Cheaper Gas Drives U.S. Wholesale Price Index Lower

Marting Crutsinger, AP Economics Writer

WASHINGTON (AP) — A big decline in gas and energy costs drove a measure of U.S. wholesale prices lower in April. Outside that drop, prices barely rose.

The Labor Department said Friday that the producer price index, which measures price changes before they reach the consumer, dropped 0.2 percent last month. It was the first decline since December and the biggest drop since October.

Wholesale gas prices tumbled 1.7 percent last month. That accounted for half the drop in energy costs, which was the only major category to decline.

For the 12 months that ended in April, wholesale prices have risen just 1.9 percent. That's the smallest 12-month change since October 2009. And it's down from a peak year-over-year increase of 7.1 percent last July, when higher gas and food costs pushed up wholesale prices.

Excluding volatile food and energy costs, the so-called core index rose 0.2 percent last month. The core index was up 2.7 percent for the 12 months ending in April, down only slightly from March.

Modest wholesale inflation reduces pressure on manufacturers and retailers to raise prices. That helps keep consumer prices stable, which boosts their buying power and drives economic growth. Consumer spending makes up 70 percent of economic activity.

Lower inflation also gives the Federal Reserve room to hold interest rates at record-low levels.

Paul Ashworth, chief U.S. economist at Capital Economics, said that until core inflation falls to lower levels, he does not expect the Fed to launch other efforts to boost the economy.

The drop in gas prices is a relief to consumers. Retail gas prices spiked earlier this year but have dropped 5 percent since peaking in early April. The national average fell to roughly $3.74 per gallon on Thursday, roughly 20 cents cheaper than a month ago.

Higher gas and food prices early last year limited Americans' ability to buy other goods, which slowed growth. The economy expanded just 1.7 percent in 2011.

For April, energy prices fell 1.4 percent. The price of natural gas intended for home use dropped 3.1 percent and other energy costs also fell.

Food costs rose 0.2 percent. Much of that increase was from a 4.3 percent rise in the wholesale price of beef and veal. Egg prices rose 17.3 percent and fruit prices increased 3.7 percent.

Outside of food and energy, the price of cars rose a modest 0.1 percent after rising a sharp 0.8 percent in March.

A small amount of inflation can be good for the economy. It encourages businesses and consumers to spend and invest money sooner rather than later, before inflation erodes its value

The Fed last month reiterated that it planned to keep its key interest rate at a record low through at least late 2014. That's not likely to change when the Fed next meets on June 19-20.

Through the first three months of this year, the economy grew at an annual rate of 2.2 percent. That's better than last year but slower than the 3 percent annual growth logged in the October-December quarter.

Source URL (retrieved on *09/01/2014 - 7:36pm*):
http://www.impomag.com/news/2012/05/cheaper-gas-drives-us-wholesale-price-index-lower?qt-recent_content=1&qt-most_popular=0