Core Wholesale Inflation Up Most In Six Months

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WASHINGTON (AP) — Companies paid higher prices for tobacco, pickup trucks and pharmaceuticals in July, driving underlying wholesale inflation up by the most in six months.

This measure of inflation, which excludes volatile food and energy prices, is known as the core Producer Price Index. It rose 0.4 percent in July, the biggest increase since January.

The overall PPI, which measures price changes in goods before they reach the consumer, rose 0.2 percent last month, the Labor Department said Wednesday. That follows a 0.4 percent drop in June, the first decline in 17 months.

Gas prices fell for the second straight month. Food costs rose 0.6 percent, the biggest rise since February.

The jump in the core index is unlikely to continue, economists said. One reason is that raw material prices are increasing at a slower pace than the finished goods tracked by the PPI.

Also, the higher core reading was driven largely by costlier tobacco products and pricier pickup trucks, which are probably one-time events.

Tobacco prices, which are affected by seasonal factors, jumped 2.8 percent. That was the largest increase in more than two years. Truck prices rose 1 percent, but that largely reflects supply disruptions stemming from the Japan earthquake. The impact of those disruptions are started to fade, based on other data.

"Overall, these data do little to alter our belief that most of the recent surge in core consumer price inflation is temporary and that it will fall back next year," said Paul Dales, senior U.S. economist with Capital Economics.

The PPI has increased 7.2 percent in the past 12 months. That's up sharply from earlier this year but below May's rise of 7.3 percent, which was the biggest in two and a half years. The core index has increased 2.5 percent in the past 12 months, the most since June 2009.

Higher wholesale prices raise pressure on retailers, grocery stores and restaurants to pass along the costs to consumers. But that will be difficult, because high unemployment and stagnant wages are causing consumers to hold back on spending.

"Modest inflationary pressures are building, although they are likely to recede ... over the balance of the year as last year's energy price surges" taper off, Steven

Wood, an economist at Insight Economics, said in a note to clients.

Consumers are seeing some relief from high gas prices, which are expected to keep falling.

Earlier this year, food and gas prices spiked and caused the Producer Price Index to jump 1.5 percent in February, after a 1 percent gain the previous month.

Federal Reserve Chairman Ben Bernanke faced criticism that the central bank's policies were contributing to higher inflation. The Fed has kept the short-term interest rate it controls at nearly zero since December 2008.

But gas prices fell from a peak in early May of nearly $4 a gallon to a nationwide average of $3.59 a gallon on Tuesday. One reason for the decline: Americans are driving less. Drivers have cut back on their gasoline purchases for 21 straight weeks, according to a weekly survey by MasterCard SpendingPulse.

And oil prices, which spiked this spring because of turmoil in the Middle East, dropped to $86.65 a barrel on Tuesday. Concerns about slower global economic growth have pushed oil prices down from about $97 a barrel a month ago.

Bernanke and many private economists have said the price increases would be temporary and inflation would remain muted. High unemployment makes it difficult for workers to press for higher wages, which in turn makes it hard for companies to raise prices on the products they sell.

Lower inflation gives the Federal Reserve more leeway to keep interest rates low and potentially engage in other efforts to boost the economy.

Last week, Fed policymakers said they will keep its benchmark short-term rate at nearly zero at least until mid-2013. Previously, the central bank had never given a clear time frame. It hopes the certainty of low rates will encourage consumers and businesses to borrow and spend more.

"Inflation has moderated as prices of energy and some commodities have declined from their earlier peaks," Fed policymakers said Aug. 9. The central bank forecast in June that inflation will remain within its informal target range of below 2 percent this year and next.