

Gas Depresses Everyday Prices

Tumbling oil and energy costs in April masked a modest trend of inflation.

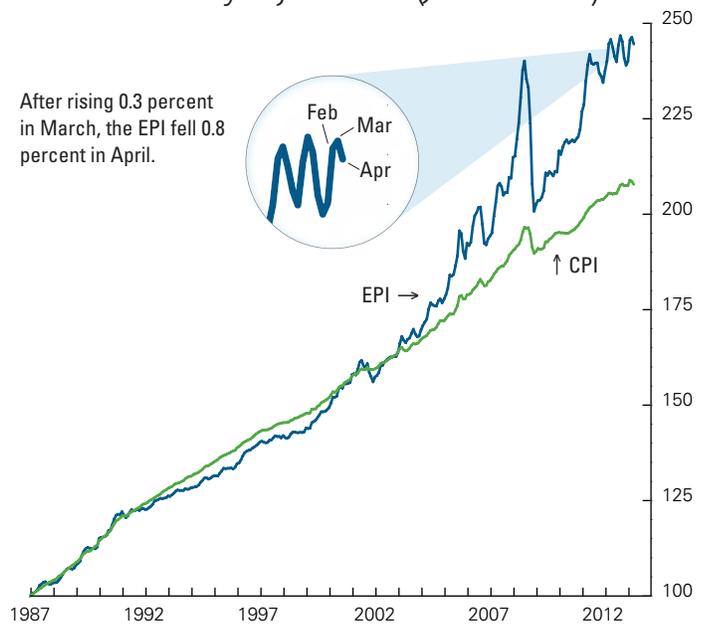
by Julie Ni Zhu, Research Analyst

Falling gas prices lowered consumers' everyday expenses in April, according to AIER's Everyday Price Index (EPI). Prices of frequently purchased goods and services dropped 0.8 percent after rising 0.3 percent in March. The government's broader measure of prices, the Consumer Price Index (CPI), slipped 0.4 percent last month. (See Charts 1 and 2 on this page for long-term and month-by-month comparisons of the EPI and CPI.)

Cheaper gas prices over the past year also caused the EPI to post its first negative yearly change since October 2009. Everyday prices in April were 0.5 percent lower than they were a year ago. The CPI, which places less weight on oil prices, rose 1.1 percent over the past 12 months.

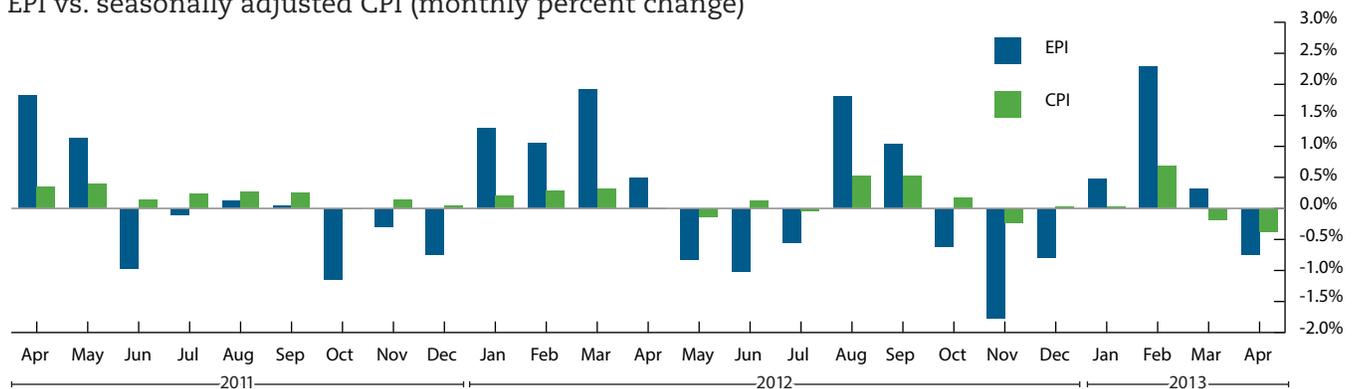
The downward trend in everyday prices is not likely to continue for long. Apart from motor fuel and transportation, all categories in the

Chart 1: Prices Over the Long Term
EPI vs. seasonally adjusted CPI (Jan 1987=100)



The EPI is a proprietary index of AIER. The CPI is produced by the Bureau of Labor Statistics.

Chart 2: The Inflation We Feel vs. the Inflation Reported
EPI vs. seasonally adjusted CPI (monthly percent change)



The EPI is a proprietary index of AIER. The CPI is produced by the Bureau of Labor Statistics.



EPI reflect price increases from a year ago. That suggests a broad, though muted, underlying trend of inflation.

Motor fuel and transportation prices, which make up 20.5 percent of the index, helped subdue other price pressures in April. (See table at right.) Motor fuel plunged 3.7 percent, causing the category as a whole to fall 2.9 percent. It's fluctuated greatly over the past year, with steep declines in late 2012.

But next month's EPI will reflect rising energy prices. Average regular gasoline prices have climbed 15 cents since the end of April; at press time, a gallon cost \$3.67. Several factors have contributed to higher prices at the pump in May. Refiners switched to costlier summer-grade gasoline. Meanwhile, parts of the country including California, Massachusetts, and Connecticut must meet strict environmental requirements for summer-grade gas. The higher-quality gas is also more expensive to produce.

Communication services, which account for 7.8 percent of Americans' daily expenses, further contributed to the EPI's decline last month. Prices shrank 0.5 percent—the category's first decrease since last August. Telephone and Internet services fueled the drop as providers slashed rates to stay competitive. Those expenses decreased by 0.6 percent and 0.3 percent respectively. They were barely offset by a minor uptick in postage and delivery services prices.

Declines in the cost of communication services are also not likely to continue. Prices for telephone and Internet services and electronic information providers tick up and down, but tend to stay level over the long term. Postage and delivery services costs are trending up, but most Americans don't spend much on them.

Meanwhile, with the exception of motor fuel

How Daily Prices Stack Up (changes in the nine components of the EPI)

EPI	April 2013	
	Monthly Change %	12-month Change %
Food and beverages	0.21	1.57
Motor fuel and transportation	-2.85	-5.89
Household fuel, utilities, and supplies	0.43	2.20
Recreation services (incl. cable TV)	-0.10	2.34
Communication (incl. telephone and internet)	-0.52	0.17
Prescription drugs	-0.14	0.57
Personal care products and services	-0.07	0.84
Tobacco and smoking products	0.60	2.60
Child care and nursery school fees	0.04	2.72

and transportation, everyday prices have risen across the board over the last 12 months. The fastest-rising expenses are child care and nursery school; tobacco and smoking products; and household fuel, utilities, and supplies. All three increased at least 2.2 percent over the past year.

Climbing prices for food and beverages, which make up 38 percent of consumers' daily budgets, are also likely to halt the EPI's decline. They are up 1.6 percent from a year ago. A recent forecast by the United States Department of Agriculture predicted that food prices would increase 2.5 to 3.5 percent in 2013—the result of the 2012 drought that drove up prices for corn, soybeans, and other field crops, as well as the price of meat. But food inflation is expected to taper off during the second half of the year as the effects of the drought fade, allowing budget-conscious consumers to put chili and cornbread back on the menu.

Everyday Price Index is published by American Institute for Economic Research, a nonprofit, scientific, educational, and charitable organization. To contact AIER by mail, write to American Institute for Economic Research, PO Box 1000, Great Barrington, MA 01230. Find us on Facebook at facebook.com/AmericanInstituteForEconomicResearch, and on Twitter at twitter.com/aier. For more information or to donate visit www.aier.org.