Falling Energy Prices Helped Inflation Rate Decline in 2001

By John M. Berry
Washington Post Staff Writer
Thursday, January 17, 2002; Page E07

Consumer prices rose just 1.6 percent last year, less than half the 3.4 percent rise in 2000, when energy costs were surging, the Labor Department reported yesterday.

This drop in the inflation rate, caused largely by falling energy prices, meant that the purchasing power of American households' incomes generally continued to rise despite the recession that began last spring. For instance, average hourly earnings for production and non-supervisory workers on private payrolls rose 4 percent during 2001, more than twice as much as consumer prices.

Last month, the department's consumer price index fell 0.2 percent as prices of energy, apparel, food and beverages, and tobacco products dropped.

The inflation news was not quite so good for the "core" portion of the CPI, which excludes volatile food and energy prices. The core CPI rose 2.7 percent last year, one-tenth of a point more than in 2000 and the largest increase since 1995, the department said. The core CPI edged up 0.1 percent last month.

In another report yesterday, the Federal Reserve said industrial production slipped an additional 0.1 percent last month. But that was the smallest decline in five months, and analysts said it provided further evidence that the hard-hit manufacturing sector of the economy was stabilizing.

Motor-vehicle production jumped 4.1 percent last month as automakers sought to replenish dealer inventories after no-interest financing spurred sales to a record level in October. Sales fell in November from that high but did not decline as much as expected last month, according to the report on December retail sales released Tuesday.

Another bright spot for manufacturers came in the economy's output of computers, semiconductors and communications equipment, which rose 0.3 percent last month. After falling very sharply earlier in the year, production of these high-tech items has begun to climb slowly.

But the latest industrial production numbers were still far from strong. Excluding motor vehicles, factory production fell 0.5 percent.

Separately, the Commerce Department said businesses' stocks of unsold goods declined 1 percent in November after falling a huge 1.6 percent in October. In other words, firms are selling the goods they make at a faster rate than they are producing them.

"Inventory liquidation is proceeding at a record rate . . . which suggests some ramp-up of production in the months ahead," said economist Stan Shipley at Merrill Lynch & Co. in New York.

Shipley said the reduction in inventories should clip about 2.5 percentage points off the growth rate for the U.S. economy in the fourth quarter of last year, a figure that will be reported by Commerce on Jan. 30. Some other analysts expect the impact on growth to be worse.

But an increasing number of forecasters are predicting that production will begin to rise in the current quarter as more firms decide they have cut their levels of unsold goods far enough. Those production gains should be enough to cause the economy to grow this quarter even if consumer spending slows.

Fed Vice Chairman Roger W. Ferguson Jr., in a speech yesterday, agreed that "inventories will represent an important component in the bounce-back."

"As inventory stocks approach desired levels, the mere slowing in the pace of liquidation will provide a boost to gross domestic product growth," Ferguson said. "And when firms are confident that demand is going to pick up, the accompanying inventory restocking needed to meet that demand will lead to further production gains, which will provide a real jump start to the recovery."

The Fed also released the results of its latest survey of nationwide economic activity, which found that "economic activity generally remained weak from late November through early January." But the survey summary added: "While there are still indications of caution, there are also scattered reports of improvement."

Many of the 12 regional Federal Reserve banks that conducted the survey also found "that their contacts believe a recovery will begin by mid-year or earlier, but the timing and strength are uncertain."

Stocks fell yesterday amid fears of a weak recovery as well as concerns about the economic fallout from the Enron bankruptcy, Argentina's debt default and multiplying lawsuits against big companies over health damage caused by asbestos.

In the CPI report, Labor said prices rose more rapidly for medical care -- 4.7 percent during last year -- than for any other major category in the index. That was the largest rise in medical-care costs since 1994.

In contrast, apparel prices fell 3.2 percent, the sixth time in the past eight years that they have gone down.

Most of the large price declines came in energy. Last month gasoline prices at the pump were 24.9 percent lower than they were in December 2000, home heating oil cost 22.2 percent less and natural gas prices were down 15.1 percent.

But all those declines were topped by the 30.7 percent drop in prices of computers and related equipment.

In terms of the overall impact on consumers' pocketbooks, the most important price increases came in rents for homes and apartments and in the imputed rents for owner-occupied dwellings. Together, those items account for nearly 30 percent of the total CPI and the costs they cover rose about 4.6 percent last year.

Related Links

Latest Business News
Andersen Considered Severing Enron Ties (The Washington Post, 1/17/02)
BWI to Be Testing Lab for Security Systems (The Washington Post, 1/17/02)

Energized Steve Case Emerges From the Shadows (The Washington Post, 1/17/02)

Full Business Section

Full Washtech Section

washingtonpost.com Personalize Your Post | Go to mywashingtonpost.com
Home News OnPolitics Entertainment Live Online Camera Works Marketplace WashingtonJobs