

You point out that, between December 1965 and May 1966, the consumer price index (CPI) moved up 1.4%, whereas in the same period a year later, it moved up only 0.8%. However, eliminating food prices, the changes were 1.1% in the earlier period and 1.2% in the more recent. You ask for our evaluation of this in the light of the weaker advance of general demand this year.

In 1966 and 1967, much of the increase in nonfood prices was due to rising service prices. An average increase of 1.8% in prices of consumer *services* accounted for over three-fourths of the increase in nonfood prices in the first five months of 1966. (Services represent less than half of the weight of the nonfood component.) Sharply rising mortgage interest rates—which reflect special financial factors—made a significant contribution to this advance. As pointed out in our 1967 *Annual Report* (pp. 94 and 95), serious question can be raised whether the method of compiling the index does not give excessive weight—in the short run—to changes in mortgage interest rates. Higher wages for all types of labor, including the very skilled and the relatively unskilled, in the face of a steadily increasing demand for services, were the primary factors in the rise in other service prices during this period. Medical services led the general advance.

During the first five months of 1967, service prices were again the principal factor in the rise of nonfood consumer prices. They rose 1.4% in this period, somewhat less than during the same period in 1966, and accounted for about three-fifths of the nonfood increase. The demand for services continued strong, although it was increasing less rapidly than during the previous period. An important factor was that mortgage interest rates were stable or declining in this period. Moreover, some easing of pressures on labor supply may have moderated the upward push of labor costs. On the other hand, the new minimum wage law had a significant upward influence on wage costs in some service industries. The costs of medical care services still showed persistent, large increases—the result of the combination of continued high demand and continued shortages of medical facilities and personnel.

Changes in nonfood *commodity* prices at retail reflect changes both in retail margins and changes in wholesale prices. Between December 1965 and May 1966, *wholesale* prices, excluding farm products, foods, and feeds, rose 1.5%. In the same period this year, the rise was only 0.5%. Narrowing the coverage even further to *manufactured* products (excluding foods, feeds, and other products with a heavy agricultural input), wholesale prices rose 1.4% in the first 5 months of 1966 and 0.6% in the comparable period of 1967. These differences reflect the easing of demand pressures much more clearly than do the comparable changes in consumer prices.

The weakening of general demand in early 1967 was felt most sharply in the *durable goods* industries. Wholesale prices of finished producers' goods, which rose 1.5% in the first 5 months of 1966 under the impact of very strong demand, rose only 0.8% in the first 5 months of 1967.

Wholesale prices of *consumer durables* rose 0.6% from December 1965 to May 1966, but showed no change in the corresponding period of 1967. At the retail level, prices of durable commodities rose 0.1% in the first 5 months of 1966, and 0.8% in the same period of 1967. A large part of this divergent behavior reflects the fact that the 1967 increase in the consumer price index for durable commodities was dominated by a 6.3% rise in used car prices. This one item accounted for the entire rise in the index of retail durable commodity prices.

*Nondurable* commodities, other than food, have advanced more rapidly this year than last at both wholesale and retail levels. This group rose 0.8% at wholesale in the earlier period and 1.3% in 1967. At retail, the advances were 0.8% in 1966 and 1.2% in 1967.

In part, the behavior of nondurable prices reflects the fact that demand for nondurables has advanced more steadily than for durables. In addition, the minimum wage has this year had a significant effect on costs and prices of nondurables at both the wholesale and retail level. It must also be noted that the rise in gasoline prices this spring contributed significantly to the rise in nondurable prices.

In summary, retail prices for durables, except used cars, have declined slightly in the last few months, whereas they rose slightly in the same period of 1966. Service prices have risen slightly less this year than last, while nondurable commodities have risen more.

It is not entirely clear what this all proves, other than the fact that the *average* advance of retail prices, in any *short* period, is not particularly closely related to