Tame inflation keeping bang for the buck

Fed keeping eye on low numbers

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Upstate shoppers will get about as much bang for the buck in the months ahead, with the inflation meter barely budging.

The Labor Department said Thursday that its consumer price index ticked up just 0.1 percent last month, down from a 0.2 percent rise in December. For the past 12 months, prices have gone up just 1.6 percent.

And the latest reading, with the smallest year-over-year increase in seven months, came as much of the country was freezing and most everyone was using more natural gas and electricity to keep warm.

The January report was helped by the biggest decline in men's clothing costs in almost five years, lower prices for new and used vehicles and 2.2 percent lower air fares.

It portends well for a third straight year of inflation numbers below 2 percent – the Federal Reserve's target for keeping consumer prices in check.

Still, the Fed worries that inflation numbers remaining too low for too long could impede economic expansion. As expressed in their minutes from the January Federal Open Market Committee meeting, they would like to see inflation move back near 2 percent. Low inflation has let the Fed pursue stimulus programs to try to spur the economy.

The Fed wants to pull back from stimulating the economy through its monthly bond buys that are aimed at cutting long-term interest rates to encourage shoppers to borrow and spend.

Sam Bullard, senior economist for Wells Fargo Securities, said he is in agreement with the Fed's position on inflation.

"With demand likely to accelerate, furthering a reduction in economic slack, we expect healing CPI to gradually accelerate to 2 percent by year's end," he said. "We expect a similar performance from core CPI to 2.1 percent."

Core CPI excludes volatile food and energy prices.

Martin Schwerdtfeger, senior economist with TD Bank, said the January numbers show that inflation "is still not a pressing issue for the Fed and, at the current juncture, it would likely take a string of monthly upside surprises for inflation expectations to overshoot the Fed's 2.5 percent two-year ahead guidepost."