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The Labor Department reported Wednesday, May 19, that consumer prices edged down 0.1 percent last month, reflecting a big fall in energy prices.

Consumer inflation vanishes, a boon for borrowers

BY MARTIN CRUTSINGER
ASSOCIATED PRESS

WASHINGTON — Consumer prices fell in April for the first time in 13 months, giving the Federal Reserve more room to keep interest rates at historic lows to aid the economy. That's good news for borrowers, but not for savers.

Record-low rates help borrowers who qualify for loans and want to take on more debt. The prime lending rate, used to set rates on some credit cards and consumer loans, is at its lowest point in decades.

But low rates hurt savers. They're especially hard for people on fixed incomes who earn scant returns on their savings.

The 0.1 percent decrease in overall prices last month was pulled down by gas prices, which are expected to drop further this summer.

Core inflation, which excludes volatile food and energy prices, was flat in April, according to the Labor Department report Wednesday. Over the past 12 months, core inflation has risen just 0.9 percent — the smallest increase in 44 years.

The recession in 2007 and 2008 has kept inflation so low that some economists worry about the possibility of deflation — a destabilizing period of falling prices and wages.

"With the unemployment rate so close to 10 percent, it is entirely understandable that the Fed wants to stick with its commitment to leave rates at near-zero," said Paul Ashworth, senior U.S. economist at Capital Economics.

Ashworth said he thinks the Fed won't start raising rates until late next year — and possibly not until 2012.

Economists had expected overall prices and core prices to edge up 0.1 percent in April. The drop in overall prices was the first decline since a similar dip in March 2009.

Energy prices fell 1.4 percent, the biggest one-month decline since March 2009. Gasoline prices dropped 2.4 percent. Analysts said they expect further declines in coming months as crude oil prices are down nearly 20 percent since April.



MEL EVANS / The Associated Press

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Borrowers benefiting from drop in prices

But record-low interest rates hurting fixed-income savers

By Martin Crutsinger
THE ASSOCIATED PRESS

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Food costs rose 0.2 percent, the same modest increase posted in March.

Joel Naroff, president of Naroff Economic Advisors, said stable prices have allowed consumers to spend more freely despite slow growth in income and high unemployment. He said most businesses are "dealing with a sluggish economy and that means they have very little pricing power."