

Rising rents push up consumer prices in June, but energy prices ease

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By Barbara Hagenbaugh, USA TODAY

WASHINGTON — Consumer prices rose in June as costs for housing, fruit, airfares and other items more than offset a decline in energy costs, the government said Wednesday in a report that strengthened inflation worries. The consumer price index rose 0.2% in June, the smallest increase in four months, the Labor Department said.

But, in the number that heightened inflation concerns, excluding more volatile food and energy costs, the so-called core index increased 0.3% for the fourth consecutive month. In the first six months of 2006, core consumer prices rose at a 3.2% seasonally adjusted annual rate. If the current trend were to continue, the core CPI, which is considered a gauge of underlying inflation trends, would rise this year at the fastest pace in 14 years.

"With four months of consistently high numbers, it has become impossible to dismiss this as an aberration," Brandeis University professor Stephen Cecchetti says.

Says Moody's Economy.com senior economist Augustine Faucher, "Inflationary pressures are likely to remain elevated in the months to come."

On a positive note, average weekly earnings for non-supervisory workers in June rose 0.6% when adjusted for inflation, the biggest gain since November, the Labor Department said in a companion report. Average pay and the number of hours worked both increased.

Prices rose in June for a number of consumer goods. Costs for fruits and vegetables rose at the fastest pace in five months. Airline fares continued their ascent. Tickets at movie theaters, concert venues and sporting events were more costly than in May. Medical care costs increased. And cigarette prices rose at the fastest pace in 11 months.

Housing prices rose 0.4% in June, up 0.3% from May. The CPI measures housing prices based on how much consumers would pay to rent their homes. But rents are increasing while home sales and prices are slowing, leading to a possible distortion in the numbers. Energy prices fell in June for the first time in four months as a decline in prices for gasoline and natural gas more than offset an increase in electricity and heating oil costs.

Despite the decline, energy prices are up 22.8% at an annualized pace in 2006. If the trend continues, energy prices will increase this year at the fastest pace since 1979.

Higher prices for energy are starting to have some effect on consumer spending, according to anecdotal reports and recent retail sales data. But it's important to remember that inflation is not running so hot as to stop economic growth, says Richard Yamarone, director of economic research at Argus Research. "We have an uncomfortable situation, nothing too troubling, nothing worrisome, nothing that is going to send the economy into recession," he says. "But it's certainly ... an unwelcome trend."