

U.S. Wholesale Prices Fall By Most In 3 Years

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WASHINGTON (AP) — Sharp drops in fuel and food costs reduced a measure of U.S. wholesale prices in April by the most in three years. Outside those volatile categories, inflation stayed tame.

The producer price index, which measures price changes before they reach the consumer, fell a seasonally adjusted 0.7 percent in April from March, the Labor Department said Wednesday. It was the second straight monthly decline and the steepest since February 2010.

Lower inflation means the Federal Reserve has more leeway to continue its aggressive policies to boost economic growth. If there were signs that inflation was picking up, the Fed might be forced to raise interest rates.

The index declined largely because gas prices dropped 6 percent and the price of home heating oil fell by the most in almost four years.

Food prices also fell 0.8 percent, the most since May 2011. Half of the decline was because of lower vegetable prices, a highly volatile category. Meat prices dropped 2.3 percent.

Excluding the volatile food and energy categories, core prices ticked up 0.1 percent in April from March. Pharmaceutical costs rose 0.1 percent. Metal furniture prices jumped 1.7 percent.

Prices for cars and pickup trucks, men's clothes, tires and computers all declined.

Overall wholesale prices have increased just 0.6 percent over the past 12 months. That's the smallest yearly gain since July and down from a 1.7 percent pace just two months ago.

Core prices have risen only 1.7 percent in the past 12 months and are just below the Fed's 2 percent inflation target.

Aside from sharp swings in gas prices, consumer and wholesale inflation has increased slowly in the past year. The combination of modest economic growth and high unemployment has kept wages from rising quickly. That's made it harder for retailers and other firms to raise prices.

Paul Dales, an economist at Capital Economics, said wholesale prices may fall further as declining prices for many commodities work their way through the supply chain. Slowing manufacturing output could also weigh on prices.

Some of the price declines are being passed on to consumers. Economists forecast

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that the consumer price index fell 0.1 percent in April. If accurate, that would lower the annual pace of inflation, which was just 1.5 percent in March.

The government will report on April consumer prices Thursday.

The Fed has said it plans to keep the short-term interest rate it controls at a record low near zero until the unemployment rate falls below 6.5 percent, provided inflation remains in check. Unemployment in April dropped to a four-year low of 7.5 percent.

The Fed is also purchasing \$85 billion a month in bonds to keep longer-term interest rates down. That's intended to encourage more borrowing and spending, which drives economic growth. The Fed says it will continue to buy bonds until the job market improves substantially.

Many economists expect the Fed will begin to taper those purchases by the end of the year, particularly if hiring stays healthy. But too-low inflation could cause them to continue.

A little inflation can be good for the economy because it encourages consumers and businesses to spend more before prices rise.

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