

# Consumer Prices Jump, Industrial Production Falls

WASHINGTON (AP) — Consumer prices shot up in June by the largest amount in 11 months, reflecting the biggest jump in gasoline prices in nearly five years.

The Labor Department said Wednesday that inflation at the consumer level rose by 0.7 percent last month, slightly higher than the 0.6 percent increase that economists were expecting. It was the biggest one-month gain since a 0.7 percent increase last July.

The big jump was seen as a temporary blip, however. Inflation is not expected to be a problem any time soon given a severe recession which is keeping a lid on wage pressures.

The Federal Reserve reported Wednesday that industrial production fell 0.4 percent in June as the recession crimped output for a wide range of manufactured goods including cars, machinery and household appliances. However, the decline was not as severe as the 1.4 percent plunge in May, a possible sign that the recession is easing its grip.

Underscoring the low threat of accelerating inflation, prices in June compared to a year ago were actually down by 1.4 percent, the biggest year-over-year decline in nearly six decades.

Core inflation, which excludes food and energy, posted a moderate 0.2 percent rise in June, slightly higher than the 0.1 percent rise that economists had expected.

Strong earnings and an upbeat forecast from Intel Corp. helped major stock indicators jump more than 2 percent in afternoon trading, including the Dow Jones industrial average, which added more than 200 points. The higher-than-expected inflation reading did send bond prices lower for a third straight day.

But the absence of an inflation threat has allowed the Federal Reserve to drive a key interest rate to a record low in an effort to fight a severe recession which is already the longest since World War II. The central bank pushed its target for the federal funds rate to near zero in December and it is expected to remain there until the nation's unemployment rate, currently at a 26-year high of 9.5 percent, stops rising.

The 0.7 percent jump in the Consumer Price Index in June followed three months of moderation including a 0.1 percent rise in May.

The upward surge was driven by a 7.4 percent rise in energy prices, reflecting a 17.3 percent increase in gasoline prices, the biggest one-month jump in gas prices

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Published on Industrial Maintenance & Plant Operation (<http://www.impomag.com>)

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since a 20.9 percent spurt in September 2005 after Hurricane Katrina had shut Gulf Coast refineries.

Analysts are looking for gasoline and other energy costs to retreat in coming months. Already, gasoline pump prices are down by about a dime since the start of July.

Food costs edged up a small 0.1 percent in June, held back by a big drop in the cost of dairy products.

The 0.2 percent rise in core inflation left the core inflation rate rising by a moderate 1.7 percent over the past 12 months, reflecting the downward pressure on costs coming from the prolonged recession.

For June, new car prices jumped by 0.7 percent and clothing costs were also up 0.7 percent. However, those gains were offset by a 0.6 percent drop in airline fares. Price increases were also moderate in the health area with medical care edging up by 0.2 percent, the smallest gain in three months.

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