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ECONOMY

Consumer prices leap more than expected in January

Recent data showing rising inflation pressures sparked concern among investors about the Federal Reserve's next move.

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Associated Press

WASHINGTON - Consumer prices increased at a faster pace than expected in January while a gauge of future economic activity posted a tiny increase, raising concerns about inflation and future growth.

The Consumer Price Index was up 0.2 percent in January as a big drop in energy prices only partially offset sizable increases in the cost of medical care, food, airline tickets and tobacco, the Labor Department reported Wednesday.

Core inflation, which excludes volatile energy and food components, rose 0.3 percent, the biggest one-month gain in seven months. Both figures were higher than economists had been expecting.

In other economic news, the Conference Board's index of leading economic indicators edged up a tiny 0.1 percent in January, far below the 0.6 percent December increase.

The January performance was held back by further weakness in the ailing housing and auto industries.

Economists said that the worse-than-expected news on inflation and future growth prospects was certain to get the attention of Federal Reserve Chairman Ben Bernanke and his colleagues.

The Fed on Wednesday released minutes of its meeting three weeks ago in which Fed officials expressed the view that inflation represented the biggest threat to the economy.

On Wall Street, the Dow Jones industrial average fell 48.23 points to close at 12,738.41 as the jump in consumer prices and the Fed's comments on inflation rattled some investors. However, the technology-heavy Nasdaq composite index closed at a new high for the year.

The Fed left a key interest rate unchanged at 5.25 percent at the Jan. 30-31 meeting but continued to signal that future rate hikes are possible if inflation does not fall further.

"The latest report on consumer prices shows the Fed is right to be concerned about inflation," said Lyle Gramley, a former Fed board member and now senior economic advisor at Schwab Washington Research Group.

Gramley said the Fed could likely resume raising rates by the end of this year if inflation pressures don't subside.

However, other economists said they still believed the Fed's next move would be to cut rates at the end of this year. These analysts believe that the central bank will achieve its hoped-for soft landing in which growth slows enough to lower inflation.