Cheaper energy should fuel good inflation news

By **MARY A.C. FALLON**
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BUSINESS BONUS

Pulling up to the gas pump has been a pleasure for consumers so far this year. Whether that's going to continue is a matter of debate among energy analysts.

But one thing is virtually certain. The steady decline in gasoline and other petroleum products should hold inflation down this year to levels it hasn't been since the 1960s.

The Consumer Price Index — the price of a market basket of goods and services — dropped from January through April because prices for gasoline and other petroleum products, which heavily impact the CPI, declined dramatically, according to Patrick C. Jackman of the U.S. Bureau of Labor Statistics' CPI branch.

Gasoline prices rose slightly in May, inching up the CPI.

Economists are divided over whether the demand for gasoline, traditionally the highest in the summer, will push pump prices higher, or whether other market factors will reverse the trend.

According to the Lundberg Survey, which monitors gasoline sales nationwide, pump prices average less than 96 cents a gallon for all kinds of gas. That's 25 cents a gallon less than in January.

But whichever way gas prices swing, lower energy costs — and a lower CPI — are helping consumers in a less obvious way.

The CPI is the key gauge of inflation. Because it's so low, it signals that modest pay hikes this year will still be real increases — not ones that just help workers keep up with inflated prices.

"The wage gains we are seeing do afford people real gains in purchasing power," said Daniel Van Dyke, a vice president of U.S. economic forecasting at Bank of America.

Pay hikes for manufacturing workers this year are expected to average 3 percent; white collar workers should get about a 4-percent gain. Barring no sudden surprises in the world economy, the inflation rate for 1986 is expected to be 2 percent to 2.5 percent. That would mean that salary gains would exceed the inflation rate for the first time in more than a decade, Van Dyke said.

This year's projected inflation rate is extremely low. It would be even lower than last year's 3.5-percent rate, and a far cry from inflation's 1979 peak of 13.3 percent.

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The CPI is a valuable gauge for tracking inflation.

During the third week of each month, the Bureau of Labor Statistics releases a number comparing what it cost Americans in the previous month for goods and services with what it cost them in 1967.

The market basket measured by the CPI consists of 382 generic items, ranging from milk and lettuce to autos and concert tickets.

In May, the CPI tood at 326.3, meaning goods that cost $10 in 1967 cost $32.63 in May.

Compiling a detailed price index is complex. To come up with the cost of milk, for example, the people who collect data for the CPI record prices of all varieties of milk; whole milk, chocolate milk, gallons and half-pints all get tallied into one average price for milk.

Every legal good and service that Americans buy is priced. Each generic item is given a different weight in the CPI, and the weights are determined from a precise 1973 Census Bureau survey on how Americans spend their money.

Energy carries lots of weight in the composition of the CPI. Forty to 50 percent of all consumers' costs relate to energy. So fluctuations in gasoline prices can have an especially dramatic impact on the CPI, as they did this year.

If gasoline prices hadn't dropped in April, the CPI would have risen by 0.2 percent. Instead, the index fell by 0.3 percent, said Jackman of the Bureau of Labor Statistics.

The weight of each item in the CPI will change in 1987, when the bureau replaces the 1973 spending survey with a 1983 version.

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The CPI isn't viewed strictly as a yardstick of prices. The Federal Reserve Board, for example, looks at the CPI in helping to determine whether to raise or lower its discount rate — the price it charges banks for money. And the Internal Revenue Service uses the CPI to help determine tax bracket limits, which have been pegged to inflation since 1985.

"The CPI is important in a lot of decisions affecting the everyday man on the street, from wages and income tax brackets to the government's monetary policy," Jackman said.