rate of 4.5 percent seen over the 10 years ended December 1991. (The rates of change for selected expenditure categories over the past 10 years are shown in table 1.) □

Footnotes

[1] Annual percent changes are December-to-December changes.

[2] See "Changing the Homeownership Component of the Consumer Price Index to Rental Equivalence," *The CPI Detailed Report*, January 1983, pp. 7–13.