

U.S. Wholesale Inflation Mild Despite Increase

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WASHINGTON (AP) — U.S. wholesale prices rose only slightly in January after three straight declines, the latest sign that inflation is posing no threat. It means the Federal Reserve has room to keep interest rates at record lows without worrying about igniting inflation.

The Labor Department said Wednesday that its producer price index rose 0.2 percent last month, the first increase since September. Gasoline and other energy prices fell, while food prices jumped 0.7 percent after dropping sharply in December.

The index measures the cost of goods before they reach consumers. Wholesale prices are what manufacturers and farmers receive for their products.

In the past 12 months, wholesale prices have risen just 1.4 percent, down from a 4.1 percent increase for the 12 months that ended in January 2012. Excluding the volatile food and energy categories, core prices rose 0.2 percent in January. They have risen a mild 1.8 percent over the past 12 months.

"The annual growth rates ... are no threat to the Fed's inflation target," Paul Dales, an economist at Capital Economics, said in a note to clients. The Fed's target inflation rate is 2 percent.

If prices were to begin rising rapidly, the central bank might be forced to raise rates to try to slow inflation.

Wholesale gas prices dropped 2.1 percent in January, the department said. Since then, pump prices have risen sharply. That is likely to push up inflation at the wholesale and consumer levels in coming months.

Nationwide, the average price of gas was \$3.75 a gallon on Tuesday, according to AAA. That's an increase of 45 cents a gallon in just the past month.

Vegetable prices jumped 39 percent in January, led by increases in the cost of broccoli, cauliflower, and lettuce. Cheese, soft drink and candy prices also jumped.

Meanwhile, pharmaceuticals and communications equipment led core prices higher.

Higher wholesale prices don't always mean consumers will soon pay more. High unemployment and weak pay gains are making it difficult for retailers to pass on higher costs to consumers.

Low inflation means consumers can spend more on other goods and services, which helps the economy.

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As long as the inflation outlook stays mild, the Fed said it plans to keep the short-term interest rate it controls near zero until the unemployment rate falls to at least 6.5 percent.

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