Wholesale prices drop more than expected

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Associated Press

WASHINGTON — Wholesale prices dropped sharply in July, and over the past 12 months fell by the largest amount in more than six decades of record keeping.

The Labor Department said Tuesday that wholesale prices dropped 0.9 percent last month. That's triple the decline economists had expected and was driven by big decreases in both energy and food costs. Over the past 12 months, the prices of goods before they reach store shelves fell 6.8 percent.

Core inflation, which excludes energy and food, also was well-behaved. It dropped 0.1 percent in July, better than 0.1 percent gain economists expected.

With inflation under control, some may worry about a dangerous bout of falling prices that can also drive wages down, but most economists said deflation remains a remote threat. The last period of deflation in the U.S. occurred in the 1930s during the Great Depression.

"Deflation-worriers will find some cause for concern in the general picture, though the broad pattern remains one of gently oscillating monthly price changes, rather than sustained tip into decline," Pierre Ellis, senior economist at Decision Economics, wrote in a note to clients.

Meanwhile, housing starts and applications for future projects both dipped unexpectedly last month, a sign that the building industry's recovery from the prolonged housing slump is likely to be bumpy and gradual.

The Commerce Department said new construction fell 1 percent in July to a seasonally adjusted annual rate of 581,000 units. Economists expected a pace of 600,000 units. Applications for building permits, an indicator of future activity, fell 1.8 percent to an annual rate of 560,000 units, also below economists' estimates of 580,000 units.

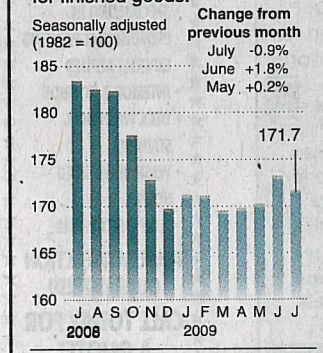
The declines in the Producer Price Index showed wholesale inflation pressures were even more subdued than prices at the consumer level. The government last week reported that the Consumer Price Index was unchanged in July and over the past 12 months fell 2.1 percent, the biggest decline in nearly 60 years.

For July, wholesale energy prices fell 2.4 percent after having surged 6.6 percent in June. Gasoline dropped 10.2 percent and home heating oil plunged 11.9 percent.

Food prices at the wholesale level fell 1.5 percent last month, reversing a 1.1 percent rise in June. A big drop in vegetable prices led the overall decline, but beef and egg prices also fell.

Producer prices

The Producer Price Index for finished goods.



SOURCE: Bureau of Labor Statistics AP

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Lisa Steketee re-stocks strawberries during the Laramie Farmers Market in Laramie, Wyo. Food prices at the wholesale level fell 1.5 percent last month, reversing a 1.1 percent rise in June. A big drop in vegetable prices led the overall decline, but beef and egg prices also fell.