

# Energy costs push May inflation

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WASHINGTON — Soaring energy costs pushed inflation up in May at the fastest pace in six months. Food costs kept rising and all signs are pointing to more bad news on gasoline, oil and food in the months ahead.

Costs for clothing and prescription drugs dropped last month, but consumer prices rose by 0.6 percent in all, the

biggest one-month increase since November, the Labor Department reported Friday.

Food prices, which had taken the biggest one-month leap in 18 years in April, rose by a more moderate 0.3 percent in May, but that still left food costs rising at a 6.3 percent rate so far this year, well above last year's increase. People are paying 10.2 percent more for milk than a year ago.

Consumers are getting

hammered by a relentless surge in energy costs, pushing gasoline above \$4 per gallon. The rising food prices partly reflect higher costs for transporting products to grocery stores.

Core inflation, which excludes energy and food, edged up 0.2 percent in May, an increase that was in line with expectations and helped to ease worries in financial markets that the Federal Reserve was inching closer to starting to raise

interest rates to combat inflation pressures.

Clothing costs fell by 0.3 percent and the cost of prescription drugs dropped by 0.7 percent, but airline tickets jumped 3.2 percent, the biggest gain in more than six years, again reflecting the surge in fuel costs.

On Wall Street, stocks ended a turbulent week with a big gain, reflecting investor relief that at least the core inflation

reading remained well-behaved. The Dow Jones industrial average rose 165.77 points to close at 12,307.35 on Friday.

Private economists cautioned that there would probably be more bad news on inflation in the months ahead given that this year's oil shock has gone on much longer than expected.

"Businesses that had been patiently waiting for oil prices to

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fall have run out of patience. We expect more of them to start throwing in the towel and raising prices," said Kenneth Beauchemin, an economist at Global Insight, noting the announcement by Dow Chemical Co. late last month that it was raising prices by up to 20 percent.

These developments have raised alarm bells at the Federal Reserve, which is now indicating that its biggest concern has changed from worries about a possible recession to fears about higher inflation.

In a speech Monday, Fed Chairman Ben Bernanke said the Fed will "strongly resist an erosion of longer-term inflation expectations," comments that raised concerns in financial markets about interest rate hikes.

Many economists, however, still believe that the weak economy and rising unemployment will keep the central bank from

actually raising rates until later this year.

"Fed members are now focused on the potential that inflation expectations are rising which indeed would be a truly worrisome event," said Joel Naroff, chief economist at Naroff Economic Advisors. "Thus, we will likely see continued speeches telling everyone how the Fed is on guard against any potential inflationary issue."

But Naroff said he believed there would be an extended period when the Fed will be "jawboning" against inflation.

So far this year, consumer prices are rising at an annual rate of 4 percent, compared with a 4.1 percent increase for all of 2007.

Core inflation, excluding energy and food, is rising at an annual rate of 2 percent so far this year, down from an increase of 2.4 percent for all of last year. However, many economists said they expect core inflation to begin rising as the prolonged rise in energy costs starts shows up in other areas.

The energy increases have pushed the nationwide average

for gasoline up to a record of \$4.06 and private economists believe that price will keep climbing through the summer driving season.

The combination of rising inflation and weak wage gains contributed to another drop in weekly earnings. After adjusting for inflation, weekly earnings for nonsupervisory workers were down 1.2 percent in May, compared to a year ago, the Labor Department said in a separate report. It marked the eighth straight month in which weekly earnings had fallen compared to a year earlier.

The increase in energy prices was led by a 5.7 percent jump in gasoline, the biggest one-month rise since last November, and gains of 0.9 percent for electricity, 10.4 percent for home heating oil and 5.6 percent for natural gas.

The 0.3 percent rise in food costs reflected a 1.5 percent jump in beef costs, the biggest in 13 months, and another steep increase in cereal and bakery products, which were up 1.6 percent.

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