Prices stay level for consumers

Slower drop in industrial output adds to hope recession easing

By Christopher S. Rugaber
The Associated Press

WASHINGTON — More evidence emerged Friday that the recession is easing, with output by the nation's factories, mines and utilities falling at the slowest pace in six months.

At least one area of the economy is flat, but that's welcome news. Consumer prices were level in April after a slight dip the prior month.

Inflation usually doesn't pick up until well after a recovery begins, noted Mark Vitner, senior economist at Wachovia. If the economy rebounds late this year, as many analysts expect, prices likely will be stable until 2011, he said.

Some economists have been concerned about the possibility of deflation, a sustained period of declining prices that can deepen a recession. But most say that possibility appears remote because the Federal Reserve has responded with force to combat the downturn.

The Fed said output at factories, mines and utilities fell 0.5 percent last month, after revised declines of 1.7 percent in March and 1 percent in February. Analysts had expected a drop of 0.6 percent last month.

Still, the report showed U.S. industry remains weak. Industrial production has fallen in 15 of the 17 months since the recession began in December 2007 and is down 16 percent since then.

"Overall, yet another report that fits within the picture of an economy contracting more slowly but still far from an actual recovery," Paul Ashworth, senior U.S. economist at Capital Economics, wrote in a note Friday.

A 1.4 percent increase in auto production, which came after huge reductions earlier this year, boosted the overall results. But that won't last as Chrysler LLC and General Motors Corp. are shutting plants in May and June, which could send industrial production lower, economists said.

Meanwhile, the Labor Department said its Consumer Price Index was flat last month, meeting economists' expectations. The

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tame inflation performance reflected a second monthly drop in energy costs and a third straight decline in food prices.

Over the past year, consumer prices have fallen 0.7 percent, the largest 12-month decline since a similar drop for the year ending in June 1955.

Falling prices can be good for shoppers. But over the long term, they can erode wages and cause consumers to postpone purchases, leading to steep drops in production. A destabilizing period of falling prices hasn't been seen in the U.S. since the Great Depression of the 1930s, though Japan suffered through deflation in the 1990s.

But broad price declines aren't affecting goods outside food and energy, economists said. Core inflation, which excludes food and energy, rose 0.3 percent last month. It was the biggest jump since July, but about 40 percent of the gain came from a huge rise in tobacco prices, reflecting higher federal taxes.

"Inflation's not a problem if you don't smoke," Vitner said.

Meanwhile, a Reuters/University of Michigan index of consumer sentiment rose to an eight-month high in May.

But investors weren't so optimistic. On Wall Street, stocks fell. The Dow Jones industrial average fell about 80 points in late-afternoon trading and broader indices also declined.

Consumers in the U.S. and overseas — fearful of losing their jobs or homes — likely will remain cautious spenders in the months ahead, a Fed official said Friday.

"Under these conditions, I envision a slow recovery," Richard Fisher, president of the Federal Reserve Bank of Dallas, said in prepared remarks to a banking convention in San Antonio, Texas.

"Not a V-shaped snapback — nor even a U-shaped one — but a very slow slog as we find a more sensible and sustainable mix between consumption and savings and investment."

Energy prices dropped 2.4 percent in April and are down 25.2 percent over the past 12 months. Those prices have retreated sharply from record-highs set last spring and summer.

Food costs fell 0.2 percent in April as the price of dairy products dropped.

Still, concerns about deflation remain muted in the U.S. because of the aggressive actions taken by the Fed — actions that would threaten to ignite inflation if the economy weren't so weak. The central bank has pushed a key interest rate to a low near zero and has taken other steps to flood the banking system with cash to ease credit.

There are more worries about deflation in other parts of the world. Prices have been falling again in Japan, China and India as the global economy deals with what the International Monetary Fund has said will be the worst global downturn since the 1930s.

A year ago, the Fed was worrying about the threat of runaway inflation as prices for crude-oil and other energy products hit record-highs. But since last fall when the financial crisis hit, the Fed switched its focus to boosting growth.

"The recent pressures have been to the deflationary side, though we seem to have beaten that back," Fisher said.