

U.S. Consumer Prices Rise 0.3 Percent

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WASHINGTON (AP) — U.S. consumer prices rose last month by the most since June, driven up by higher gas prices, but excluding energy, inflation was tame.

The Labor Department said Thursday that the consumer price index rose a seasonally adjusted 0.3 percent in December, after a flat reading the previous month.

Prices increased 1.5 percent in 2013, down from 1.7 percent in 2012. That's below the Federal Reserve's target of 2 percent. Fed officials have said in recent months that they are watching the inflation data closely to ensure it does not fall too far.

"The price data continue to deliver the same message: no signs of inflation pressures in the US economy," said Laura Rosner, an economist at BNP Paribas.

Gas prices jumped 3.1 percent in December, the biggest gain since June. Food prices ticked up 0.1 percent, pushed up by higher restaurant costs. Grocery prices were flat, held down by the biggest drop in fruit and vegetable prices in five years.

Excluding the volatile food and energy categories, core prices increased just 0.1 percent in December. Car prices were flat and airline fares plummeted 4.7 percent, the most in 14 years. Those declines were offset by a big increase in clothing costs, which followed three months of decreases, and rents also rose.

Core prices increased 1.7 percent in 2013, down from a 1.9 percent increase in 2012.

Inflation has been held back in recent years by sluggish growth and high unemployment, which makes it harder for retailers and other businesses to raise prices.

Persistently low inflation has allowed the Federal Reserve to pursue its extraordinary stimulus program. The Fed launched an \$85 billion-a-month bond purchase program in September 2012 in an effort to keep interest rates low and spur more borrowing and spending. Fed policymakers cut those purchases to \$75 billion this month.

Fed policymakers could continue their purchases for longer if inflation doesn't move closer to their 2 percent target. Fed officials have said ultra-low inflation poses economic risks. Among other concerns, falling inflation raises inflation-adjusted interest rates, making it harder to pay off debts and potentially discouraging borrowing. The Fed meets again at the end of this month.

Critics of the bond-buying program fear it will spark higher inflation in the future.

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But the inflation has yet to materialize.

A small amount of inflation can be good for the economy, because it encourages consumers and businesses to spend and invest before prices rise further. But if prices barely rise, consumers have little incentive to spend and may wait to see if goods get even cheaper.

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