

Inflation cross-currents: energy, food, and homeownership

During the first quarter, energy prices soared, especially those of gasoline and fuel oil, but a sharp slowdown in food prices and mortgage rates held the CPI rise to a 9.6-percent rate, considerably less than the previous quarter

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Inflation slowed during the first quarter of 1981 despite a sharp advance in energy prices. The Consumer Price Index for All Urban Consumers (CPI-U) increased at a seasonally adjusted annual rate of 9.6 percent, following a 13.2-percent rate in the fourth quarter of 1980. The deceleration was largely attributable to much smaller increases in the housing and food and beverage components. However, the transportation element registered its largest increase since the first quarter of 1980. This acceleration was primarily caused by rising gasoline prices. (See table 1.)

Following very moderate increases in the last two quarters of 1980, prices paid by consumers for energy items were up at an annual rate of 49.1 percent in first-quarter 1981. This happened largely as a result of the Organization of Petroleum Exporting Countries (OPEC) price increase announced in December, the phased decontrol already in effect, and the total decontrol of prices for domestic crude oil and gasoline announced in January 1981. However, consumer prices for goods and services other than energy slowed to an annual rate of 5.2 percent during the period, the smallest increase since the fourth quarter of 1976. Prices of grocery store foods and houses registered declines.

At the primary market level, the Producer Price Index (PPI) for Finished Goods advanced at a seasonally adjusted annual rate of 12.5 percent, a faster rate than in the fourth quarter of 1980. Prices of finished energy goods accelerated sharply from moderate increases in the third and fourth quarters. Finished consumer food price increases slowed to an annual rate of 1.0 percent, continuing the deceleration started in the fourth quarter of 1980. Prices for finished goods other than food and energy rose slightly more than in the preceding 3 months. Prices of intermediate goods advanced at about the same rate as in the last half of 1980, and crude material prices rose at a rate of less than 5 percent for the second consecutive quarter.

A focus on energy

Consumer energy prices. Once again, energy items became a major factor in the inflation situation for the first quarter of 1981. After 6 months of relatively moderate changes, energy prices in the CPI increased 10.5 percent for the 3 months ending in March, which is an annual rate of 49.1 percent, the largest since March 1980. Energy items alone accounted for approximately 50 percent of the overall CPI increase in the first quarter. The greatest acceleration occurred in gasoline and fuel oil (home heating oil) prices, while natural gas and electricity experienced much more moderate increases compared with the previous quarter. (See table 2.) The higher gasoline prices were rather pervasive across the

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country, while increased fuel oil costs had a more severe impact on the high-consumption areas in the Northeast.

Crude oil imports. At the December conference of the Organization of Petroleum Exporting Countries in Bali, the ceiling price for top-quality African crude oil was

raised from \$37 to \$41 per barrel. Most OPEC members raised their prices, including Saudi Arabia, which lifted its standard crude price by \$2 to \$32 per barrel. The increases announced by OPEC represented a compromise between Saudi Arabia and those OPEC members calling for an even larger boost. These advances were prompted

Table 1. Changes in selected components of the Consumer and the Producer Price Indexes, 1980-81, seasonally adjusted

Index	Relative importance Dec. 1980	Percent change Dec. 80-Mar. 81	Effect on overall index ¹ Dec. 80 Mar. 81	Compound annual rates, seasonally adjusted except as noted, for 3 months ended -			
				1980			1981
				June	Sept.	Dec.	Mar.
Consumer Price Index for All Urban Consumers (CPI-U)²							
All items	100.0	2.3	2.3	11.4	7.8	13.2	9.6
Food and beverages	18.3	0.7	.143	5.9	19.1	12.5	2.9
Food at home	12.0	0.0	.004	4.7	24.8	13.2	-.1
Food away from home	5.3	2.3	.121	8.1	9.0	12.3	9.5
Alcoholic beverages	1.0	2.6	.025	9.8	8.2	5.2	10.8
Housing	45.5	1.9	.872	19.7	-1.7	15.8	8.0
Shelter	31.7	1.1	.313	23.1	-1.4	20.2	4.4
Rent, residential ³	5.1	1.7	.087	10.0	8.6	9.6	7.0
Homeownership	25.8	0.8	.196	26.4	-3.5	23.1	3.1
Home purchase ³	10.3	-2.3	-.232	14.9	14.9	9.0	-8.8
Financing, taxes, and insurance ³	12.0	2.7	.323	43.9	-20.0	41.8	11.4
Maintenance and repairs	3.6	3.0	.105	8.3	8.2	10.1	12.5
Fuel and other utilities	6.6	5.8	.389	17.0	9.8	8.5	25.5
Household furnishings and operation	7.3	2.4	.171	8.4	7.8	5.1	9.8
Apparel and upkeep	4.9	1.6	.076	1.1	8.9	4.3	6.7
Transportation	19.0	5.1	.963	2.6	11.3	13.9	22.2
Private transportation	17.8	5.1	.904	1.8	8.9	13.8	22.0
Gasoline	5.9	13.2	.788	-5.8	-3.3	10.5	64.2
Public transportation ³	1.2	4.9	.058	18.6	56.7	14.1	21.2
Medical care	4.7	2.9	.134	8.9	9.2	7.9	11.9
Medical care commodities	0.8	3.0	.024	10.7	10.2	8.9	12.4
Medical care services	3.9	2.9	.110	8.4	8.9	7.7	12.0
Entertainment	3.6	2.4	.092	9.1	10.5	5.0	10.1
Other goods and services	4.0	1.9	.082	9.3	11.1	9.0	7.9
All items	100.0	2.3	2.3	11.4	7.8	13.2	9.6
Food	17.3	0.5	.117	5.8	19.7	13.1	2.1
Energy ³	10.8	10.5	1.135	15.2	2.5	0.3	49.1
Commodities less food and energy	33.7	0.4	.139	7.7	12.9	9.6	1.7
Services less energy	38.1	2.4	.961	20.0	-4	17.9	10.1
All items	100.0	2.3	2.3	11.4	7.8	13.2	9.6
Services	41.6	2.5	1.075	20.5	.7	16.8	10.3
Commodities	58.4	2.2	1.286	5.4	13.2	11.0	8.9
All items less food, energy, and mortgage interest cost ³	62.0	1.4	.805	8.6	11.0	9.3	5.8
Producer Price Index (PPI) by stage of processing²							
Finished goods	100.0	3.0	3.0	8.4	13.5	7.8	12.5
Finished energy goods	12.0	12.9	1.541	18.8	3.6	14.4	62.3
Finished consumer goods	23.0	.2	.055	1.4	31.0	3.6	1.0
Finished goods less foods	77.0	3.8	2.951	11.8	8.3	9.3	16.2
Finished goods less foods and energy	65.0	2.2	1.418	10.5	9.2	8.2	9.0
Finished consumer goods less foods	56.6	4.2	2.388	12.2	7.5	8.4	18.0
Finished consumer goods less foods and energy	44.7	1.9	.846	10.2	8.7	6.7	7.8
Capital equipment	20.3	2.8	.576	10.9	9.9	11.4	11.8
Intermediate materials, supplies, and components	100.0	2.7	2.7	6.6	10.1	11.9	11.1
Intermediate energy goods	16.2	10.2	1.658	9.9	13.0	19.5	47.7
Intermediate foods and feeds	6.4	-5.4	-.349	14.1	52.7	.7	-20.0
Intermediate materials less foods and feeds	93.6	3.2	2.981	6.2	7.8	12.7	13.4
Intermediate materials less foods and energy	77.4	1.8	1.366	5.7	6.9	10.8	7.2
Crude materials for further processing	100.0	0.5	0.5	-.1	55.2	4.4	2.1
Crude energy materials ³	26.2	23.1	6.041	19.3	20.4	19.2	129.5
Crude foodstuffs and feedstuffs	58.2	6.3	3.674	.3	73.9	-4.1	-22.9
Crude nonfood materials	41.8	10.1	4.234	2	32.3	17.6	47.1
Crude nonfood materials less energy	15.6	-11.0	-1.709	-24.4	55.0	15.1	-37.1

¹ Amount of overall percentage points increase attributable to each specific item.

² See "Definitions" and "Notes" preceding tables 22-30 of Current Labor Statistics in this Review.

³ Not seasonally adjusted.

NOTE: Monthly data for Producer Price indexes have been revised through November 1980 to reflect the availability of late reports and corrections by respondents. For this reason, some of the figures shown above and elsewhere in this report differ from those previously published.

Table 2. Changes in retail and producer prices for energy items, 1980-81

Item	Index	Relative importance Dec. 1980	Percent change Mar. 1980 to Mar. 1981	Compound annual rate, seasonally adjusted except as noted, for 3 months ended —			
				1980			1981
				June	Sept.	Dec.	Mar.
Finished items (Sold to consumers)							
Energy items ¹	CPI	100.0	15.3	15.2	2.5	0.3	49.1
Finished energy goods	PPI	100.0	22.9	18.8	3.6	14.4	62.3
Gasoline, motor oil, coolants, etc. ¹	CPI	55.7	13.4	6.0	-3.2	0.4	60.4
Gasoline ²	CPI	54.9	13.4	-5.8	-3.3	10.5	64.2
	PPI	56.8	21.7	16.9	-3.9	10.7	76.4
Household fuels	CPI	44.3	17.9	20.6	11.5	8.5	33.1
Fuel oil ^{1,2}	CPI	10.5	26.5	3.7	1.5	17.9	106.1
	PPI	14.2	31.1	14.1	2.5	11.7	126.4
Gas (piped) ^{1,2,3}	CPI	13.0	14.9	29.3	15.6	1.4	15.2
	PPI	18.2	25.9	25.9	37.9	30.3	11.0
Electricity	CPI	19.3	15.1	28.1	14.0	7.3	12.5
Intermediate materials (Sold to businesses)							
Intermediate energy goods	PPI	100.0	21.5	9.9	13.0	19.5	47.7
Diesel fuel ^{2,3}	PPI	9.0	26.0	9.7	9.6	2.9	103.7
Commercial jet fuel ^{2,3}	PPI	8.4	22.9	24.6	13.1	1.0	60.1
Residual fuel ²	PPI	15.5	33.3	-42.5	65.8	99.6	65.7
Liquefied petroleum gas ³	PPI	4.8	11.3	7.4	-9.1	34.3	17.2
Electric power ⁴	PPI	30.0	14.7	22.6	16.9	10.9	8.9
Crude materials							
Crude energy materials ³	PPI	100.0	40.8	19.3	20.4	19.2	129.5
Natural gas ^{2,3}	PPI	31.6	25.9	25.9	37.9	30.3	11.0
Crude petroleum ³	PPI	53.3	61.2	21.6	17.3	18.4	300.2
Coal	PPI	15.1	4.2	-2.2	5.4	6.3	7.9

¹ Not seasonally adjusted in the CPI.

² Prices for these items are lagged 1 month in the PPI.

³ Not seasonally adjusted in the PPI.

⁴ Includes commercial and industrial electric power, but not residential.

by fears of tightened oil supplies after the outbreak of war between Iraq and Iran in late September. However, the war did not spread to other Persian Gulf nations, and the crude oil supply situation improved as the two countries repaired their export facilities and resumed oil shipments by 1980's end. Saudi Arabia again increased its crude oil shipments, to a level almost 2 million barrels per day above its pre-1979 levels. The resulting surplus on world markets led to price discounting by some oil-exporting countries at the end of first-quarter 1981.

Most of the industrialized nations reduced their imports of petroleum considerably during 1980 and early 1981. The declining level of demand for petroleum stemmed in part from recessions in several of these countries, substitution of nonpetroleum fuels, and steps taken to improve energy efficiency. From mid-1980 through the first quarter of 1981, the United States imported an average of about 4.6 million barrels of crude oil per day, compared with an average daily import rate of 6.4 million barrels for 1979.

Crude oil—domestic. On January 28, the Administration announced the total decontrol of prices for crude oil, gasoline, and propane. The controls had been scheduled to be phased out by September 1981. The im-

mediate effect of decontrol was to raise the average wellhead price of domestically produced crude oil from \$28.85 in January to \$34.14 per barrel in February; refined product prices also rose as a result of increased crude oil costs. There were also indications of stepped-up oil exploration activity in the wake of higher crude oil prices, while consumers continued to buy less gasoline and other refined products in reaction to higher prices.

Household fuels. Gasoline prices probably would have risen more were it not for a slackening in demand. While the monthly production levels of gasoline have remained relatively unchanged over the last 2 years, inventories reached a record high of 288.1 million barrels in late March. This overproduction vis-a-vis demand is reflected in the short-run adjustment of reduced refinery capacity utilization, which dipped to 68.7 percent in early April. Some refiners have already announced plans for further cutbacks in production. As a result of the abundant supplies and increased costs, retailers have not been able to maintain their margins, which has helped to restrain prices. Gasoline prices showed a significant deceleration in March after some wholesalers began charging less in the early part of the month. If in-

ventory levels remain high and there are no further OPEC increases, then prices should continue to moderate into the second quarter.

After huge increases in the first 2 months of 1981, fuel oil prices also experienced a sharp slowdown in March. The restraining influences were the relatively mild February weather in the Northeast and the seasonal decline in demand near the end of the heating season. Because the refinery output of fuel oil is directly tied to the production of gasoline, any decisions to reduce production levels of the latter will also affect the future supplies (and therefore the prices) of the former.

Electricity prices increased at an annual rate of 12.5 percent for the 3 months ending in March. While these figures show an acceleration compared with fourth-quarter 1980, it is a significant improvement over the first 9 months of 1980. Most higher prices resulted from fuel adjustment charges caused by the increased cost of fuels to the utilities, particularly the electricity generated from oil.

Natural gas prices have followed a similar pattern to electricity. The slowdown in the fourth quarter has been followed by an acceleration through March. But the annual rate of 15.2 percent in the first quarter is still below the level of price increases experienced in the first three quarters of 1981. Purchase gas adjustments, which reflect the increased cost of natural gas to the utility, and higher rates caused the first-quarter acceleration in prices. The proposed deregulation of natural gas would have a significant impact on price levels if it is implemented.

Industrial fuels. Intermediate energy goods in the PPI accelerated to a 47.7-percent annual rate of increase in the first quarter of 1981, much more than during any of the three preceding quarters. Diesel fuel prices climbed at an annual rate in excess of 100 percent, as steady demand allowed the pass-through of the full impact of higher crude oil prices. Strong demand for home heating oil put further upward pressure on diesel fuel prices; these two fuels are virtually identical. Residual fuel prices also moved up substantially, although not as rapidly as diesel fuel. The rate of increase slowed largely because many electric utilities and industrial plants continued the process of conversion to cheaper fuels, such as coal and natural gas. This process has depressed demand for residual fuel over the last year. There was also a greater volume of residual fuels produced relative to other refined petroleum products, because of the higher proportion of domestic crude petroleum being refined. Air pollution laws have resulted in particularly weak demand for residual fuels with a sulfur content greater than 1 percent; prices for these grades rose much less than higher-grade residual fuel in the first quarter.¹

Commercial jet fuel prices also advanced, but less

than either diesel or residual fuel. This was partly attributable to a decrease in airline traffic; in addition, because most jet fuel sales are contractual, these prices are slower to adjust than those of other types of petroleum fuels. (Refined petroleum product prices are lagged 1 month in the PPI; therefore, first-quarter data reflect price developments from November to February.)

The PPI for electric power rose at an 8.9-percent annual rate, the slowest pace in 2 years. The deceleration over the past two quarters was reflective of stable coal prices and the weakness in residual fuel prices during mid-1980. The liquefied petroleum gas index moved up substantially for the second consecutive quarter, following several months of relatively little movement. The first-quarter advance was caused by higher crude petroleum costs, as well as increased demand for propane as a home heating fuel. The phased decontrol of natural gas prices (which were up 30 percent at the wellhead in 1980) has encouraged many homeowners to switch to propane.

Increases in food prices relax

From December to March, retail food prices showed their smallest rise since first-quarter 1980. Much of the slowdown was caused by declining prices for meats and sugar, as a result of abundant supplies. The effect of last summer's drought, along with unfavorable winter weather, continued to be reflected in large price increases for fresh vegetables and peanut butter. Most other categories of foods continued to experience moderate advances in price. At the farm level, the PPI for crude foodstuffs and feedstuffs decreased for the second consecutive quarter, after an unusually steep advance in the third quarter of 1980. (See table 3.)

Meats and fish. Burdensome supplies of hogs in early 1981 resulted in lower prices for pork, as well as a slackening in prices for competing beef and veal. However, as fewer hogs were slaughtered near the end of first-quarter 1981, producer pork prices began to turn up. Pork supplies were expected to be significantly reduced later in the year, as many producers were dumping stock after operating at a loss for 2 years. Record production had kept pork prices low, despite higher feed and fuel prices, interest rates, and other costs.

Cattle supplies were also more than ample from the fall through the first quarter, as ranchers kept fewer cows for breeding. As a result, offerings will decrease in the future, and upward pressure will be exerted on prices. The poultry industry was also marked by heavy supplies, falling prices, and high costs for feed and energy. If prices for red meats rise later in the year, poultry demand is expected to increase substantially.

Fish prices were up from December to March, as fishing activity was limited by bad weather in many areas

of the country. Escalating fuel costs also forced many in the fishing business, particularly small operators, to curtail their operations.

Grains. Corn and soybean prices rose dramatically last summer because of the drought. However, soybean prices later weakened somewhat as a result of a large buildup of world soybean oil stocks and expectations of another extremely large harvest of soybeans in Brazil. In addition, high interest rates discouraged speculation.

Sugar. Retail sugar prices fell sharply during the first quarter, following a plunge in world raw cane sugar prices in December. Earlier in 1980, sugar prices had reached the highest level in 7 years. As in 1974, the 1980 increase was the result of reduced world inventories in the face of growing world demand. Several major sugar-producing countries had poor harvests in 1980. Prices for beet sugar, corn syrup, and other competing sweeteners had followed those of cane sugar—up last year, down in the first quarter.

The downturn was triggered by a cessation of large purchases of sugar on the world market by the Soviet

Union. This coincided with the buildup of large inventories of beet sugar. Fears of future price drops, coupled with high interest rates and inventory costs, caused beet sugar producers to become more aggressive in East Coast markets, formerly dominated by cane sugar. Also, high prices led to an expansion of sugar beet planting in Europe; thus, a large crop is expected there this year.

Fruits and vegetables. In contrast to meats and sugar, fresh vegetable prices resumed the sharp upward climb that had been registered in the third quarter, before much smaller increases late last year. Supplies of many vegetables were still tight as a result of reduced acreage and poor yields from last summer's drought. Low inventories of potatoes and onions led to substantial rises in price. Severe weather took its toll on winter crops. Florida tomatoes were hit hard by freezing temperatures in January, followed by rain in late February. Tomatoes in Mexico had been damaged by rains last autumn, and again in January and March, keeping imports low. As a result, tomato prices soared. Sweet corn, snap beans, green peppers, and several other vegetables also suffered

Table 3. Changes in retail and producer prices for consumer foods, 1980-81

Commodity	Index	Relative importance Dec. 1980	Percent change Mar. 1980 to Mar. 1981	Compound annual rate, seasonally adjusted except as noted, for 3 months ended			
				1980			1981
				June	Sept.	Dec.	Mar.
Consumer foods ¹	CPI	100.0	10.1	5.8	19.7	13.1	2.1
	PPI	100.0	7.8	1.4	31.0	3.6	1.0
Beef and veal	CPI	9.8	0.4	-16.3	48.8	1.4	-19.4
	PPI	12.1	6.5	-8.0	35.0	-11.6	-30.4
Pork ²	CPI	4.7	9.4	-22.0	87.2	12.0	-12.5
	PPI	6.5	12.2	23.5	171.7	-2.7	-21.6
Poultry	CPI	2.3	11.6	8.9	89.0	10.3	-18.6
	PPI	3.3	17.5	19.4	262.0	-15.3	-22.7
Cereal and bakery products ²	CPI	8.7	11.8	12.8	7.4	13.8	13.3
	PPI	13.1	8.7	8.8	7.0	14.4	4.8
Dairy products	CPI	9.3	10.1	12.3	6.9	11.2	10.3
	PPI	13.6	10.1	13.9	4.6	13.7	8.4
Fresh fruits and vegetables	CPI	5.2	27.8	27.4	53.7	0.3	36.1
	PPI	5.2	33.5	41.3	100.5	27.9	55.4
Processed fruits and vegetables ²	CPI	4.5	11.0	7.3	8.4	7.7	21.3
	PPI	6.4	12.6	7.1	5.7	7.8	31.5
Eggs	CPI	1.3	9.7	11.3	31.3	31.8	24.8
	PPI	2.0	2.1	19.9	47.9	16.4	33.3
Sugar and sweets ³	CPI	2.9	22.2	34.8	33.8	39.5	11.1
	PPI	4.8	14.6	130.5	21.2	7.7	33.1
Roasted coffee ²	CPI	0.8	17.9	-4.7	5.7	30.0	27.7
	PPI	3.6	14.0	11.7	20.2	21.0	1.8
Fats and oil products ⁴	CPI	1.9	13.6	2.0	6.5	19.5	33.4
	PPI	1.6	3.7	7.2	11.1	8.6	3.2

¹ Includes items not listed. The CPI includes prices of food away from home, which accounts for about 31 percent of the food index. The PPI for finished consumer foods does not reflect restaurant prices.

² Not seasonally adjusted in the CPI.

³ "Sugar and confectionery" in the PPI. Not seasonally adjusted in the PPI.

⁴ "Vegetable oil end products" in the PPI. Peanut butter prices are included in this CPI but not in this PPI.

frost damage. However, increased production led to lower prices for lettuce, celery, carrots, and cabbage.

Florida oranges also were harmed by the January freezes. Although much of the damaged fruit was salvaged for juicing, both juice and fresh fruit production were well below the high levels predicted prior to the frost. As a result of the reduced supply, Florida orange prices rose substantially by February. However, the increase was moderated by lower prices for abundant California oranges.

Peanut butter. The sharp price increases in peanut butter, which started in late 1980 following the smallest peanut harvest since 1964, continued into early 1981. Peanut inventories were well below year-ago levels despite relaxation of import quotas. Little improvement is likely until harvest of the 1981 crop this fall.

Homeownership developments

Mortgage interest rates, which rose 15 percent in 1980, increased at an annual rate of 23 percent in the first quarter. In late 1980, conventional mortgage interest rates started to advance as the inflow of funds into saving and loans was generally low. Consumer demand for mortgage loans dropped in January and the cost of funds increased, which lowered the difference between the interest return on mortgages held and the cost of funds. As a result of the increase in conventional rates, points on FHA and VA guaranteed loans increased. (Points are the percentage of the loan amount charged to the seller in order to "correct" any differences between FHA/VA rates and conventional rates.) During this temporary disequilibrium, homeowners were discouraged from offering their houses through either FHA or VA.

To remain competitive, both types of guaranteed loans increased mortgage rates in early March. Although short-term interest rates declined over the first 3 months of 1981, rates for long-term obligations, with which mortgage loans must compete, remained fairly constant.

Despite the large rise in mortgage interest rates, increases for contracted mortgage interest costs moderated in the first quarter because home purchase prices declined at an annual rate of 8.8 percent. This was the largest 3-month decline in the history of the index. The housing market weakened considerably at the start of 1981 as the number of single-family homes sold and housing starts dropped sharply in February, and the inventory of completed but unsold homes rose. In March 1981, the National Association of Realtors reported that the February sales volume of existing homes was 22 percent below that of September 1980, and that the median price of \$64,100 for an existing single-family home in February was at the same level as in July 1980.

Other consumer services

The index for transportation services moved up at an annual rate of 9.9 percent, slightly less than the previous quarter. This reflected increases in auto maintenance and repairs, insurance, and finance charges, as interest rates in the general money markets remained at high levels. The public transportation index moved up at a 21.2-percent rate, more than the preceding quarter and about the same as a year ago, reflecting rises in airline and intracity mass transit fares. Airline ticket prices showed some moderation compared with the rate of increase experienced in recent months. However, a 5.7-percent industry-wide increase was granted by the Civil Aeronautics Board effective March 1, 1981. This advance was justified on the basis of higher fuel plus nonfuel costs. Intracity mass transit rose moderately, reflecting higher wage rates and other operating costs. (See table 4.)

The index for medical care services moved up at a rate of 12.0 percent, slightly more than during the previous 3 months, but less than that of a year ago, reflecting moderate increases in professional and hospital services. Wages and overhead expenses play significant roles in price advances in these service areas. The apparel services index rose at a 12.3-percent rate, about the same as the preceding quarter, because of increased overhead and materials costs—particularly cleaning fluid and labor. The index for entertainment services went up at a rate of 10.4 percent, accelerating from the previous quarter, but near the levels of a year ago. The principal causes of these increases were the higher prices for first-run movies and big-name concert artists because of rising labor and operating expenses and seasonal changes. Prices for other types of services, including personal care and personal and educational services, experienced moderate changes similar to the prior quarter. These increases reflected higher costs for labor, materials, utilities, and other operating expenses.

Other producer prices

The PPI for finished goods other than food and energy moved up at a seasonally adjusted annual rate of 9.0 percent from December to March, slightly faster than the 8.2-percent rate in the previous quarter but slower than in any other one of 1980. Prices for consumer nondurables climbed at an 11.6-percent rate, much more than in either of the preceding two quarters; however, the consumer durables index rose at a 2.5-percent pace, the slowest in nearly 5 years. Capital equipment prices advanced at an 11.8-percent rate, virtually the same as in 1980.

Much of the acceleration in the consumer nondurables index was caused by a sharp rise in the newly introduced indexes for the publishing industry, particu-

larly newspapers. Prices for tires, prescription drugs, textile housefurnishings, soaps and detergents, and luggage moved up considerably more than in the last quarter of 1980. Among consumer durable goods, prices of jewelry fell even more sharply than in the previous quarter, and a steep drop in flatware prices erased a 21.3-percent advance registered in 1980; both developments reflected continued weakness in precious metal prices. Passenger car prices rose at a rate of 6.0 percent, much slower than the 9.2-percent increase recorded for all of 1980, as some domestic manufacturers reinstated rebate programs to promote sales of slower-selling models. Although motortruck price increases slowed somewhat from the unusually high rate in the last quarter of 1980, the 12.7-percent first-quarter rate was faster than the 11.2-percent rise recorded from December 1979 to December 1980.

Prices weakened dramatically during the first quarter for a broad range of basic industrial materials. Among precious metals, silver prices declined even more precipitously than in the previous 3 months; gold prices also

kept falling, although not as much as silver. Lower precious metal prices were reflected in continued rapid decreases in prices for jewelers' materials. Prices for several other primary nonferrous metals—including copper, cobalt, tin, and lead—were also sharply lower. As a result, the costs of copper-base scrap decreased markedly after showing virtually no net change from September to December, and those of lead scrap fell even more rapidly than did copper-base scrap. Steep first-quarter declines were also registered for crude natural rubber, raw cotton, wastepaper, and cattle hides. After recording a substantial advance in the final quarter of 1980, iron and steel scrap costs edged down slightly in the opening quarter of 1981; ferrous scrap prices normally rise considerably from December to March as firms rebuild their inventories.

The return of record-high interest rates at the end of 1980 had a major depressing effect on material prices in several ways. Industrial users generally tried to minimize their material inventories, and thus their current purchases, because of the extremely high costs of fi-

Table 4. Price changes in consumer services less energy and in consumer goods other than foods and energy, 1980-81

CPI grouping	Relative importance Dec. 1980	Percent change Mar. 1980 to Mar. 1981	Compound annual rate, seasonally adjusted except as noted, for 3 months ended			
			1980			1981
			June	Sept.	Dec.	Mar.
Services less energy	100.0	11.7	20.0	4	17.9	10.1
Rent, residential ¹	13.4	8.8	10.0	8.6	9.6	7.0
Household services less rent and energy ¹	50.1	13.2	29.5	10.8	26.9	12.1
Home financing, taxes, and insurance ¹	31.4	16.1	43.9	20.0	41.8	11.4
Mortgage interest costs ¹	25.8	18.2	55.0	25.4	51.3	11.6
Home maintenance and repairs services	7.2	9.7	7.0	7.0	11.0	13.8
Housekeeping services ¹	5.0	8.0	8.6	6.4	5.7	11.6
Transportation services	15.1	12.5	16.6	13.5	10.3	9.9
Auto maintenance and repairs	3.8	10.3	11.0	10.9	10.8	8.4
Other private transportation services	8.2	8.7	18.6	2.1	8.8	6.3
Public transportation ¹	3.1	26.6	18.6	56.7	14.1	21.2
Medical care services	10.3	9.2	8.4	8.9	7.7	12.0
Entertainment services ¹	3.9	8.1	9.2	9.7	3.3	10.4
Personal care services ¹	2.3	7.4	7.4	6.5	6.8	8.9
Apparel services	1.7	11.7	13.8	9.2	11.7	12.3
Personal and educational services	3.1	11.8	9.2	21.7	8.6	8.4
Commodities less food and energy	100.0	8.0	7.7	12.9	9.6	1.7
Alcoholic beverages	2.9	8.5	9.8	8.2	5.2	10.8
Home purchase ¹	30.5	7.0	14.9	14.9	9.0	8.8
Maintenance and repair commodities ¹	2.4	10.2	12.5	12.7	7.3	8.3
Textile housefurnishings	1.5	6.7	7.6	10.4	0.6	8.5
Furniture and bedding	3.5	6.6	5.8	7.3	2.7	10.5
Appliances, including radio and T.V. ¹	4.1	3.9	4.1	5.2	1.1	5.2
Other household equipment ¹	2.6	10.1	10.3	9.6	6.0	14.5
Housekeeping supplies ¹	4.3	11.0	13.0	11.2	9.4	10.5
Apparel commodities less footwear	10.5	3.9	1.4	8.7	2.9	6.2
Footwear	1.9	5.6	3.7	9.2	6.1	3.5
New cars	9.4	4.5	8.7	15.4	3.4	1.7
Used cars	8.0	20.6	12.1	39.0	62.3	6.5
Auto parts and equipment ¹	1.8	6.3	3.3	11.7	5.7	4.7
Medical care commodities	2.3	10.5	10.7	10.2	8.9	12.4
Entertainment commodities	6.4	9.2	9.2	11.0	6.1	10.4
Tobacco products ¹	3.1	7.1	10.5	2.2	12.9	3.3
Toilet goods and personal care appliances ¹	2.1	11.1	10.2	10.5	9.7	14.1
Schoolbooks and supplies	0.5	11.4	7.6	27.4	3.4	16.3

¹ Not seasonally adjusted.

nancing their holdings. Speculators increasingly turned away from precious metals and other commodities because of the favorable returns they could reap from high-yielding investments in financial markets. By their adverse impact on residential construction activity, high interest rates curtailed demand for copper, tin, and other materials which depend on a healthy housing market. High interest rates also encouraged foreign investments in this country, thereby strengthening the dollar; however, this served to discourage foreign demand for American commodities such as scrap metals, cotton, and hides.

A number of specific factors also served to reduce basic metal prices during late 1980 and early 1981. For example, lead prices dropped sharply in the wake of new Federal regulations effective last fall which cut the allowable level of lead in gasoline. The world's leading cobalt producing nation, Zaire, reduced cobalt prices 20 percent early in 1981. This followed many months of

unusually high and stable prices which resulted in decreased world industrial consumption, while Zaire's production and inventories mounted. Unusually high silver prices in early 1980 led to lower demand for silverware, silver jewelry, and other products which are heavy users of this metal. The result was a large silver surplus in 1980 following 3 years of deficit, and hence silver prices fell rapidly from late 1980 through early 1981. Settlement of a long copper strike in late 1980 was followed by a substantial rise in production, but at a time when industrial and residential construction demand for copper was quite weak.

Among other basic industrial materials, prices of cattle hides were driven down by the heavy cattle slaughter in early 1981. Raw cotton prices retreated somewhat after climbing rapidly late last year in the face of severe drought-related damage. Both domestic and foreign cotton mills were generally well-stocked through the spring of 1981. □

— FOOTNOTE —

¹ Residual fuel prices graded according to sulfur content were first published in the PPI with the release of January 1981 data. Before that, the PPI for residual fuel was subject to occasional variations re-

sulting from changes in the relative proportion of different grades of residual fuel sold from month to month.

Poverty income level raised

The level of annual family income used to determine whether a person is poor has been raised an average of \$920 by the U.S. Department of Labor to reflect increases in consumer prices.

Under the new criteria, an urban family of four can earn up to \$8,450 and still be considered poor, an increase of \$1,000 over last year. The change became effective March 11, 1981.

The revised poverty level guidelines are based on recommendations by the Office of Management and Budget. OMB defines the Federal Government's official poverty line.

These guidelines are used by a number of agencies to determine the eligibility of applicants for programs that assist the poor.

The new income levels for nonfarm families living in the continental United States average \$920 higher than last year; for a farm family, \$780, reflecting the increases in living costs since the last criteria were set in April 1980.
