

Energy Costs Push Wholesale Prices Up

CHRISTOPHER S. RUGABER, AP Economics Writer



WASHINGTON (AP) — A surge in gas costs drove wholesale prices up in September by the most in five months. Economists cautioned that the increase was largely the result of a seasonal quirk and said broader inflation remains modest.

The Producer Price Index, which measures price changes before they reach the consumer, rose 0.8 percent in September. Energy prices climbed 2.3 percent. Wholesale gas prices jumped by the most since March.

Food prices also rose sharply. The costs of beef, veal and vegetables all increased.

Excluding food and energy costs, which tend to fluctuate sharply from month to month, so-called core prices increased a modest 0.2 percent. Higher prices for pickup trucks accounted for one-third of the increase in core prices.

Economists said seasonal adjustments magnified the rise in energy costs. Gas prices usually start to decline in September, when the summer driving season ends. Instead, wholesale gas prices rose during the first half of the month, when the survey was taken.

Gas prices later fell in the second half of September, economists said.

Neil Dutta, an economist at Bank of America, attributed much of the gain in energy prices to one-time factors.

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"Is this a harbinger of broad-based inflation that is about to hit the U.S. consumer?" he asked. "Don't count it."

Wholesale gas prices surged 4.2 percent, the biggest jump since March. The cost of diesel fuel and liquefied petroleum gas also rose. Natural gas prices dipped.

Wholesale prices had moderated in recent months, after rising sharply earlier this year. Fears of a possible recession in the U.S. and slower growth overseas had restrained inflation.

The price of commodities, such as oil and grains, generally fall when growth slows because that reduces demand. It can take several months for lower prices to reach the consumer.

The core index has risen 2.5 percent in the twelve months that ended in September, the same as the previous month.

"Inflation is not wildly out of control but it certainly isn't as tame as would be expected during this stage," said Jennifer Lee, a senior economist at BMO Capital Markets.

Wholesale energy prices have fallen for three straight months, dragged down by lower oil prices.

The price of oil fell 52 cents to \$86.28 per barrel in Monday trading. It has tumbled 24 percent since May. That's helped reduce gas prices, which averaged \$3.46 per gallon on Monday, according to AAA. Gas prices have moved up in recent days but are down from \$3.60 per gallon a month ago and nearly \$4 per gallon in May.

Wholesale food prices rose 0.6 percent in September after a sharp increase in August.

That trend could cool next year. The U.S. Department of Agriculture reported last week that farmers will likely finish next summer with a bigger surplus of corn than previously expected. A bushel of corn cost \$6.38 in afternoon trading Monday. That's down from a record \$7.99 in June.

Modest inflation has taken some of the pressure off the Federal Reserve to keep inflation in check by raising interest rates. Instead, the central bank can keep the short-term rate it controls at nearly zero, in an effort to support economic growth.

The Fed's informal inflation target is about 1.5 percent to 2 percent, at an annual rate. Last month, Fed policymakers said that inflation would decline to levels "at or below" the target, according to minutes released last week.

A small amount of inflation is good for the economy. It encourages businesses and consumers to spend and invest money sooner rather than later, before inflation erodes its value.

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