U.S. Food Prices Jump as Consumer Prices Stay Flat

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WASHINGTON (AP) — Cheaper energy kept U.S. consumer prices in check last month, despite a big rise in the cost of food, the latest sign that inflation is tame.

The consumer price index rose 0.1 percent in February, matching January's increase, the Labor Department said Tuesday. In the past 12 months, prices have risen just 1.1 percent, down from 1.6 percent in January and the smallest yearly gain in five months.

Excluding the volatile food and energy categories, core prices rose 0.1 percent last month and 1.6 percent in the past year.

Energy prices fell 0.5 percent because lower gasoline and electricity costs offset higher prices for natural gas and heating oil. Clothes and used cars were also cheaper last month.

Still, consumers took a hit at the grocery store as food costs rose 0.4 percent, the most in nearly 2 ½ years. Beef prices jumped 4 percent in February, the most in more than 10 years, as recent droughts have pushed up cattle feed prices. Milk, cheese and other dairy prices also rose.

The big drop in the annual inflation rate to 1.1 percent comes as the Federal Reserve starts a two-day policy meeting, its first under new chair Janet Yellen. Low inflation has enabled the Federal Reserve to pursue extraordinary stimulus programs in an effort to boost economic growth.

The Fed is now trying to unwind some of that stimulus. It is purchasing $65 billion in bonds this month, down from $75 billion in January and $85 billion last year. The bond purchases are aimed at lowering long-term interest rates to encourage more borrowing and spending.

Fed policymakers are expected to announce another $10 billion cut Wednesday.

The slowdown in the annual inflation rate occurred partly because energy prices spiked in February 2013, and that figure has now fallen out of the year-over-year calculation. As a result, economists don't think the rate will fall much further.

Inflation has been held back by sluggish growth and a tough job market, which makes it harder for retailers and other businesses to raise prices.

While shoppers may prefer lower prices, economists warn that super-low inflation can slow economic growth. It encourages consumers to postpone purchases and can also make inflation-adjusted interest rates higher, potentially discouraging borrowing.

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