

Oil prices drive inflation higher May 2008

Annual cost-of-living rate rises to 4.2% after higher-than-expected May increase. Energy costs surge 17.4% over 12 months.

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NEW YORK (CNNMoney.com) -- The cost of living rose in May, as consumers were belted by energy costs, the government said Friday.

The Consumer Price Index, a key inflation reading, rose 4.2% through the 12 months ended in May 2008, according to the Labor Department. This compared to an increase of 3.9% during the 12 months ended in April.

For the month of May, overall CPI rose 0.6%, compared to an increase of 0.2% in April. That's the biggest increase since last November, when the overall CPI surged 0.9%. A consensus of analysts interviewed by Briefing.com had projected an increase of 0.5% for May.

The dramatic increase in energy costs were largely responsible for the overall inflation. Energy costs rose 4.4% in May, and surged 17.4% over the 12 months ending in May, the Labor Department said. "These (CPI) numbers are nowhere near to what we're seeing in the real world," said Peter Beutel, energy analyst for Cameron Hanover, who believed the "real" cost of living has increased at a higher rate than the index shows. "But even these diluted numbers are showing that inflation is getting uglier and uglier and uglier."

Beutel said this puts more pressure on the Federal Reserve to increase the federal funds rate, which he thinks could happen in August or September. The rate is currently at 2%. "The higher that inflation is, the sooner the Fed has to raise rates to help keep a lid on prices," said Beutel.

The index for fuel oil rose 10.4% in May and soared 64% over the 12 months. The index for natural gas rose 5.6% in May, and was up 16.5% over the last year. Electricity costs also increased, but less dramatically, edging up 0.9% in May, and rising 5.8% over the last 12 months. As a result, transportation costs increased 2% in May, and jumped 8.1% over the 12 months ending in May.

The index for household energy costs climbed 2.8% in May, its fourth consecutive jump, the Labor Department said. The price of food also pushed up overall costs. Food costs increased 0.3% in May, and jumped 5.1% during the 12 months ending in May.

The core CPI, which excludes the cost of food and energy, rose 0.2% in May, compared to an increase of 0.1% in April. A consensus of analysts interviewed by Briefing.com had projected an increase of 0.2% for May. The core CPI rose 2.3% during the 12 months ending in May. ■

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