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Consumer inflation, industrial output up

By Martin Crutsinger

AP Economics Writer

WASHINGTON --

Consumer inflation spurted higher in February, reflecting rising costs for gasoline and big jumps for food, while industrial output rebounded sharply, in large part because of the biggest jump in utility production in 17 years.

The Labor Department reported Friday that its Consumer Price Index rose by 0.4 percent last month, double the January increase and the largest advance since a similar increase in December.

Meanwhile, the Federal Reserve said that production at factories, mines and utilities surged by 1 percent last month, a sharp rebound following a 0.3 percent drop in January.

Much of the strength came from a 6.7 percent surge in utility production, as colder-than-normal temperatures in much of the country boosted production by the biggest amount since December 1989.

Output at the nation's factories rose by 0.4 percent in February, recouping much of the 0.5 percent drop in January. Auto production was up 3.2 percent, helped by an increase in light truck manufacturing, but analysts said the domestic industry remains under severe strain from foreign competition.

A jump in computer production boosted the output of home electronics but home appliances, furniture and carpeting all suffered declines, reflecting the slump in the housing industry.

The increase in consumer inflation was larger than the 0.3 percent gain that had been forecast although excluding volatile food and energy prices, inflation was better-behaved, rising by just 0.2 percent, exactly what economists had been expecting.

Federal Reserve policymakers meet next Tuesday and Wednesday with the wide expectation that they will leave interest rates unchanged even though the economy has slowed significantly under the impact of a steep slump in housing and troubles in autos and other parts of manufacturing.

While the Fed would normally be expected to ride to the rescue of a faltering economy by cutting rates, the stubbornly high inflation readings are expected to boost the arguments of Fed officials that the biggest threat to the economy remains the risk of higher inflation, not weaker growth.

The overall CPI reading was slightly bigger than expected, but it was still more moderate than a huge 1.3 percent surge in wholesale prices for February, a jump that was more than double what economists had been expecting.

At the consumer level, price pressures were led by higher energy costs, which were up 0.9 percent last month after having fallen by 1.5 percent in January.

Gasoline costs rose by 0.3 percent with economists forecasting even bigger advances as the spring driving season gets under way. The latest Lundberg Survey found that the nationwide average for gasoline has risen by 20 cents per gallon in just the past two months.

Food costs shot up by 0.8 percent in February, the biggest increase in 22 months. The gain was led by 16.3 percent surge in citrus prices, reflecting adverse weather in January in California growing areas. Rising fruit and vegetable costs contributed three-fifths of February's higher food costs.

So far an expected moderation in inflation has not occurred. For the first two months of this year, consumer prices are rising at an annual rate of 3.3 percent, up from a 2.5 percent increase for all of 2006.

Core inflation, which excluded energy and food, has been rising at an annual rate of 3 percent over the past two months, far above the Fed's comfort zone for gains of 1 percent to 2 percent in core prices. Last year, core inflation rose by 2.6 percent, which was the highest reading since 2001.

The Fed raised interest rates for two years with the last rate hike occurring in June 2006 as it attempted to slow economic growth enough to dampen inflation.

Outside of food and energy, price pressures in February were seen in rising costs for shelter, medical care and clothing.