Wholesale Prices Rise 0.3 Percent In April

MARTIN CRUTSINGER, AP Economics Writer

WASHINGTON (AP) — Wholesale prices rose more than expected in April as the biggest jump in food costs in more than a year offset a second monthly decline in the price of energy products.

The Labor Department said Thursday that wholesale prices climbed 0.3 percent last month, a larger increase than the 0.1 percent that economists had expected.

Even with the larger-than-expected April gain, wholesale prices over the past 12 months have fallen by 3.7 percent, the biggest 12-month decline since Harry Truman was president in 1950. While falling prices can raise fears about deflation, economists believe the efforts by the Federal Reserve to combat the recession will keep that from occurring.

The April price increase was driven by a 1.5 percent surge in food prices, the biggest advance since a similar jump in January 2008. The costs of eggs soared by 43.7 percent, the largest monthly gain in records going back 17 years, with beef, pork and vegetable prices also up sharply.

The 0.3 percent rise in the department's Producer Price Index, which measures inflation pressures before they reach the consumer, followed a 1.2 percent plunge in the PPI in March. The April advance was the biggest one-month gain since wholesale prices jumped 0.8 percent in January.

Energy costs in April fell for a second straight month, declining by 0.1 percent after a much larger 5.5 percent drop in March. The April decline reflected lower prices for natural gas and residential electricity which offset a 2.6 percent jump in gasoline prices.

Core wholesale prices, which exclude the volatile food and energy sectors, edged up 0.1 percent last month, in line with expectations, after being flat in March. For the past 12 months, core inflation is up by 3.4 percent.

Prices for pharmaceutical products were up 1.3 percent in April while the price of light trucks, a category that includes sport utility vehicles, rose by 1.1 percent. Tobacco products, which had been up sharply, dropped by 1.4 percent in April, the largest decline since April 2003.

Most economists expect inflation to remain under wraps amid the recession. The downturn has dampened wage pressures and is keeping businesses from boosting prices in the face of very weak demand.

The government will report on consumer prices on Friday. The consensus forecast is for a flat reading on the Consumer Price Index for April, following a 0.1 percent drop in March.

Just a year ago, the Federal Reserve was worrying about the threat of runaway inflation as prices for crude-oil and other energy products hit record highs. But with last fall's severe financial crisis and a deepening recession, the Fed switched its focus to boosting economic growth.

The Fed has cut a key interest rate to a record low near zero and taken a number of other extraordinary measures to flood the banking system with extra cash, saying it will keep up those efforts until a sustained recovery is under way.

Concerns at the Fed have switched from inflation to possible deflation, a destabilizing period of falling prices. The U.S. has not seen a bout of deflation since the Great Depression.

Still, most economists believe the country will be able to avoid deflation given the Fed's aggressive moves to combat the recession with record low interest rates and billions of dollars of support to the banking system to keep credit flowing.

There are concerns about deflation in other parts of the world, however, especially in Japan, where prices have also been falling. That country underwent a destabilizing bout of deflation during the 1990s, a period when the world's second largest economy struggled to emerge from a real estate and banking crisis.

Price declines have also been registered in other major Asian economies including China and India.

Many economists don't expect the Fed to even think about raising interest rates until the unemployment rate stops rising. It shot up to a 25-year high of 8.9 percent in April and many forecasters believe the jobless rate will hit 10 percent by year's end.

On Wednesday, ArcelorMittal, the world's largest steel maker, announced that it was indefinitely laying off 978 workers at a northwestern Indiana plant, blaming the "extraordinary economic environment" for the action.