Reduced Food Prices Bring Grocery Bill Relief

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WASHINGTON (AP) — The Labor Department reports on U.S. producer price inflation in June. The report will be released at 8:30 a.m. Eastern on Wednesday.

INCREASE EXPECTED: Economists forecast that the producer price index rose just 0.2 percent in June from the month prior, according to a survey by FactSet. That would follow prices falling 0.2 percent in May, a decrease caused by cheaper food and gas.

In the 12 months ending in May, producer prices rose 2 percent, the biggest yearly gain in more than two years. That is in line with the Federal Reserve's inflation target.

FOOD PRICE GAINS INTERRUPTED: After four months of increases, wholesale food prices fell 0.2 percent in May. That should bring some grocery bill relief. Food costs had been rising because crops were damaged by a drought in California and brutal winter storms and freezing temperatures in the Midwest.

The same goes for pump prices. Wholesale gasoline prices dropped 0.9 percent in May.

Those decreases came at the expense of retailers and wholesalers. Their profit margins declined 0.5 percent in May, after two months of strong growth.

Consumer prices have tended to track the costs for producers, rising in May in response to food and energy costs rising earlier in the year for wholesalers. Consumer prices rose 2.1 percent in May compared to the year prior.

The Fed targets inflation at about 2 percent as a guard against deflation, which can drag down wages and spark a recession. At the same time, the Fed wants to avert excessive inflation and protect consumers and the purchasing power of the dollar.

Wage growth has been meager for the past four years and unemployment, now at 6.1 percent, has been slow to recede since the recession.

The choppy labor market has trimmed consumer spending, a major economic engine in the U.S., and that has made it difficult for businesses to raise prices.

Still, low inflation has enabled the Fed to pursue extraordinary measures to boost the economy. It has begun to unwind some of those measures, cutting a monthly bond-buying program to $35 billion, from $85 billion last year.

Those bond purchases had ensured low interest rates that encouraged investors to pour money into the economy.