ECONOMY

Consumer Prices Increase But Remain at Low Level

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Consumer prices posted a modest gain in December, largely due to a rise in food and energy prices. Excluding those volatile categories, core inflation remained at a historically low level, backing the Federal Reserve's view that it is under no pressure to raise interest rates.

In all, there were four economic reports before the opening bell Thursday. Among the others: Retail sales rose in December, jobless claims fell last week, and manufacturing activity in the New York region improved for a ninth straight month in January.

The consumer-price index rose 0.2%, reversing a 0.2% decline in November, the Labor Department reported Thursday. The core index, which excludes food and energy prices, climbed 0.1%.

Bottoming Out

In annual terms, consumer prices increased 1.9%, the smallest rate in two years. The core rate was 1.1%, a 43-year low, and near what some Fed policy makers regard as the "bottom" of the desirable range.

The numbers matched economists' forecasts precisely. They also backed the view of Fed policy makers that inflation is likely to stay low for much of 2004, giving them the freedom to keep rates low.

Food prices, which account for 15% of the index, rose 0.6%, accelerating from a 0.4% gain in November. That category was led by a 1.7% increase in beef and veal prices, which were up by a whopping 23.5% for all of 2003, the largest annual increase since 1978. Energy prices rose 0.2%, rebounding from a 3% decline in November. Gasoline prices, however, declined 0.1% in December.
Among others, clothing prices dropped 0.4% for the month and 2.1% in all of 2003 as stores discounted merchandise to lure shoppers; airline fares fell 1.9% during the month, while new car prices were flat.

"So, if you are buying clothes and vehicles and going to movies, all is right with the world," wrote Joel L. Naroff, chief economist at Naroff Economic Advisors, in a note to clients. "If you are eating, paying medical bills, living somewhere and sending a child to college, you are stressed." Nonetheless, he said, "the simple fact is that price pressures faded during the last part of 2003."

Although the U.S. economy has grown rapidly for more than six months and the dollar has lost value against other major currencies, the Fed has said businesses haven't gained much power to raise prices.

On Wednesday, Fed Governor Ben Bernanke, who has asserted the Fed should cut interest rates if core inflation falls below 1%, said core inflation "is as low as it's been in 40 years and trending downward." Most economists say the core inflation rate isn't likely to rise above 2% this year. Under the circumstances, Fed policy makers have said they can afford to wait for the labor market to recover before raising interest rates.

Economists widely expect the Fed will leave its target for a key short-term rate at a 45-year low of 1% at the next policy meeting Jan. 27 and 28. Some economists believe the Fed will keep rates near rock-bottom levels through the rest of the year and into 2005. Others, however, believe there's a chance the Fed could begin to nudge rates up later this year, depending on how the economy is doing.

**Retail Sales Climb**

Meanwhile, retail sales rose 0.5% in December, the second straight month of gains, the Commerce Department reported Thursday. Sales rose 1.2% in November.

December sales got a boost from a 1.6% rise in demand for motor vehicles and parts dealers. Excluding auto-related buying, overall retail sales would have gone up by 0.1%. Without gasoline and auto sales, retail sales would have climbed by 0.2%.

Economists had expected a 0.8% rise in overall sales, and a 0.4% gain excluding the auto component, according to a survey by Dow Jones and CNBC.

Jobless claims fell by a seasonally adjusted 11,000 to 343,000 in the week that ended Saturday, the Labor Department said Thursday. That partly reversed a 15,000 increase in the previous week. The four-week moving average, which smooths out weekly fluctuations, fell by 3,000 to 347,500, its lowest level in nearly three years.

Economists had expected a drop of just 3,000. A Labor Department statistician said the drop may have reflected the difficulties of making seasonal adjustments to the numbers at this time of the year.

A regional report on manufacturing showed conditions in the sector in the New York region improved for a ninth straight month in January. The Federal Reserve Bank of New York reported its Empire State manufacturing survey's business-conditions index climbed to a record 39.22, from a revised 36.16 in December.
Among the New York report's components, orders rose, while shipments and the workweek hit new highs. But inventories and employment slipped. Most notably, businesses remain optimistic. Nearly all of those surveyed said they expect conditions to be the same or better in six months.

Regional gauges such as the New York survey, and a similar one from Philadelphia due out later Thursday, are widely seen as a precursor to a national reading on the manufacturing sector, due out in early February.

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