

Wholesale prices climb again in February 2008

Another hefty increase in energy costs offsets falling food costs

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WASHINGTON - Wholesale prices rose again in February as another hefty increase in energy costs offset falling food prices. Outside of food and energy, prices shot up at the fastest pace in 15 months.

The Labor Department reported Tuesday that wholesale prices were up 0.3 percent last month, following an even bigger 1 percent jump in January. Outside of food and energy, the rise in inflation was a troubling 0.5 percent, the biggest increase for core inflation since a rise of 0.9 percent in November 2006. The hefty February increase in core inflation raises concerns that relentless increases in energy costs over the past two years are beginning to spread to other areas of the economy.

That could act as a constraint on the Federal Reserve, which is trying to combat a serious economic slowdown by cutting interest rates to jump-start economic growth. However, if inflation starts to be a problem, the Fed could be caught in the grips of stagflation, the malady of stagnant growth occurring at the same time that inflation is rising.

The February rise in wholesale prices reflected higher costs not only for energy but also for cars and light trucks as well as a 1.3 percent jump in prescription drug prices.

Ian Shepherdson, chief U.S. economist at High Frequency Economics, said that the overall figure will be even worse next month given that energy prices have been soaring. Crude oil prices hit new records last week above \$111 per barrel.

For the moment, Fed officials have said they view the threat of a recession as the bigger problem. Financial markets are looking for another aggressive rate cut on Tuesday, especially in light of the collapse over the weekend of Bear Stearns, Wall Street's fifth largest investment bank, and the ongoing troubles in housing.

In another sign of troubles in housing, construction of new homes fell by a larger-than-expected 0.6 percent in February to an annual rate of 1.065 million units. That was a bigger decline than the 0.2 percent drop that Wall Street had been expecting although January was revised up to show a stronger gain than originally reported. However, building permits, considered a good indication of future activity, plunged by 7.8 percent in February to an annual rate of 978,000 units, the slowest pace in 16 years.

The troubles in housing with falling sales and prices in many parts of the country have acted as a drag on the overall economy, contributing to a serious slowdown that many analysts are worried could push the country into a recession.

The 0.3 percent rise in wholesale prices reflected a 0.8 percent jump in energy costs, driven higher by 2.9 percent jump in gasoline prices and 5.7 percent increase in residential natural gas prices, the biggest jump in this price in more than two years.

Food costs at the wholesale level actually fell by 0.5 percent last month as the cost of vegetables, fruit, dairy products and pork all declined.

For the past 12 months, wholesale prices have risen by 6.4 percent while excluding food and energy, inflation is up 2.6 percent, the biggest 12-month change for core inflation since the period ending last October.

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