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ECONOMY

Prices, wages inch up

While consumer prices rose at the slowest pace since 2003, wages saw their biggest increase since 1997.

By Martin Crutsinger

Associated Press

Inflation in 2006 eased to the slowest pace in three years as consumers finally got some relief on energy and medical bills.

However, the economic news is by no means all good: Also on Thursday, Federal Reserve Chairman Ben Bernanke warned that the economy could be gravely hurt if Social Security and Medicare aren't revamped.

The inflation report from the Labor Department showed that the Consumer Price Index climbed by 2.5 percent last year, the best showing since 2003 and nearly a full percentage point lower than the 3.4 percent jump in 2005.

In South Florida, however, inflation ran higher. The cost of goods, including housing, food and gas costs, ran on average 4.1 percent higher in December 2006 than the same time the year before, although down from a mid-year peak of 5.7 percent.

Nationally, the encouraging news stemmed from a sizable slowdown in energy costs in the second half of last year. Gasoline pump prices jumped again in December, but consumers should see further relief ahead, with crude oil now trading at a 20-month low near \$50 per barrel.

In South Florida, fuel and utility prices increased more than 16.6 percent over the past year. Shelter and housing costs, which includes the price of homeowner's insurance, have increased more than 6 percent.

LOCAL DECLINE

In the past two months, costs for apparel, transportation and medical care decreased. In the case of medical care costs, the local area index declined 2.4 percent over the past two months, the largest-ever such decline in the index's history.

The Bureau of Labor Statistics releases local area inflation data every two months.

Meanwhile, workers' wages, which have lagged in this recovery, began to show bigger gains. That combination of lower inflation and faster wage growth translated into an increase in inflation-adjusted weekly wages of 2.1 percent for the 80 percent of the workforce in nonsupervisory positions.

The increase was the biggest gain since 1997 and followed three straight years in which wages, after adjusting for inflation, had fallen even as many businesses posted record profits.

TIGHT JOB MARKET

Analysts attributed the improvement in real wages in 2006 to a tighter job market that forced businesses to offer higher salaries to attract workers. They predicted further gains.

"Things have finally come together for workers after a long period of tough conditions," said Mark Zandi, chief economist at Moody's Economy.com.

Analysts believe companies will finance the higher wages by trimming profits rather than boosting the price of their products. The latter could fuel inflationary pressures that would raise concerns at the Federal Reserve.

Fed Chairman Bernanke is already concerned that the U.S. economy could be "seriously weakened" without action on Social Security and Medicare. His statements Thursday marked his most forceful warning to date on the potential problems facing the United States with the looming retirement of 78 million baby boomers, who will start retiring next year. This huge wave of retirees will hit the U.S. budget as well as the economy, Bernanke said.

"The longer we wait, the more severe, the more Draconian, the more difficult the objective -- the adjustments are going to be. I think the right time to start is about 10 years ago," he told lawmakers when questioned about the urgency of the situation.

Absent policy changes, rising budget deficits are likely to increase the amount of federal debt outstanding to unprecedented levels, Bernanke said.

Miami Herald writer Niala Boodhoo contributed to this report.