Consumer prices rose 0.3 percent in September

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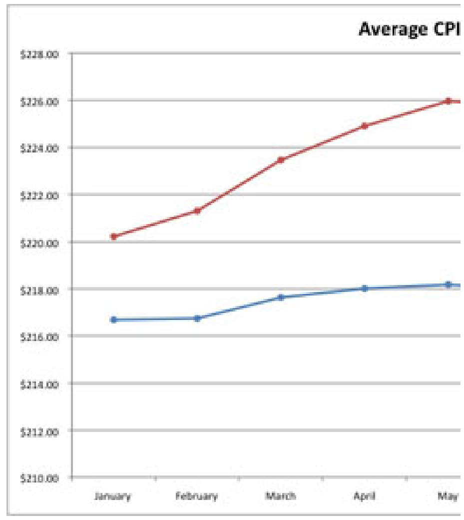
OCT 19, 2011



Thanks to soaring food and fuel costs, consumers saw prices rise by 0.3 percent in September, according to the Bureau of Labor Statistics.

The spike in the Consumer Price Index will no doubt lead to mixed feelings in the business community about the threat of inflation and what higher prices mean for the average consumer. The core CPI, which excludes food and fuel costs, rose only slightly by 0.1 percent in September.

Many economists feel the core CPI's small increase is an indication that inflation is under control. Michael Feroli, chief U.S. economist at JPMorgan Chase Bank, wrote the change in core CPI was the "tamest monthly increase since October of last year."

Paul Ferley, assistant chief economist at RBC Economics, said the core CPI "was helped by apparel prices falling 1.1 percent after four straight months of increases over 1 percent." Recent back-to-school shopping sales and promotions could be one factor in the falling prices of apparel seen during September.

Ferley was confident that core inflation will not continue to rise, and he cited two main factors for his optimistic outlook in a recent report. First, he said "the recovery in auto production…should start to put downward pressure on motor vehicle prices." Secondly, the U.S.'s consistently high unemployment rate will "help contain inflation pressures within the system."

Unfortunately, the core CPI only spells good news for those who don't eat or use energy. Gasoline prices were up a whopping 2.9 percent in September, a big jump from the August increase of 1.9 percent. Food prices rose by 0.4 percent.

Not everybody is so optimistic about core inflation. Jay Ferrara, vice president and investment officer with Farmers and Merchants Trust Co., said, "Inflation is starting to definitely become an issue for companies and most of the American population. Rising prices mean incomes do not cover actual costs, which will eventually impact the rate of economic growth here in the U.S."

The Consumer Price Index is a measure of the average change in prices over time of goods and services purchased by households. During the last 12 months, the CPI has surged by a total of 3.9 percent.

Whether or not inflation will jump in the coming months is a point of debate among experts but many economists agree on what actions the Federal Reserve will take to make sure the economic recovery stays on track. “Moderation in inflation will allow the Fed to focus on sustaining the recovery with interest rates remaining highly accommodative during next year and into 2013,” Ferley said.

The Federal Reserve recently implemented Operation Twist, a policy move aimed at lowering long-term interest rates, hoping to stimulate consumer confidence. Feroli backed up the Fed’s logic. “The easing in core inflation does validate the inflation forecast underpinning their recent policy moves,” Feroli said.