

INFLATION: ITS MEASUREMENT AND SOME DEVELOPMENTS

"Inflation is a term which has been, and continues to be, subject to a variety of interpretations."¹ Regardless of the interpretation and despite the likelihood of being lulled into apathy by constant references to it, mere mention of inflation still evokes marked reactions. Given, for example, a rise in the level of prices and a reluctance to alter consumption patterns, individual and group activities occur at the private and public levels, reflecting attempts to increase the real income and hence restore real consumption patterns.

General agreement exists that "inflation is the result of demand and/or cost pressures which force the general level of prices to rise." In this sense inflation is defined as price inflation. There is, however, disagreement as to the extent to which the general level of prices must rise before it can be said that inflation exists. Thus, it is more appropriate to ask the question: how much can the general price level rise before it is considered that anti-inflationary action is warranted? Although there is no consensus on the answer, it may be useful to presume the following: a rise of less than 2 percent per year in the "inflation indicator" warrants some attention; a rise of 2 to 3 percent warrants investigation and anticipatory or preventive action; and a rise of 3 percent or more certainly warrants corrective action. Somewhat less definitive but also worthy of action would be a month-to-month increase in the indicator at a rate approaching one that would aggregate to a 3 percent or higher per-year increase.

Briefly, two explanations for inflation are offered. One acknowledges the likelihood of "cost-push" inflation as a consequence of diminished productivity gains combined with increasingly aggressive wage demands followed by price increases. Some argue that certain wage increases are negating the attempts at administrative economic policy making that in turn reflect the application of "official" guidelines. The recent reaction of the President to the wage-price increases in the steel industry exemplifies this situation.

Another explanation acknowledges that "demand-pull" inflation results when aggregate money demand exceeds the aggregate real supply of the economy, or when an increase in the former is at a rate markedly in excess of that of the latter. Thus, considerable emphasis has been placed upon the impact of increases in demand for goods and services that are emanating from national security, space exploration, and poverty programs--especially during a period of inadequately increasing, near-to-full-use capacity. The recent paring of the federal budget and the instigation of the personal income surtax is an overt acknowledgement at the Federal

level of such "demand-pull."

The price level changes of the 1966-1968 period have now proven to be of an inflationary nature--according to any standard. The economy had been in an expansionary phase for some five years prior to 1966. Resource utilization has been at relatively high levels since 1961. The general rise in prices cannot be explained, therefore, as a short-run phenomenon. Moreover, there has been an acceleration of the upward movements of the inflation indicators. The nature of the situation has become, therefore, one that warrants widespread discussion and development of economic policy. Whether private or public, the success of the economic policy depends "upon the quality, comprehensiveness, and timeliness of the data used in its formulation." Measurement of the price changes is, therefore, an important aspect of both the explanation of cause and effect relationships involved and the policy actions motivated by them.

Two indexes often used to measure price trends, and thus to serve as indicators of inflation, are the Consumer Price Index (CPI) and the Wholesale Price Index (WPI). In that which follows brief descriptions will be given of each of these indexes; then an analysis will be made of some recent price trends using these indexes.

THE CONSUMER PRICE INDEX

The CPI, or the Consumer Price Index for Urban Wage Earners and Clerical Workers, is a statistical measure of the changes in prices of goods and services that are typical of those purchased by urban wage earners and clerical workers--including families and single persons living alone--living in urban areas with a 1960 population of 2,500 or more. The pattern of spending of middle-income wage and salary workers on retail purchases is represented by a "market basket," or set of typical goods and services, that includes nearly 400 items. The set of prices includes:

... prices of everything people buy for living--food, clothing, automobiles, homes, house furnishings, household supplies, fuel, drugs, and recreational goods; fees for doctors, lawyers, beauty shops; rent, repair costs, transportation fares, public utility rates, etc. It deals with prices actually charged to consumers, including sales and excise taxes. It also includes real estate taxes on owned homes, but it does not include income or personal property taxes.²

The "market basket" represents, however, an "average" pattern of purchases; currently it reflects this consumer group's expenditures pattern as of the early 1960's.

Like all indexes, the CPI measures price changes for the selected group of items from a designated base or reference period. Since 1962, the CPI's reference

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¹See Sheldon W. Stahl, "A Look at Some Measures of Inflation," Monthly Review, March-April, 1967, of Federal Reserve Bank of Kansas City for a cogent article which is related to many of the ideas expressed herein.

²U.S. Department of Labor, Bureau of Labor Statistics, The Consumer Price Index (Revised January, 1964), (Washington: U.S. Government Printing Office, September, 1964), p. 1.

Business Summary

Now that the sales tax has been in effect for a year, its impact upon the sales patterns can be seen from the data below. The percentages are for total sales with the percentages for hard goods in parentheses.

	APRIL	MAY	JUNE
1966 as % of 1965	107.4 (109.1)	101.4 (96.3)	107.6 (105.1)
1967 as % of 1966	107.3 (110.8)	120.8 (142.3)	98.0 (86.5)
1968 as % of 1967	102.2 (93.0)	96.5 (80.8)	111.8 (120.9)

The consistently high percentages shown for June, 1968, throughout Tables III, IV, and V would indicate that retail sales have now somewhat normalized after sharp fluctuations caused by the implementation of the sales tax in June, 1967.

The Nebraska May, 1968, dollar volume of business was 6.3% above May, 1967. For the same period Nebraska's physical volume increased 4.2%. Comparable changes for the U.S. were 10.3% and 5.2%. The May dollar volume and physical volume for both the U.S. and Nebraska were above April, 1968 levels. In Nebraska, retail sales was the only business indicator declining from year-ago levels, which was due to the unusually high level of retail sales in May, 1967. In the U.S., construction activity was the only indicator declining from May, 1967.

All figures on this page are adjusted for seasonal changes, which means that the month-to-month ratios are relative to the normal or expected changes. Figures in Table I (except the first line) are adjusted where appropriate for price changes. Gasoline sales for Nebraska are for road use only; for the United States they are production in the previous month. E. L. BURGESS

I. NEBRASKA and the UNITED STATES

MAY Business Indicators	Percent of 1948 Average		Percent of Same Month a Year Ago		Percent of Preceding Month	
	Nebraska	U.S.	Nebraska	U.S.	Nebraska	U.S.
	Dollar Volume of Business	307.2	359.4	106.3	110.3	105.1
Physical Volume of Business	204.0	227.4	104.2	105.2	101.4	100.8
Bank debits (checks, etc.)	244.2	358.8	107.0	113.6	101.2	100.5
Construction activity	221.0	169.9	124.0	98.0	122.7	102.8
Retail sales	149.3	185.2	92.8	102.2	104.3	100.7
Life insurance sales	400.6	484.2	112.7	103.6	102.9	98.5
Cash farm marketings	247.4	167.8	124.2	107.9	92.6	110.1
Electricity produced	336.5	456.8	102.3	107.9	97.4	99.6
Newspaper advertising	160.7	144.4	106.8	102.2	100.8	101.8
Manufacturing employment	166.7	128.4	106.4	102.8	99.9	100.0
Other employment	141.6	165.4	102.3	103.8	99.3	100.5
Gasoline sales	178.7	226.2	107.3	111.7	100.6	102.3

II. PHYSICAL VOLUME OF BUSINESS
Percentage of 1948 Average

Month	Nebraska	U.S.
	1967-68	1967-68
May	195.7	216.2
June	198.7	219.5
July	196.9	217.6
August	203.2	219.5
September	202.8	216.5
October	203.0	216.8
November	190.8	219.1
December	199.3	218.6
January	210.0	224.4
February	214.5	228.5
March	197.6	225.6
April	201.1	225.7
May	204.0	227.4

III. RETAIL SALES for Selected Cities. Total, Hard Goods, and Soft Goods Stores. Hard Goods include automobile, building material, furniture, hardware, equipment. Soft Goods include food, gasoline, department, clothing, and miscellaneous stores.

JUN City	No. of Reports*	Percent of Same Month a Year Ago			Percent of Preceding Month	JUN City	No. of Reports*	Percent of Same Month a Year Ago			Percent of Preceding Month	
		Total	Hard Goods	Soft Goods				Total	Total	Hard Goods		Soft Goods
		THE STATE	810	111.8				120.9	108.0	100.2		Fremont
Omaha	84	113.4	119.9	108.1	100.4	Fairbury	26	120.3	115.3	99.2	100.0	
Lincoln	73	117.0	123.2	111.9	101.7	Norfolk	31	118.1	127.7	109.9	96.7	
Grand Island	33	129.7	139.1	121.3	96.5	Scottsbluff	34	113.3	129.8	99.2	105.1	
Hastings	30	125.8	149.8	105.2	91.5	Columbus	28	110.3	119.8	101.7	104.0	
North Platte	21	119.6	137.3	107.2	93.6	McCook	19	113.0	129.3	95.7	106.4	
						York	27	105.5	111.7	101.5	91.3	

IV. RETAIL SALES, Other Cities and Rural Counties

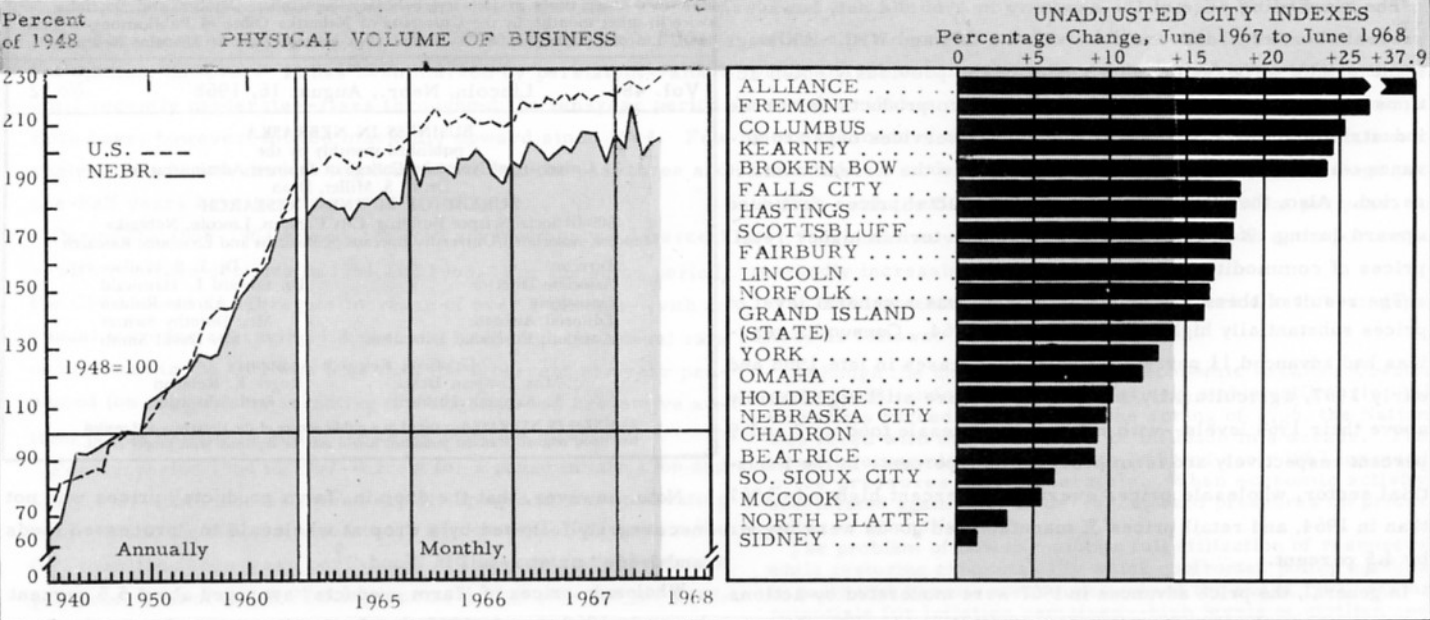
JUN Locality	No. of Reports*	Percent of Same Month A Year Ago	Percent of Preceding Month
Kearney	18	121.2	111.3
Alliance	31	112.7	106.1
Nebraska City	21	123.2	110.7
Broken Bow	14	110.6	87.5
Falls City	15	115.1	93.1
Holdrege	17	113.8	87.7
Chadron	25	109.7	109.5
Beatrice	18	120.6	71.3
Sidney	24	105.5	97.8
So. Sioux City	11	78.2	80.3
Antelope	10	130.6	95.7
Cass	22	101.2	109.0
Cuming	12	111.2	93.1
Sand Hills**	22	108.3	90.4
Dodge***	11	132.0	86.2
Franklin	10	105.9	107.8
Holt	15	105.3	90.5
Saunders	13	158.1	104.4
Thayer	9	96.6	93.5
Misc. Counties	56	109.3	105.7

V. RETAIL SALES, by Subgroups, for the State and Major Divisions

JUN Type of Store	Percent of Same Month a Year Ago			
	Nebraska	Omaha and Lincoln	Other Cities	Rural Counties
ALL STORES****	111.8	111.4	109.0	115.0
Selected Services	100.6	96.0	108.4	97.5
Food stores	109.2	111.2	104.0	112.3
Groceries and meats	112.8	117.1	108.2	113.2
Eating and drinking pl.	103.9	101.4	97.1	113.1
Dairies and other foods	102.9	105.6	98.8	104.2
Equipment	122.2	112.6	126.4	127.7
Building material	126.1	110.7	118.7	148.9
Hardware dealers	121.9	142.9	118.8	104.0
Farm equipment	122.1	99.9	143.2	123.2
Home equipment	118.1	105.7	129.6	119.0
Automotive stores	118.5	130.3	114.4	110.7
Automotive dealers	119.3	133.2	113.7	111.0
Service stations	115.4	118.7	117.2	110.4
Miscellaneous stores	105.3	100.7	105.9	109.4
General merchandise	105.8	99.4	110.1	107.9
Variety stores	97.0	88.1	99.7	103.2
Apparel stores	108.1	106.0	107.3	111.0
Luxury goods stores	108.5	109.8	103.2	112.4
Drug stores	100.4	98.8	99.4	102.9
Other stores	108.8	99.7	105.9	120.8

**Holt, Cass, Broken Bow, and Sheridan Counties

****Net including Selected Services



Figures on this page are not adjusted for seasonal changes nor for price changes. Building activity includes the effects of past as well as present building permits, on the theory that not all building is completed in the month the permit is issued. E. L. B.

VI. CITY BUSINESS INDICATORS

Percent of Same Month a Year Ago

JUN State or City	City Index	Bank Debits	Building Activity	Retail Sales	Electricity Consumed	Gas Consumed	Water Pumped	Postal Receipts	Newspaper Advertising
The State	114.3	106.8	121.3	111.8	117.2	105.0	142.2	131.3	103.8
Beatrice	109.1	100.6	95.8	120.6	119.5	87.6	124.4	142.1	80.8
Omaha	112.2	98.2	84.1	113.4	117.5	107.0	124.7	110.8	118.3
Lincoln	116.9	134.9	119.7	117.0	114.0	104.4	155.1	NA	103.8
Grand Island	116.3	111.8	98.8	129.7	122.5	101.3	139.4	151.5	-
Hastings	118.3	95.1	545.9	125.8	128.4	87.4	144.8	123.9	78.3
Fremont	127.0	106.9	223.0	105.0	106.4	NA	156.9	137.9	NA
North Platte	103.3	98.7	55.7	119.6	95.4	99.5	249.8	123.2	89.8
Kearney	124.6	105.8	264.7	121.2	121.7	89.2	244.8	131.0	NA
Scottsbluff	118.2	106.5	162.1	113.3	122.3	89.8	196.3	122.2	114.8
Norfolk	116.6	99.7	122.8	118.1	110.4	102.2	162.9	133.4	114.9
Columbus	125.2	99.0	155.9	110.3	117.3	117.3	175.4	140.9	96.7
McCook	105.6	102.7	NA	113.0	109.2	91.9	NA	156.0	97.7
Sidney	101.3	106.0	50.6	105.5	109.8	84.6	92.3	166.8	NA
Alliance	137.9	103.0	71.7	112.7	198.0	76.1	233.2	251.7	NA
Nebraska City	109.9	100.4	38.4	123.2	110.4	119.3	119.0	76.3	NA
So. Sioux City	106.5	99.1	155.5	78.2	114.6	NA	NA	105.7	NA
York	113.3	95.5	110.5	105.5	118.2	119.1	142.5	159.4	104.2
Falls City	118.6	112.9	230.8	115.1	118.1	128.2	158.9	84.2	84.3
Fairbury	118.0	96.0	402.3	120.3	118.7	NA	146.7	80.5	115.0
Holdrege	110.1	134.9	96.1	113.8	132.2	108.2	102.2	109.9	108.6
Chadron	109.3	105.9	171.4	109.7	109.1	109.5	108.7	209.9	NA
Broken Bow	124.2	117.1	276.6	110.6	117.0	75.3	226.7	151.9	93.1

Percent of Preceding Month (Unadjusted)

JUN State or City	City Index	Bank Debits	Building Activity	Retail Sales	Electricity Consumed	Gas Consumed	Water Pumped	Postal Receipts	Newspaper Advertising
The State	105.7	95.9	109.1	100.0	118.5	77.1	134.0	117.7	81.3
Beatrice	100.6	86.1	121.8	70.5	124.0	61.2	159.6	124.8	70.7
Omaha	96.2	91.4	104.3	100.6	124.3	82.5	120.0	85.7	88.6
Lincoln	104.6	103.1	108.7	101.9	113.0	76.9	136.2	NA	76.4
Grand Island	112.7	99.0	129.3	96.7	125.9	72.1	133.9	152.8	-
Hastings	102.5	95.1	105.7	91.9	124.4	50.6	151.0	117.3	82.1
Fremont	108.5	102.6	116.4	99.9	108.0	NA	167.8	106.9	NA
North Platte	NA	NA	NA	93.5	NA	NA	NA	NA	82.2
Kearney	128.3	105.3	171.6	111.5	149.9	68.1	164.4	123.6	NA
Scottsbluff	105.0	100.0	123.8	105.3	88.7	58.2	135.8	97.4	117.2
Norfolk	94.6	92.0	97.3	96.9	92.3	66.3	134.0	131.6	67.3
Columbus	96.0	99.1	85.2	104.1	95.4	80.5	159.9	122.2	75.5
McCook	102.9	91.6	112.3	106.4	110.8	41.1	NA	149.2	72.6
Sidney	98.3	94.1	91.4	97.8	103.1	48.1	107.4	144.6	NA
Alliance	100.7	82.0	95.4	106.7	100.0	56.6	172.2	127.3	NA
Nebraska City	108.5	100.2	83.9	111.9	109.0	75.5	126.7	116.2	NA
So. Sioux City	89.1	90.6	77.1	80.4	105.1	NA	NA	96.3	NA
York	92.5	88.2	85.6	91.6	104.7	65.8	186.2	117.5	81.1
Falls City	105.8	95.9	114.3	93.2	137.4	95.3	132.8	119.6	67.6
Fairbury	103.6	87.0	70.1	100.3	123.4	NA	143.8	126.3	78.0
Holdrege	104.9	123.3	128.2	87.8	120.4	62.9	119.2	92.2	79.5
Chadron	103.8	100.0	178.8	110.0	101.5	62.3	70.7	213.1	NA
Broken Bow	96.0	80.6	100.2	87.7	115.4	45.3	175.1	115.9	74.5

continued from first page) period--which is equated to a mathematical base of 100--has been the period 1957-1959. Also, various items or item groups, being more important than others as recipients of larger proportions of the total expenditure, receive greater weights in the process of "averaging" the prices and their changes.

One especially important point: the CPI does not serve to measure the month-to-month or year-to-year changes in the cost of living. Variations in the CPI result from changes in the prices of various goods and services represented in the index. Variations in the cost of living result from variations in amounts and quantities of various items as well as in their prices. Or to paraphrase, cost of living varies because of changes in consumption expenditures. The CPI measures only the relative levels of money expenditures required to buy a certain and fixed combination, i.e., "market basket," of goods and services. The market basket is constant for a period of years and, thus, represents the physical pattern of goods and services consumed during the certain period by an "average" family.

Periodically, however, results of consumer expenditure studies are used to update the representativeness of the components of the index. At such times, minor revisions are made in the list of goods and services included and major revisions are made in the weights used to combine the components. Since such revisions are infrequent, the index does not reflect continuously shifting patterns of consumer expenditures. No month-to-month or year-to-year allowance is made from the time of one revision to another for altered spending patterns of consumers who modify such patterns in attempting to maximize the real purchasing power of their incomes as prices change.³ Thus despite the fact that the CPI measures changes in the money costs of many of the key items which enter the cost of living, the farther away the index moves from a revision date, the less the price changes, as measured by the CPI, reflect changes in cost of living. The CPI is NOT a cost-of-living index per se.

Importantly, the CPI has been the reference for collective bargaining negotiations. Automatic wage adjustments, based on specified percentage changes in the CPI, have been incorporated into many labor-management contracts. Other long-term contracts, such as commercial property leases, utilize the rent component of the CPI as an "escalator" for adjustment purposes. Changes in the general purchasing power of the dollar, as measured by the CPI, are used to adjust levels of pensions, welfare payments, royalties, etc. Also, in evaluating real income, money wages are converted into "real" wages by deflating the money wage for changes in the general price level as measured by the index. Most importantly, the CPI probably is used by the public more than the CPI or any other index as the measure of inflation, or deflation, in the economy.

THE WHOLESALE PRICE INDEX

The WPI, or Wholesale Price Index, is an index that measures percentage price changes for commodities sold in primary markets that is at the point of the first commercial transaction for the

1952 and 1963, after revision the relative importance of major groups in the CPI were as follows:

Items	1952	1963		1952	1963
	100.0	100.0			
Medical Care	29.6	22.4		5.1	5.7
Personal Care	32.5	33.3		2.0	2.8
Reading and Recreation	9.2	10.6		5.3	5.9
Others	11.3	13.9		5.0	5.4

commodity. The prices are those received by manufacturers, producers and/or those in effect on organized commodity exchanges and, therefore, **are** not those received by jobbers, wholesalers or distributors.

According to the Bureau of Labor Statistics, of the U.S. Department of Labor, the prices used in the construction of the WPI . . . are those which apply as nearly as possible to the first significant commercial transaction in the United States. Late stage transactions for the same item at other stages in the distribution cycle are not included. However, as raw materials are transformed into semifinished and finished goods, the resulting products are represented according to their importance in primary markets.⁴

The index includes prices for approximately 2,200 separately specified items in a certain fixed list of commodities. Excluded are price movements of retail transactions or transactions in services (except gas and electricity), construction, real estate, transportation, or securities. Also the prices at which products enter into international trade are omitted. The prices are adjusted not only for trade and quantity discounts but also for cash and seasonal discounts. Like the CPI, the base period of the WPI is designated as 1957-1959 = 100.0

The WPI is one of the basic business barometers used to measure the economic health of the nation. Most useful is its ability to indicate price level change in the earlier stages of the production and exchange sequence. As such, it may be taken as an indicator of future price trends both in the early and the late stages of production. Price increases can be traced through successive stages of production--from raw material to finished product. It can serve, therefore, as the means for analyzing and assessing the movements of the components of the overall index.

The WPI enables individual businesses to compare the price paid for their purchase(s) with the "average" price(s) of the comparable component(s) of the WPI. Contractual payments, including long-term industrial sales contracts, may be adjusted by reference to the WPI for changes in prices of related materials or other costs. Rentals on long-term leases are also often adjusted, being escalated upward as the WPI rises.

Most importantly, the movements of the WPI--and its components--may be compared with those of the CPI--and its components--in evaluating the nature of the "inflationary" developments in the price trends. If, say, the WPI is stable when the CPI is rising, the incidence of inflation is said to be resting directly upon consumers of retail goods and services. Or, if the WPI suddenly accelerated upward during a period of relative stability in the CPI, there is the likelihood of a subsequent magnified rise in the CPI. Price changes in individual components of the WPI may also be evaluated in terms of impact upon directly related components in the CPI.

In the matter of formulating public and private economic policies to cope with inflation, the key role of the price indexes as indicators of both past and expectable changes should be noted. It should also be evident that policy actions or prescriptions would differ if one attached greater significance to a dramatic advance in the level of wholesale prices, i.e., the WPI, after a period of no change than to an acceleration in the rate of retail price advance(s), i.e., the CPI. Unquestionably, the indexes should be evaluated not only independently but also comparatively.

SOME DEVELOPMENTS

The WPI and CPI have traced dissimilar courses over the past . . .
⁴ U.S. Department of Labor, Bureau of Labor Statistics, Wholesale Prices and Price Indexes, 1963, Bulletin No. 1513 (Washington: U.S. Government Printing Office, June, 1966), p. 9.

decade (Table I). In general, the behavior of the WPI does not provide any strong corroboration for the thesis that the 1958-1968 period has been one of inflation. The CPI substantiates a different opinion, however. It has been marked by persistent--albeit until recently moderate--rises throughout the ten-year period. Both have, however, moved markedly upward since 1964. Few analysts would now dispute the contention that the past three and one-half years have been a period of inflation.

During the 1958-1964 period, the WPI advanced only 0.1 percent--with recorded declines in 1961 and 1963. For the same period, the CPI showed an aggregate increase of over 7 percent--with an annual increase averaging 1.2 percent. Although the annual rate of increase in the CPI was less than the 2 percent per year presumed (on page 1) as warranting investigation and preventive action, it was worthy of and did receive constant attention.

For the period 1964 to 1967--except for a pause in late 1966 and early 1967--both indexes moved rapidly upward at an accelerating rate. Still, the CPI outpaced the WPI notably. The gain in the CPI over the three-year period was 7.6 percent, or 2.5 percent per year; that of the WPI 5.6 percent, or 1.8 percent per year. Especially noteworthy was a post-1966 acceleration in the rate of increase in the CPI. This indicator moved up at a yearly rate of 1.7 percent from 1964 to 1965; of 2.9 percent from 1965 to 1966; of 2.8 percent from 1966 to 1967. More recently, it took a marked

jump of 4.2 percent from June, 1967 to June, 1968.

Each index tells its own story. Using the WPI, the absence of inflation in the primary or early stages of the production sequence prior to 1965 is indicated. Except for a period in 1967, the presence after 1965 is certain--especially when year-to-year comparisons are made of the monthly indexes (See Table I). Inflation is indicated to a moderate degree, however, at the retail stage prior to 1965--with the CPI rising between 1 and 2 percent per year. After 1965, inflation was unquestionably present to an important and markedly increasing degree.

The developments and conditions of this period have been generalized as follows:

Although the current long-term economic expansion began early in 1961, prices remained relatively stable until early 1966 when they turned upward. By the spring of 1966, the Nation was faced with the first threat of inflation in a decade. The pause in economic activity in late 1966 and early 1967 lessened price pressures only moderately. When economic activity accelerated again after mid-1967, upward pressures on prices began to intensify.

The problem of how to maintain full utilization of resources while restoring price stability which confronted policy makers in early 1966 became even more acute at the end of 1967. Major potentials for inflation remained--high levels of civilian and military spending and rising costs which, increasingly, were reflected in high prices.

In 1967, the Wholesale Price Index averaged 5.5 percent higher than in 1964, and the Consumer Price Index, 7.5 percent

In particular, from 1960 through 1964 there was "sustained economic expansion . . . accompanied by a healthy balance of wages, prices, and productivity . . . The period was essentially inflation free."⁶ In 1965, however, price increases were said to have resulted from "shortages of three basic commodities which pushed the price indexes up--farmers had cut back hog production drastically because of depressed 1963-64 hog and pork prices, strikes at home and abroad as well as political difficulties which created a copper shortage, and the drought that had destroyed Argentine herds resulted in a severe limitation of the world supply of cattle hides and leather."⁷ Also "the step-up of our military effort in Viet Nam . . . not only created some special imbalances but also caused a spurt in demand. The new layer of demand, imposed on an already prospering economy, pushed prices up further. The late 1965 upturn in prices for farm products, foods, and construction materials continued into early 1966, and was joined by substantial advances in charges for consumer services as well as higher prices for many industrial products. For the first time in nearly a decade, the threat of inflation appeared in this country."⁸

Actions were taken by the monetary authorities at year-end and fiscal measures instigated at the Federal level in 1966. Tightening the money supply, rescinding the excise tax reduction, increasing the withholding of personal income taxes, intensification of the efforts to apply wage-price guideposts to key wage and price decisions, and suspension of the accelerated depreciation allowances--all these were actions taken to dampen the price pressures. There followed a decline and a subsequently slower advance in consumer expenditures, a decreased rate of growth in plant and equipment expenditures, and a decline of housing activity to a post-W. W. II low.

(Continued on page 5)

⁵Pearl Ravner Williams, U. S. Department of Labor, Bureau of Labor Statistics, Price Perspective, 1965-67, Bulletin No. 1000 (Washington, 25, U.S. Government Printing Office, May, 1968)

⁶The Annual Report of the Council of Economic Advisers, January, 1965. (Washington, D. C., U.S. Government Printing Office, 1965) p. 54.

⁷Williams, Price Perspective, 1965-67, p. 2.

⁸Williams, Price Perspective, 1965-67, pp. 2-3

TABLE I
MAJOR PRICE INDEX CHANGES
YEARLY, 1958 TO 1967, AND MONTHLY, 1966 TO JUNE, 1968

Year Month	Consumer Price Index		Wholesale Price Index	
	1957-59 = 100.0	% Change from Previous Year	1957-59 = 100.0	% Change from Previous Year
1958	100.7	- - -	100.4	- - -
1959	101.5	+0.8	100.6	+0.2
1960	103.1	+1.6	100.7	+0.1
1961	104.2	+1.1	100.3	-0.4
1962	105.4	+1.2	100.6	+0.3
1963	106.7	+1.2	100.3	-0.3
1964	108.1	+1.3	100.5	+0.2
1965	109.9	+1.7	102.5	+2.0
1966	113.1	+2.9	105.9	+3.3
1967	116.3	+2.8	106.1	+0.2
Percentage Change from Same Month of Previous Year				
1966-Jan.	111.0	+1.9	104.6	+3.6
Feb.	111.6	+2.5	105.4	+4.2
Mar.	112.0	+2.8	105.4	+4.0
Apr.	112.5	+2.9	105.5	+3.7
May	112.6	+2.7	105.6	+3.4
June	112.9	+2.5	105.7	+2.8
1967-Jan.	114.7	+3.3	106.2	+1.5
Feb.	114.8	+2.9	106.0	+0.6
Mar.	115.0	+2.7	105.7	+0.3
Apr.	115.3	+2.5	105.3	-0.2
May	115.6	+2.7	105.8	+0.2
June	116.0	+2.7	106.3	+0.6
1968-Jan.	118.6	+3.4	107.2	+0.9
Feb.	119.0	+3.7	108.0	+1.9
Mar.	119.5	+3.9	108.2	+2.4
Apr.	119.9	+4.0	108.3	+2.8
May	120.3	+4.1	108.5	+2.6
June	120.9	+4.2	108.7	+2.3
Percentage Change				
1958-1967	+15.5	+1.6*	+5.7	+0.6*
1958-1964	+ 7.3	+1.2*	+0.1	+0.0*
1964-1967	+ 7.6	+2.5*	+5.6	+1.8*
June, '66 to June, '68	+ 7.1	+3.5*	+2.8	+1.4*
June, '67 to June, '68	+ 4.2	+4.2*	+2.3	+2.3*

*Average Annual Rate.

Source: Federal Reserve System, Federal Reserve Bulletin, various issues, (Washington, D. C., Board of Governors of the Federal Reserve System) various pages.

The slackening pace of the economy in 1966 did not, however, prevent substantial increases in both the CPI and WPI. Although some prices were falling as a result of the previously noted actions and an easing of supply shortages in farm products and crude industrial materials, charges for consumer services began to advance--accelerating at the highest rate since the Korean conflict period. Also, the WPI rose as finished products' prices continued upward during 1966, and this was reflected in turn in higher retail prices of commodities.

The result of these varied developments was a general level of prices substantially higher in 1967 than in 1964. Consumer services had advanced 11 percent. Despite decreases in late 1966 and early 1967, agriculturally-based prices were still significantly above their 1964 levels--with retail and wholesale food up 7 and 9 percent respectively and farm products up 6 percent. In the industrial sector, wholesale prices averaged 5 percent higher in 1967 than in 1964, and retail prices of manufactured goods were higher by 4.5 percent.

In general, the price advances in 1967 were moderated by actions taken early in the year to "depressurize" the economy. Nevertheless, "demand-pull" and "cost-push" continued to supply a combination of pressures on prices. Continuing high levels of civilian and military demand, easing of credit restrictions, and a bullish psychological climate contributed to demand-pull. Rising production and marketing costs, attempts at maintaining profit margins, and minimal reaction to wage demands by private and public authorities contributed to cost-push. In the 1967 period, it was the developments in agricultural prices--which moved independently of general business activity--that played the major role in holding down the overall price climb.

In the following tabulation are some percentage changes in the WPI and the CPI and their major components. Thus, for example, in the first quarter of 1967, i.e., from December, 1966 to March, 1967, a decline of 0.2 percent is shown for the WPI. This "All Items" decline represents the offsetting of lesser-weighted declines of 2.2 and 2.0 percent in the "farm products" and "processed food and feeds" components by the greater-weighted 0.5 percent increase in the "industrial commodities" component. In general, the marked declines in the wholesale prices of farm and food items tended to move the WPI downward.

Index	1966	1967				1968	
	Sept. to Dec.	Dec. to Mar.	Mar. to June	June to Sept.	Sept. to Dec.	Dec. to Mar.	Mar. to June
Percent of Change							
Wholesale Prices, All Items	-0.8	-0.2	+0.6	-0.1	+0.6	+1.0	+0.3
Farm products	-6.3	-2.2	+2.8	-3.9	+0.5	+3.1	+0.4
Processed foods and feeds	-2.3	-2.0	+1.8	+0.1	-1.1	+0.4	+1.6
Industrial com- modities	+0.3	+0.5	+0.0	+0.5	+0.8	+0.9	+0.0
Consumer Prices, All Items	+0.5	+0.3	+0.9	+0.9	+0.9	+1.1	+0.8
Food	-0.7	-0.5	+0.8	+0.7	+0.3	+1.1	+0.7
Food at home	-1.2	-1.0	+0.7	+0.5	+0.0	+1.1	+0.6
Nonfood com- modities	+0.7	+0.1	+1.0	+1.0	+1.0	+0.9	+0.7
Services	+1.4	+0.9	+0.9	+1.0	+1.1	+1.3	+1.7

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Note, however, that the drop in "farm products" prices was not necessarily followed by a drop at wholesale in "processed foods and feeds" or at retail in "food."⁹

Wholesale prices of "farm products" averaged about 5.5 percent lower in 1967 than in 1966, but food prices were down only about 1 percent at wholesale and 0.3 percent at retail. Thus the well-known phenomenon: prices of processed foods resist reduction more than increase and also are less responsive to supply and demand imbalances than crude foodstuffs.

Of particular note was the influence upon the CPI of price developments in consumer services. The services component, which constitutes about one-third of total CPI but is not in the WPI, continued to rise throughout 1966 and 1967 when the WPI was moving downward. The lack of comparable movements between the CPI and the WPI is quite often due to the dissimilarity between the movement of "services" component and the other WPI components.

Each major type of services--rent, household services, transportation, and medical care--had increased more in 1966 than in any of the preceding 5 years. In particular, mortgage interest rates, hospital charges, and physicians' fees climbed steeply. The advance in charges for services became more moderate in 1967, however. Mortgage rates declined during the first half of the year; yet medical care costs--especially hospital costs--continued to increase enough to push the total services index up. The services index was, however, on the upswing again at year-end 1967.

There has, moreover, been a pickup in the rise in prices of food items--especially in 1968. Recent reports have also tentatively raised the likelihood of the continuation of the 1967 rises in home ownership, transportation, and food prices at the retail level. Complementing such developments has been an upturn in the WPI reflecting an edging up of "producer finished goods" prices.

The events of the 1967-1968 period may be said to have evoked much fault finding, considerable solution offering, but only a modicum of action taking. The last half of 1968 will reflect the interplay of restrictive forces of public and private policy, and the expansive forces of recent upward wage-price adjustments, and the national effort. The outcome of this interplay will necessarily have to be considered at a later date in a later article.

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⁹Williams, Price Perspective, 1965-1967, pp. 5-6.