Producer price highlights, 1994

Price increases at the producer level were generally moderate, as the Nation completed another year of sustained economic growth

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Prices received by domestic producers of finished goods rose 1.7 percent between December 1993 and December 1994, following increases of 0.2 percent in 1993 and 1.6 percent in 1992. The index for energy goods turned up 3.5 percent in 1994 after declining in each of the previous 3 years,while prices for foods advanced 1.1 percent following somewhat larger increases in both 1993 (2.4 percent) and 1992 (1.6 percent). Price increases for finished goods other than foods and energy accelerated to 1.6 percent in 1994 from 0.4 percent in 1993; these prices had risen 2 percent in 1992.

Developments at earlier stages of processing were mixed. The Intermediate Goods price index advanced 4.4 percent in 1994 after increasing 1 percent in each of the preceding 2 years. In contrast, the Crude Goods price index declined 0.5 percent last year after rising by 0.1 percent in 1993 and 3.3 percent in 1992. At both the intermediate and crude stages of processing, prices for food-related materials turned down in 1994 after advancing a year earlier, while price increases for nonfood nonenergy materials slowed significantly. Prices for energy goods rose at the intermediate stage after falling a year earlier, but declined much less at the crude stage, following a steep decline in 1993. (See table 1.)

Economic background

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The U.S. economy gained strength throughout 1994, continuing much the same pace of growth experienced toward the end of 1993. A key factor driving this expansion was the increase in outlays for fixed investments by business, particularly spending on capital goods such as computers and peripheral equipment, and also for cars and trucks. (For the past 3 years, the rate of increase in spending for computer equipment has been more than 4 times that for expenditures on other types of capital equipment.) Investment in nonresidential structures also picked up, despite the raising of short-term interest rates several times during the year.

In 1994, the growth of the economy was also evident in the Federal Reserve Board's capacity utilization index for mining, manufacturing, and utilities. This index stood at 84.9 in December 1994, its highest level in any month since March 1989. In addition, personal consumption spending rose 3.4 percent in 1994, fueled by an 8.1-percent advance in purchases of consumer durables. Growth in consumer expenditures for durables reflected increased purchases of furniture and household durables, such as video, audio, and computer equipment, as well as outlays for cars and light trucks. By the end of 1994, consumer spending had surged to a 5-year high, reflecting the ready availability of credit— including the proliferation of credit card programs that offered cardholders rewards, such as direct rebates on purchases or frequent-flyer miles based on the amounts charged.

Some vigor was evident in the interest-sensitive residential housing market, which was buoyed by growth in incomes and employment over the year. Housing starts attained their highest level since 1988, and both single-family home starts and sales of existing single-family homes registered their largest annual gains in over 15 years. Despite a slowdown in residen-

Table 1. Annual percent changes for major categories of the Producer Price Index by stage of processing, 1990–94

Index	1990	1991	1992	1993	1994
Finished goods	5.7	–0.1	1.6	0.2	1.7
Foods	2.6	–1.5	1.6	2.4	1.1
Energy	30.7	–9.6	–.3	–4.1	3.5
Other	3.5	3.1	2.0	.4	1.6
Intermediate materials, supplies, and components	4.3	–2.6	1.0	1.0	4.4
Foods and feeds	–1.3	–.2	–.5	5.5	–4.5
Energy	21.8	–11.6	.7	–4.2	2.9
Other	1.9	–.8	1.2	1.6	5.2
Crude materials for further processing	6.0	–11.6	3.3	.1	–.5
Foodstuffs and feedstuffs	–4.2	–5.8	3.0	7.2	–9.4
Energy	19.1	–16.6	2.3	–12.3	–.1
Other	.6	–7.6	5.7	10.7	17.3

tial investment evident during the latter half of 1994, figures for the year as a whole surpassed those posted in 1993. A major factor in the strength of the housing sector in 1994 was the availability of adjustable-rate mortgages, which permitted borrowers to structure their monthly payments in innovative ways.

In 1994, much of the increased spending for computer equipment mentioned earlier reflected the strategy by many firms to increase productivity and efficiency while downsizing their work forces to reduce labor costs. Despite this general restructuring throughout the economy, construction employment registered its largest yearly advance in a decade, while manufacturing employment recorded its largest gain since 1987. However, almost 85 percent of the advance in payroll employment was in the services sector.

Among other indicators of economic health, manufacturing productivity increased 4.9 percent in 1994, compared with 3.2 percent a year earlier. The Employment Cost Index of total compensation for workers in private industry rose 3.0 percent, after increasing 3.6 percent in 1993. Real disposable income advanced 4.3 percent over the year. Business spending on inventories increased in the second, third, and fourth quarters of 1994, particularly in the wholesale and retail trade sectors, reflecting in part an optimistic outlook for continued growth in demand.

The commercial construction market, although not very robust in most regions of the country, was considerably more vibrant than in recent years, during which there was a wide surplus from overbuilding. Overall, public construction spending on infrastructure and other projects outpaced that of 1993.

A surge in export sales resulted from a combination of factors, including the strengthening recovery in foreign industrial countries; continued robust growth in developing countries; the decline in the dollar's exchange value; the implementation of the North American Free Trade Agreement; and the ongoing improvement in America's underlying competitiveness. However, the rise in exports was outstripped by the increase in imports that accompanied domestic investment and consumption demand. The value of the dollar declined about 8 percent last year (on a trade weighted basis) against the currencies of the nine major foreign industrial countries. However, the dollar fluctuated more substantially against some individual currencies, particularly those of Japan and Germany.

Finished goods, less foods and energy

The index for finished goods other than foods and energy increased 1.6 percent from December 1993 to December 1994, following a rise of 0.4 percent a year earlier. Much of the acceleration in price increases was due to a reversal in prices for tobacco products, which had fallen sharply in 1993 before rising last year. The index for consumer goods other than foods and energy turned up 1.4 percent in calendar 1994 after declining 0.4 percent in 1993. Prices for capital equipment rose slightly more in 1994 (2 percent) than in either 1993 (1.8 percent) or 1992 (1.7 percent). (See table 2.)

Within the category of consumer goods other than foods and energy, the tobacco products index moved up somewhat in 1994 after falling sharply in 1993. Prices also increased, after falling a year earlier, for tires and tubes and household flatware. Prices rose faster in 1994 than in 1993 for books, periodicals, men's and boys' apparel, mobile homes, newspaper circulation, household glassware, and costume jewelry. The index for women's apparel was virtually unchanged from December 1993 to December 1994 after falling a year earlier. Prices fell less in calendar 1994 than in the previous year for sanitary papers. Prices continued to rise rapidly for prescription drugs, lawn and garden equipment, and toys. By contrast, price increases slowed in 1994 for passenger cars, light trucks, household furniture, gold jewelry, textile housefurnishings, over-the-counter drugs, floor coverings, and leather footwear. Prices turned down in 1994 after rising in 1993 for alcoholic beverages, cosmetics, household appliances, and for soaps and detergents.

The Producer Price Index for capital equipment increased 2 percent in 1994, slightly more than in 1993 and 1992. In 1994, price decreases for electronic computers and x-ray equipment were more than offset by advances for most other types of capital goods. The largest increases occurred for truck trailers, heavy motor trucks, light trucks, machine tools, commercial furniture, and mining machinery.

Motor vehicles. The Producer Price Index for motor vehicles increased 2.5 percent in 1994 after rising 3.5 percent

in the prior year. Indexes for passenger cars and light trucks rose somewhat less in 1994 than in 1993, while prices for heavy trucks rose about the same as in the preceding 12 months. Reflected in these figures are the net effects of statistical adjustment for quality changes in 1995 model vehicles. For passenger cars, 35 percent of the originally reported price increase was deemed to be attributable to quality adjustment and is therefore not reflected in the price index; the corresponding figure for light trucks was 40 percent. The tires and tubes index was almost unchanged from December 1993 to December 1994 after decreasing 1.7 percent in the previous year.

The motor vehicle industry experienced one of its best years in terms of sales, production, and profits for major manufacturers since 1988. Most plants operated above capacity in 1994 as the availability of new, higher-quality products helped to fuel demand. Despite several hikes in short-term interest rates and small boosts in vehicle prices over the year, sales climbed. Sales for passenger cars and light trucks stood at record levels from January 1994 through midsummer, falling only slightly thereafter. Despite labor strikes at several plants and recalls on newly launched vehicles, sales were back to record levels by the fourth quarter.

Automobile sales reached their first-quarter peak despite another round of price increases on 1994 models, heavy winter storms in much of the country, and an earthquake in California. Sales of light trucks also reached a record level in 1994. Many consumers switched from autos to light trucks during the year, as auto features, such as airbags and antilock brakes, along with popular convenience features began appearing on light truck models. The market for light trucks comprised about 44 percent of all domestic manufactured light vehicle sales in 1994, up 1.5 percent over 1993.

As in 1993, heavy truck prices advanced about 3 percent in 1994. Demand was very strong from trucking firms. Orders were on a 6-month backlog with very few cancellations being seen. By yearend, some manufacturers juggled discounts to maintain or increase market share.

Drugs and pharmaceuticals. Following a rise of 3.2 percent in 1993, prices for drugs and pharmaceuticals increased 2.5 percent in 1994, the smallest yearly advance in 15 years.

The prescription drug industry continued to undertake several modifications in marketing practices during 1994. Producers have voluntarily continued to reign in price increases in the face of pressure from HMO's (health maintenance organizations) and other large purchasers. Manufacturers are combining product lines in a marketing effort to offer one-stop shopping to large customers such as HMO's and PBM's (pharmacy benefit managers). Some have created their own separate divisions to market generic equivalents of their brand name drugs. And some producers also have begun a strategy of bundling a brand name drug with the generic equivalent, offering the package at a discount over the sum of the individual prices.

It should be noted that the method for selecting the sample of prescription drugs used in calculating the index was changed in 1994, and that this could materially affect the estimates. The new methodology gives each drug a chance to be selected for the sample based not on its relative importance within a company, but on its importance relative to other drugs of its therapeutic class. Also in 1994, broad-based increases were registered for over-the-counter drugs.

Tobacco products. Following the 1993 decrease of 21.4 percent, prices for tobacco products showed a net increase of just 0.4 percent last year. Domestic consumption of cigarettes continued to drop in 1994, in the face of concerns about the health hazards of smoking and the skyrocketing costs of health care attributable to the consumption of tobacco products. Some increased strength was noted again in 1994 for foreign demand for American-made cigarettes. Although domestic prices for cigarettes were rather flat in 1994, prices were up moderately across-the-board for other tobacco products, particularly cigars and loose leaf chewing tobacco.

Table 2. Annual percent changes in Producer Price Indexes for selected finished goods other than foods and energy, 1990–94

Index	1990	1991	1992	1993	1994
Finished goods other than foods and energy	3.5	3.1	2.0	0.4	1.6
Consumer goods	6.6	-.9	1.6	-.2	1.6
Passenger cars	4.3	3.1	.6	3.3	2.1
Light trucks	.4	5.4	4.8	4.2	3.3
Prescription drugs	8.1	7.8	6.4	3.2	3.1
Over-the-counter drugs	4.2	5.1	5.2	2.7	1.7
Tobacco products	12.6	13.2	6.7	-21.4	.4
Books	6.5	2.3	5.2	.6	5.4
Periodicals	5.7	5.5	4.9	3.1	2.0
Newspapers	7.5	5.9	5.2	4.8	3.9
Household furniture	2.5	1.8	1.6	3.7	2.7
Capital equipment	3.4	2.5	1.7	1.8	2.0
Heavy trucks	3.6	3.7	3.1	3.1	3.0
Truck trailers	1.5	1.3	2.6	3.3	7.7
Metal cutting machine tools	4.7	2.9	3.2	.6	1.8
Metal forming machine tools	9.8	2.6	1.5	1.6	3.5
Computers	—	-19.4	-14.9	-12.5	-6.7
X-ray equipment	-.5	1.5	1.2	-.7	-1.1
Construction machinery	3.8	2.8	3.1	1.1	2.0

NOTE: Dash indicates data not available.

Energy

The decline in the index for crude energy materials slowed to 0.1 percent in 1994; the index had fallen 12.3 percent in 1993. Crude petroleum prices rose 21.1 percent in 1994, after decreasing 27.7 percent in the previous year and 2.4 percent in 1992. The decline in the natural gas to pipelines index, however, accelerated to 14 percent in 1994 from just under 4 percent the year before. The coal index turned down 2.1 percent in 1994, after edging up 1 percent the year before. (See table 3.)

The continued decline in the natural gas to pipelines index in the first half of the year resulted from both higher domestic supplies and increased imports. Late in the year, supplies were at very high levels because of moderate temperatures—the summer had been cool and the autumn warm—and the forecast of unseasonably high temperatures for the winter. As a result, pipline owners asked some producers to remove their gas from their storage facilities, in effect forcing them to burn some of it.

Crude petroleum prices were pushed higher in the first half of the year by lower production, reduced imports, and higher demand. This state of affairs was due, at least in part to supply disruptions caused by leaks on platforms in the North Sea and leaks in pipelines near Los Angeles after the earthquake, an OPEC agreement to freeze production, and fears of tighter supplies due to a strike by Nigerian oil workers. By July, prices were 43 percent higher than in December 1993. Throughout most of the second half of the year, though, prices declined as OPEC production levels rose above the organization's self-imposed ceiling, imports from non-OPEC countries increased, and demand was curbed by unseasonably warm weather in most parts of the Nation.

The index for intermediate energy goods rose 2.9 percent in 1994 after falling 4.2 percent in 1993. Among the categories within intermediate energy goods, gasoline posted a sharp price increase in 1994, following a large decline in the previous year. Indexes for diesel fuel, jet fuels, liquefied petroleum gas, residual fuel, and industrial power also turned up in 1994, while prices for commercial natural gas fell after rising in 1993.

Residual fuel prices were among the big movers in the intermediate energy goods category in 1994, rising 10.2 percent following a 17.8-percent decline in 1993. After increasing early in the year, supplies fell below their year-earlier levels by the end of the first quarter, a situation that was to continue throughout the remainder of the year. In the summer, a drought in the Far East, which depends heavily on hydroelectric power, caused an increase in demand for residual fuel to generate electricity. At about the same time, the construction of a fuel processing plant in Alaska was completed; this plant turns residual fuel into more expensive, refined fuels. In the face of these developments, demand for residual fuel was strong both domestically and internationally in the second half of 1994.

Table 3. Annual percent changes in Producer Price Indexes for selected energy items, 1990–94

Index	1990	1991	1992	1993	1994
Finished energy goods	30.7	–9.6	–0.3	–4.1	3.5
Gasoline	45.2	–25.1	–4.2	–16.8	11.2
Home heating oil	28.1	–30.5	–5.4	–10.1	6.9
Residential electric power	—	5.1	1.2	.8	1.5
Residential natural gas	—	.7	4.6	5.4	–2.6
Intermediate energy goods	21.8	–11.6	.7	–4.2	2.9
Residual fuels	42.8	–39.0	24.3	–17.8	10.2
Natural gas to electric utilities	—	2.2	2.7	–13.0	3.4
Diesel fuel	32.8	–30.4	–3.8	–15.9	5.9
Jet fuels	49.5	–32.7	–5.4	–11.7	4.3
Commercial power	3.3	.3	1.8	3.2	2.3
Crude energy materials	19.1	–16.6	2.3	–12.3	–.1
Natural gas	6.5	–4.9	7.5	–3.8	–14.0
Crude petroleum	32.6	–30.5	–2.4	–27.7	21.1
Coal	.7	–1.6	.2	1.0	–2.1

NOTE: Dash indicates data not available.

Prices for finished energy goods turned up 3.5 percent from December 1993 to December 1994, following a 4.1-percent decline over the preceding 12 months. Gasoline prices advanced 11.2 percent in 1994 after falling almost 17 percent in the previous year. In addition, prices for home heating oil rose 6.9 percent, after falling 10.1 percent in 1993.

Gasoline prices fluctuated throughout the year—increasing during the summer driving season as labor turmoil in Nigeria reduced crude supplies and also during the autumn months, when ruptured pipelines hampered deliveries of both gasoline and home heating oil on the East Coast. Prices for residential electricity rose somewhat faster in 1994 (1.5 percent) than in 1993 (0.8 percent). By contrast, prices for residential natural gas fell 2.6 percent in calendar 1994, following a 5.4-percent increase in the previous year.

Foods and related products

At the farm level, prices for crude foodstuffs and feedstuffs fell 9.4 percent in 1994 after rising 7.2 percent in 1993. The index for corn declined 22.4 percent after increasing 34.7 percent a year earlier. Prices for soybeans, hay, Louisiana rough rice, fluid milk, and slaughter broilers also turned down after rising in 1993. In addition, the slaughter hog index fell at a faster rate in 1994 than in the previous year. (See table 4.)

Prices for intermediate foods and feeds declined 4.5 percent in 1994 after rising 5.5 percent in the previous year. The index for prepared animal feeds turned down 10.6 percent after increasing 6 percent in 1993. Prices for pork, flour, natural and processed cheese, condensed and evaporated milk, and fluid milk products also declined after 1993 advances. The indexes for crude vegetable oils and confectionery materials rose less than they had last year.

Prices received by domestic producers of finished consumer foods rose 1.1 percent in 1994, much less than the 2.4-percent advance from December 1992 to December 1993. Within the consumer foods category in 1994, the slowdown in price increases was led by an 11.1-percent decline in pork prices, which had risen 4.3 percent in the previous year. Prices also turned down over the year after increasing in 1993 for dairy products, fresh fruits and melons, processed young chickens and turkeys, milled rice, processed fruits and vegetables, confectionery end products, and pasta. Price increases slowed for shortening and cooking oils. Prices skyrocketed for fresh and dry vegetables at the close of the year due to inclement weather on both coasts of the United States. The index for bakery products rose 2.3 percent, about as much as it had in the previous year. By contrast, prices for roasted coffee jumped almost 50 percent in 1994 after increasing 5.5 percent in 1993. Prices turned up in 1994 after falling in 1993 for unprocessed packaged fish and seafood, and for soft drinks. Prices declined for beef and veal and for eggs for fresh use, but not as much as they had a year earlier.

Slaughter hogs and pork. Prices for slaughter hogs declined 21.3 percent in 1994 after falling 5 percent in 1993. Falling slaughter rates pushed prices higher at the start of the year. At the end of the first quarter, though, slaughter rates started to pick up, and prices moved sharply lower until late autumn. By June, prices were 7.3 percent below their December 1993 levels, after adjustment for seasonality.

Declining slaughter rates and bad weather that caused producers to delay marketings forced pork prices higher throughout most of the first quarter of 1994. Beginning in March, however, pork prices declined in 8 of the next 9 months as record production ensured ample supplies. Prices rebounded somewhat in December, when holiday demand helped reduce oversupplies.

Dairy products. Prices for dairy products declined 2.0 percent in 1994 after rising 3.1 percent in 1993. Prices were relatively high early in the year, reflecting healthy demand coupled with production increases that were less than expected. By the middle of the second quarter and into the third, however, fluid milk production increased and demand for cheese slowed, causing prices to decline. After a slight upturn late in the summer, prices for fluid milk continued to decline as supplies increased.

Table 4. Annual percent changes in Producer Price Indexes for selected food items, 1990–94

Index	1990	1991	1992	1993	1994
Finished consumer foods	2.6	-1.5	1.6	2.4	1.1
Pork	12.5	-16.9	-.3	4.3	-11.1
Dairy products	-7.1	6.4	-2.2	3.1	-2.0
Fresh fruits and melons	11.0	-17.3	-15.7	11.8	-11.2
Fresh and dry vegetables	-9.0	-16.3	67.4	27.7	25.6
Roasted coffee	-.6	-6.2	-6.9	5.5	49.8
Intermediate foods and feeds	-1.3	-.2	-.5	5.5	-4.5
Perpared animal feeds	-4.0	2.9	.6	6.0	-10.6
Crude vegetable oils	13.8	-13.9	5.4	34.3	4.1
Flour	-18.5	13.4	.5	8.6	-1.1
Confectionery materials	2.2	4.0	-8.1	10.4	2.2
Refined sugar	.3	-1.6	-1.2	-.6	.8
Crude foodstuffs and feedstuffs	-4.2	-5.8	3.0	7.2	-9.4
Louisiana rough rice	—	—	-31.4	86.2	-42.2
Corn	-.8	2.2	-10.4	34.7	-22.4
Slaughter hogs	-8.2	-19.5	7.6	-5.0	-21.3
Soybeans	3.7	-7.4	3.3	20.1	-18.1
Fluid milk	-26.2	16.1	-7.2	6.7	-5.2

NOTE: Dash indicates data not available.

Grains and feeds. Prices for grains declined 18.1 percent in 1994, after rising 30.5 percent in 1993. The 1994 decline was broad-based. The Louisiana rough rice index fell 42.2 percent, chiefly because favorable weather conditions resulted in a better than expected crop. Corn prices declined sharply due to reduced export demand and a record crop. Wheat prices fell 5.6 percent as a result of lower export demand and favorable growing conditions that led to greater yields.

Prices for prepared animal feeds fell in 1994 after increasing in 1993. At the beginning of the year, these prices moved higher on the strength of reduced soybean yields caused by harsh weather the previous summer, and of low stockpiles of and strong export demand for corn (which is a soybean substitute in animal feeds). Near the end of the first quarter and through most of the second, prices declined in response to reduced demand and a favorable growing and planting season. Prices increased slightly at the start of the summer as supplies became tighter and export demand increased. During the second half of the year, though, prices for animal feeds declined in every month as favorable growing conditions produced record harvests.

Table 5. Annual percent changes in Producer Price Indexes for selected intermediate and crude materials other than foods and energy, 1990-94

Index	1990	1991	1992	1993	1994
Intermediate goods other than foods and energy	1.9	-0.8	1.2	1.6	5.2
Nondurable manfacturing materials	3.7	-4.8	.3	-.6	10.5
Inedible fats and oils	2.3	-6.3	16.0	-6.1	48.0
Woodpulp	-11.5	-23.3	5.7	-14.0	38.1
Basic organic chemicals	7.1	-8.7	.0	-.7	15.7
Durable manufacturing materials	-.1	-3.7	1.2	2.5	9.8
Copper	-.2	-6.6	-1.2	-19.7	68.1
Aluminum	.2	-25.8	7.4	-11.1	64.4
Lead	-1.3	-6.7	-8.5	.0	37.5
Construction materials	1.5	.8	2.7	5.0	3.9
Gypsum products	-5.6	-6.2	4.4	12.8	30.8
Nonferrous wire and cable	-1.3	-2.8	-.8	-3.1	13.8
Softwood lumber	-5.1	11.7	23.1	30.8	-9.6
Crude nonfood materials less energy	.6	-7.6	5.7	10.7	17.3
Wastepaper	-11.9	-17.4	11.7	-12.3	179.6
Nonferrous scrap	.7	-16.9	.9	-14.0	70.3
Raw cotton	12.4	-23.7	-2.8	12.9	34.9

Intermediate industrial materials

The Producer Price Index for Intermediate Materials, Supplies, and Components rose 4.4 percent in 1994 after increasing 1 percent over the preceding year. The indexes for nondurable manufacturing materials turned up after falling in 1993. Prices for durable manufacturing materials rose more in 1994 than they had in the previous year. By contrast, prices for construction materials rose less in 1994 than in 1993. (See table 5.)

Nondurable manufacturing materials. The index for materials for nondurable manufacturing rose 10.4 percent in 1994, following a decrease of 0.6 percent in 1993. Prices rebounded in 1994 for many petroleum-derived materials, driven by a combination of higher oil prices and stronger demand for petroleum derivatives. The basic organic chemicals index rose 15.7 percent in 1994, after falling 0.7 percent in 1993. Price upturns were also registered for plastic resins and materials, paperboard, woodpulp, processed yarns and threads, and for inedible fats and oils. In addition, indexes for paper and nitrogenates rose more in 1994 than in the preceding year.

Prices for pulp and paper products increased 13.8 percent in 1994, after falling 1.5 percent in 1993. Price increases in this category were broad-based.

Woodpulp prices surged 38.1 percent, following a 14-percent decline in 1993. As the year began, many woodpulp mills took downtime in an effort to reduce supplies, pushing prices upward. When users of woodpulp realized what was happening in the industry, many started replenishing their inventories, fearing further shortages. The resulting increase in demand forced prices even higher.

During the second quarter, Russia closed several of her pulp producing mills, which put a further strain in supplies. By midyear, prices were more than 14 percent higher than they had been 6 months earlier, and mills were running near full capacity. As summer wore on, labor troubles in the Canadian Pacific Northwest and an increase in demand from Europe and the Far East for inventory replenishment further exacerbated the already tight supply situation. Consequently, prices rose at an even quicker pace than they had earlier in the year. During the second half of 1994, woodpulp prices increased 25.5 percent. Over the year, prices rose in every month.

Paperboard prices rose 20.1 percent in 1994, following a small decline in 1993. Prices for paperboard remained depressed through most of the first quarter of 1994, as buyers resisted manufacturers' attempts to pass along cost increases. As the economic recovery started to pick up steam in the second quarter, paperboard prices followed suit—an increase in industrial production usually means greater demand for boxes and the paperboard used to produce them. During the second half of the year, rising material costs and increased demand pushed paperboard prices higher in each successive month.

After posting a 0.2-percent increase in 1993, paper prices rose 11.3 percent in 1994. Price advances during the second half of 1994 accounted for the full yearly increase. The first quarter of 1994 remained slow for paper producers as they discounted away the price increases they had implemented in 1993 in order to cope with increased imports and higher inventories. By the end of the second quarter, producers started taking some operations out of production in an effort to curb paper supplies. In the third quarter, reduced inventories led to greater demand and price increases started to take hold. By the fourth quarter, demand was so strong, both domestically and internationally, that producers were not only seeking immediate price increases, but were announcing further increases into the new year. As mill inventories became depleted, production increased, but manufacturers were still unable to keep up with the increased demand and avoid a backlog of orders.

Prices for basic organic chemicals surged 15.7 percent in 1994 after showing virtually no change in the previous 3 years. The main forces driving the 1994 advance were the prices of primary and intermediate components, which were up 42 and 32.6 percent, respectively. Primary prices sagged

early in the year, as expansion of European production capacity resulted in lower import prices and higher inventory levels. By the end of the first quarter, prices rebounded somewhat as inventories started to shrink, demand improved, and prices rose for gasoline and petroleum derivatives — inputs in the chemical manufacturing process.

In the second quarter, European plant shutdowns helped boost demand for U.S. exports of organic chemicals. Domestically, strong demand coupled with a dearth of investment in new capacity helped force both speculative and contract prices higher. By midyear, primary prices were more than 14 percent above their December 1993 levels.

In the second half of the year, continued strong demand, higher gasoline prices, a fire in a major production facility, and low inventories pushed prices of organic chemicals higher in each succeeding month. The price jump for intermediate organic chemicals was due chiefly to tight supplies and the lack of new capacity to expand production. At yearend, capacity was so constrained, because prices had been at such depressed levels during the 1980's, that there was little incentive for firms to try to boost production.

Durable manufacturing materials. In 1994, prices for materials for durable manufacturing advanced 9.8 percent, up from 2.5 percent a year earlier. This acceleration was led by the index for copper and brass mill shapes, which climbed 36 percent after declining 10.6 percent in the previous year. Prices for aluminum mill shapes, aluminum, copper, and flat glass also turned up after falling a year earlier. In addition, the plywood index rose more than in 1993, and lead prices increased after showing no change in the prior year. By contrast, prices for hardwood lumber advanced about 2 percent after jumping by over 30 percent from December 1992 to December 1993. Indexes for both hot rolled steel sheets and bars also rose less than they had in 1993.

Aluminum prices increased 64.4 percent in 1994, after falling about 11 percent in 1993. Prices started the year at very low levels due to an excess of inventory. Exports of aluminum from Russia increased as that country's domestic demand declined and her need for hard currency escalated. By the end of the first quarter, world demand began to pick up and major producers (the United States, Canada, Australia, Norway, The European Economic Community, and Russia) were negotiating a 'memorandum of understanding' to cut production in an effort to boost prices. By the second quarter, reduced domestic production and fears that the implementation of the 'memorandum' would reduce world production levels sent aluminum prices higher. By midyear, prices had risen over 23 percent. In the third quarter, reduced inventories translated into higher aluminum prices, as did greater demand from motor vehicle producers, who have been increasing the amount of aluminum in their vehicles to reduce weights and boost fuel efficiency. In the fourth quarter, drought conditions in the Pacific Northwest forced power companies to ration power to industrial users. Production was further curtailed because most major aluminum producers are located in this region. This caused some anxiety among both manufacturers and speculators, who feared that prices would surge even further in the future. This concern further drove up demand and boosted prices by more than 16 percent in the fourth quarter alone.

Prices for copper rose 68.2 percent in 1994 after declining almost 20 percent in 1993. In the first quarter, demand was recovering in the aftermath of the most recent recession, and the resurgence in construction activity further reduced copper stockpiles, which were at only 8-week levels. By March, copper prices were almost 14 percent higher than they had been the previous December. Prices began to fall at midyear, reflecting fears that rising interest rates would slow the construction market, but then rebounded strongly through the second and third quarters. The upturn resulted from reduced capacity as plants shut down for scheduled maintenance. This further drew down inventories at a time when demand from overseas customers and automotive manufacturers was strong. After another brief lull at the beginning of the fourth quarter, prices again surged higher as European stockpiles fell and domestic mills were running at near full capacity. Even at their high rate of capacity, they were unable to keep up with the continued strong construction demand. A mine cave-in in Zaire and an Australian smelter strike further worsened shortage fears near the end of the year.

Prices for lead rose 37.5 percent in 1994 after remaining unchanged in 1993. Eighty percent of the lead on the domestic market is used in the manufacture of motor vehicle batteries. With the cold winter of 1993–94, demand for replacement car batteries surged in the beginning of the year. As a result, lead prices rose by more than 6 percent in January 1994 alone. By midyear, demand for new batteries from automobile manufacturers, gearing up for the new model year, helped push lead prices higher. In the fourth quarter, demand for replacement batteries jumped again, as some consumers anticipated another harsh winter.

Construction materials. Mortgage rates remained relatively low in 1994, and many consumers took advantage of this by either refinancing existing mortgages or purchasing new homes. The low rates boosted housing starts to 1.5 million units, up 12.9 percent over 1993 levels, and the greatest number of starts in any year since 1988. Spending for new market-rate apartment buildings, a favorite among private investors, was up 27.8 percent compared to 1993. Private nonresidential construction spending was 8.6 percent higher than in the prior year, reflecting the plentiful supply of bank

credit and reduced vacancy rates. The value of public construction projects in 1994 was 3.1 percent higher than it had been a year earlier, mostly as a result of the reconstruction initiatives in the aftermath of the Los Angeles earthquake early in the year.

After advancing 5 percent in 1993, the Producer Price Index for construction materials rose more slowly, by 3.9 percent, in 1994. The softwood lumber index fell 9.6 percent in 1994 after rising over 30 percent a year earlier. This 1994 decline was the largest since 1981. Prices for millwork and for air conditioning and refrigeration equipment rose less from December 1993 to December 1994 than they had in the previous 12 months. The nonferrous wire and cable index, however, moved up 13.8 percent in 1994 after declining 3.1 percent in the previous year. Prices for asphalt felts and coatings also turned up in 1994 after falling a year earlier. Indexes for fabricated structural metal products, gypsum products, plastic construction products, plywood, and concrete products all rose more than they had in 1993.

Prices for softwood lumber declined 9.6 percent in 1994 after rising 30.8 percent in 1993. After a slight rise early in the year, prices declined from the middle of the winter through the middle of the second quarter because the weather was poor and also because higher interest rates dampened demand. Prices turned up at the end of the second quarter and continued to rise into the middle of the third as demand increased. At the end of the third quarter and throughout the remainder of the year, prices declined as weather improved in timber harvesting areas, demand slackened with the approach of the holiday season, and interest rates continued to rise.

Prices for gypsum products rose 30.8 percent in 1994 having increased 12.8 percent in the previous year. After declining in January, the index increased for the next 11 months, reflecting robust demand created by construction activity, tight input supplies that resulted from the 1993 Midwest floods, and decreased production capacity. By the end of the year, with the economic turnaround in full gear, demand was at an 8-year high and production was taking up over 90 percent of existing capacity.

Prices for nonferrous wire and cable increased 13.8 percent in 1994 after declining 3.1 percent in 1993. Price increases occurred in every month except April. Prices rose on the strength of higher costs for primary copper, a major input in the manufacturing process, and on strong demand from both the construction industry and power utility companies.

Basic industrial materials

The Producer Price Index for crude nonfood materials less energy climbed 17.3 percent from December 1993 to December 1994, well more than its 10.7-percent advance in 1993. Prices for aluminum base scrap rose by about 85 percent after falling about 6 percent a year earlier. Indexes for wastepaper, copper base scrap, and copper ores also advanced sharply after substantial declines in 1993. Prices for raw cotton and cattle hides rose more than in the preceding year. By contrast, the iron and steel scrap index remained unchanged in 1994 after rising almost 45 percent in 1993. Prices for softwood logs, bolts, and timber moved up far less than they had over the previous year.

Prices for wastepaper surged 179.6 percent in 1994 after declining 17.6 percent in 1993. Prices had been at such low levels over the past 2 years that even small dollar amount increases translated into large percentage changes. Prices increased in 10 out of 12 months in 1994. The opening of new recycling mills created extra demand. Supplies were reduced early in the year as the result of harsh winter weather. Throughout the rest of the year, new mills upset traditional supply channels, the usage rate of recovered paper was expanded, and exports increased. With pulp prices rising throughout the year, wastepaper was seen as a viable substitute, with the result that its price nearly tripled.

Nonferrous scrap prices increased 70.3 percent in 1994 following a 14-percent decline a year earlier. Prices rose in each month during 1994. The year's increase was led by the upturn in aluminum base scrap prices, although copper base scrap prices, which advanced 52.3 percent after falling more than 20 percent in 1993, were also a factor. Early in the year, aluminum prices rose on increased demand from sheet can producers. Demand from secondary smelters for both aluminum and copper, as well as increases in aluminum ingot and copper cathode prices (scrap and primary metals are substitutes in many cases) also pushed the nonferrous scrap index higher in the first half of the year. By midyear, prices were over 31 percent higher than they had been in December 1993. Throughout the second half of the year, rising export demand tightened supplies and continued increases in primary metal prices pushed scrap prices higher each month.

The increase in prices for raw cotton accelerated to 34.9 percent in 1994 from 12.9 percent in 1993. While the domestic harvest was near record levels, domestic consumption was at a 50-year high, and cotton's share of fiber use was nearly 80 percent, its highest level in over 25 years. A poor Asian crop—the result of insect infestation—and depleted world stocks increased export demand. This fueled rumors that export orders would be larger in the first quarter of 1995.

Prices for inedible fats and oils rose 48.0 percent in 1994 after declining 6.1 percent in the prior year. Prices rose moderately in the beginning of the year, before easing downward at the end of the first quarter. After a sluggish start in the second quarter, prices again rose. By midyear, they were al-

most 11 percent higher than in December 1993. In the second half of the year, prices of inedible fats and oils continued to rise in each month. Much of the pressure on these prices stemmed from higher prices for tallow, which is the major component of this index. Tallow is used as a substitute for palm oil in the manufacture of soap. Palm oil costs rose substantially as supplies from the Far East fell off sharply.

Net output of industries

Manufacturing. The Producer Price Index for the net output of the domestic manufacturing sector increased 2.4 percent from December 1993 to December 1994, following a 0.8-percent rise a year earlier. Prices for the tobacco manufactures industry index inched up just 0.3 percent after declining 22.8 percent in 1993. The petroleum refining industry group index also turned up (8.9 percent) after falling (12.8 percent) in the previous year. Prices for the paper products industry group increased significantly after decreasing in the previous year. In 1994, price increases accelerated for most of the other industry groups in the manufacturing sector. Prices for the lumber and wood products industry group, however, advanced much less in 1994 than in 1993.

Mining. The index for the net output of all mining industries fell 1.0 percent in calendar 1994 following a 9.4-percent decrease a year earlier. Price declines slowed dramatically for the oil and gas extraction industry group index, from 12.8 percent in 1993 to 3.2 percent in 1994. Prices continued to rise for the nonmetallic minerals mining industry group. By contrast, prices skyrocketed by 36 percent for the metal mining industry group in 1994 after falling 7.2 percent in the previous year. The index declined much more than in the previous year for the bituminous coal and lignite mining industry group.

Services. Among other industries, prices for railroad line haul operations increased 0.4 percent in 1994 after rising 0.7 percent the year before. Demand for rail transportation was good in 1994 despite the horrible winter weather at the beginning of the year. The poor weather sorely tested the industry's ability to handle an unexpected increase in traffic during the first months of the year. The unforeseen demand put pressure on a fairly depleted industry capacity, and resulted in rate hikes. The surge in railroad traffic in 1994 can be attributed to a variety of factors including: the passage of NAFTA; high demand for low-sulfur coal from Wyoming's Power River Basin; record corn and soybean production; an effective cost control system implemented by the railroad industry; and greater success in tailoring services to meet shippers' needs.

In 1994, prices for deep sea foreign transportation declined, while those for deep sea domestic transportation of freight increased. There are few U.S. carriers left in the foreign transportation category and those that remain continue to lobby Congress for increased subsidies to remain competitive with their foreign counterparts. Domestic industry operators have threatened to reflag their vessels in foreign countries that have less stringent requirements than those imposed by the U. S. Coast Guard.

For the domestic deep sea transportation category, industry rates increased in 1994 as several private carriers opted to have independent carriers transport the crude petroleum of their parent companies. This trend represents a departure from typical industry behavior, as private carriers have historically transported for some of the larger industry participants. Private carriers have not replaced aging vessels in their fleets, opting instead to hire less costly independent carriers.

The water transportation of freight (not elsewhere classified) index increased by about 16 percent in 1994 after declining 3.1 percent in 1993. Most of the 1994 increase was due to charges for Mississippi River transportation of farm products, which more than doubled. With 1994's bumper harvest, and the resultant decrease in available barge space, significant rate increases were registered during the year. These rate increases allowed some operators to recoup losses from the disastrous 1993 floods that kept part of the Upper Mississippi River closed for weeks. The tugging and towing services index also increased in 1994 on the strength of higher charges for vessel docking services and auxiliary harbor services.

The index for the trucking and courier service industries moved up 2.7 percent in 1994, led by increases for long distance trucking. In 1994, this industry experienced a 23-day Teamsters' strike, one of the longest and costliest in trucking history. As a result of the strike, there was a shift in market share from unionized to nonunionized trucking operations.

The index for truck rental and leasing increased 2.2 percent in 1994, slightly more than it had fallen in 1993. In 1994, truck rental prices increased sharply as the result of a substantial increase in demand. Truck lease rates, which are negotiated for much longer terms than rentals, moved up by about 1 percent. The index for passenger car rental, without drivers, advanced 2.5 percent from December 1993 to December 1994, after falling as much in the previous year. This index rose during peak travel and vacation periods and fell during off-travel periods. Much of the increase in the index for passenger car rentals in the latter months of the year reflected increased costs for 1995 fleet purchases.

Very modest upward movement was registered in 1994 for the indexes for farm product warehousing and storage

and for refrigerated warehousing and storage. However, charges for general warehousing and storage were up 1.3 percent over the year as prices rose for self-service storage, reflecting improved demand for all sizes of storage units throughout the year.

Price increases for leased space for concessions and for services rendered to air passenger and cargo carriers caused the index for airports, flying fields, and airport services to increase 1.1 percent in 1994; this index moved up 0.6 percent in the previous year. In 1994, concessionaire's rents, which are escalated on a percentage of the vendor's gross receipts, inched up steadily for most of the year.

The index for travel agencies declined 2.7 percent in 1994, somewhat less than it had risen in 1993. In 1994, domestic airlines continued ongoing fare wars. This competition has caused much volatility in the size of commissions received by travel agents, which were based on airline ticket prices that fluctuated through the year. The index for tour operators advanced 1.2 percent in calendar 1994, following a 1.9-percent rise in 1993.

The hotels and motels index increased 1.4 percent from December 1993 to December 1994. Prices for guest room rental, which comprises the largest part of this industry, increased by about 1 percent, while prices of food and beverages increased about 4 percent. Other guest services, mostly casino gaming receipts, registered a 1.4-percent decline. Casino gaming in Nevada and New Jersey faced increased competition in 1994 as more States legalize this form of gambling. Slot machine receipts from New Jersey posted the largest decreases over the year.

The index for crude petroleum pipelines increased 13.7 percent in 1994, reflecting sharp increases for all pipeline categories. During this same period, the index for refined petroleum pipelines moved up 1.8 percent. In 1993, the crude and refined petroleum pipelines indexes showed little change.

The indexes for employment agencies and help supply services, which were introduced in July 1994, edged up modestly during their first 6 months of publication. This upward movement reflected strong demand for such placement services.

Fees for postal service were unchanged in 1994. By yearend, across-the-board price increases were announced for domestic postal service, to take effect on January 1, 1995. This was the first hike in domestic fees since February 1991, when the index for U. S. postal service increased 4.4 percent.

The cable and other pay television services index inched down 0.1 percent in 1994, mostly as a 1.3-percent decline in the index for subscriber services offset a 5.5-percent boost in the advertising index. In February of 1994, under the Cable Television Consumer Protection and Competition Act, the Federal Communication Commission (FCC) ordered a 7-percent reduction in rates for basic service by July 15, 1994. This decline, reflected in the August index, was short lived, as some cable companies readjusted their prices upward to meet the FCC's benchmark prices for basic service. The readjustment continued through October. In late November, the FCC agreed to allow a cable company to increase charges over a 2-year period if the company adds six or more new channels to its basic lineup. Previously, the FCC only permitted rate increases that reflected inflation, but had permitted companies to tack a 7.5-percent increase on to licensing fees.

The radio broadcasting index increased 6.8 percent from December 1993 to December 1994, following a 4.3-percent rise a year earlier. In 1994, much of the increase was due to higher rates for local station commercial advertising. Prices were low at the start of the year, then rose from February to May as demand increased. They fluctuated during the summer months, then leveled off in September, and by November and December, had slightly exceeded the levels attained during the summer months.

In 1994, the index for offices and clinics of doctors of medicine rose 4.1 percent, on the strength of higher fees for both medicare and nonmedicare treatments. The largest increase was for pediatric treatments, for which prices advanced by about 11 percent. Prices for medicare treatments increased in January when the Health Care Financing Administration implemented the Resource Base Relative Value Scale payment mechanism for physician services. The 4.7-percent increase for medicare services represents the advance in total physician expenditures under the medicare program for all services and physicians in the United States.

The hospitals index rose 3.6 percent in calendar 1994, after advancing 3.9 percent in the previous year. The index for medicare inpatients moved up 1.3 percent, while its medicaid counterpart increased 3.9 percent. Medicare reimbursements are determined by the Department of Health and Human Services; the rates for fiscal year 1995 were effective October 1, 1994. Medicaid rates, however, differ by State and are subject to change throughout the year.

Following a 17.5-percent advance in 1993, prices for scrap metal collection were up 22.2 percent in 1994, a response to robust demand from an improving economy, as well as soaring prices for metals. By contrast, prices for waste paper collection declined for the second consecutive year. Prices fell sharply in the first part of the year but turned up in October when demand began to increase as prices for newsprint jumped. □