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ECONOMIC REPORT

Consumer prices show smallest gain in 54 years

CPI falls 0.7% in December; core inflation flat as expected

By Rex Nutting, MarketWatch
Last update: 8:39 a.m. EST Jan. 16, 2009 | Comments: 60

WASHINGTON (MarketWatch) - In another sign of the depth of the global economic slowdown, U.S. consumer prices increased just 0.1% in 2008, the smallest increase in 54 years, the Labor Department reported Friday.

The consumer price index fell 0.7% in December, the third decline in a row, led by an 8.3% drop in energy prices and a 0.1% drop in food prices. Economists surveyed by MarketWatch expected a 0.8% decline. See Economic Calendar.

The CPI hasn't risen since the 0.8% gain in July. Since then, energy and commodity prices have plunged. Read the full government report.

Core prices - which exclude food and energy prices - were flat in December for the second straight month, as expected. The core CPI hasn't risen since September.

Consumer prices were up 0.1% in 2008, the slowest annual inflation since prices fell 0.7% in 1954. The core CPI was up 1.8% in 2008, the smallest increase since 2003.

If the CPI had fallen 0.8% in December as expected, prices would have been down for the year as a whole.

A separate CPI for urban workers showed prices fell 0.5% in 2008, the biggest decline since 1949. The CPI-W is used for many cost-of-living adjustments.

With prices for urban workers down 0.9% in December and average weekly earnings down 0.3%, real (inflation-adjusted) weekly earnings rose 0.6%. In 2008, real earnings were up 2.9%.

Most economists expect inflation to ease for much of this year as global demand weakens. Federal Reserve officials say they aren't especially concerned about deflation taking hold, and insist that they are ready to shrink the money supply once the economy begins to recover in order to prevent a bout of inflation next year.

Details of CPI

In December, prices were flat or falling in most major consumer categories, with health and education the exceptions.

Energy prices fell 8.3%, including a 17% drop in gasoline prices and a 13% drop in fuel oil prices. Excluding energy, the CPI was flat.

Food prices fell 0.1%, led by declining prices for fruits, vegetables, dairy and meat.

Shelter prices - which represent about a third of the CPI - were flat in December. Hotel fares fell 0.7%, rents rose 0.2%, and homeownership equivalent rent rose 0.1%.

Apparel prices fell 0.9%.

Transportation prices fell 4.4% on lower fuel bills. Airfares fell 1.2%. New vehicle prices fell 0.4%.

Medical care prices increased 0.3%.

Education and communication prices rose 0.3%, led by a 0.6% rise in tuition.

Rex Nutting is Washington bureau chief of MarketWatch.

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When fuel prices went up,CPI didn't report on fuel prices. But they include them when they go down. The numbers are wonked to match the story the media wants to tell.
- iNegotiate

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Jurek 33 minutes ago +9 Votes (11 Up / 2 Dn) | Report Abuse

This all story about droping prices is bs, go to food store and you will see a real inflation.

stoverny 14 minutes ago +1 Vote (1 Up / 0 Dn) | Report Abuse

Agreed it's funny how during inflation they only give the core number, but during deflation they add in oil prices. Essentially prices were unchanged except for the bursting of the oil bubble.

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LarsonERhules 13 minutes ago +2 Votes (2 Up / 0 Dn) | Report Abuse

Agree, Jurek. Still, 0.1 percent, I may have seen a penny difference between last month's grocery bills and this. Hold on, I'll check.

Nope, actually an almost 10 percent increase across the board. We need to find out where those folks are shopping. Get ready for lots of sophisticated response.

Link | Track Replies | Reply to LarsonERhules

Moneywhat7777777 7 minutes ago +1 Vote (1 Up / 0 Dn) | Report Abuse

Remember inflation only counts if you don't eat or move

A new breathing tax Is being drawn up to offset all the bailouts

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Pozitive 3 minutes ago +4 Votes (4 Up / 0 Dn) | Report Abuse

in my hood, groceries have almost doubled in price within one year. I should stop eating.

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Rasputyn 42 seconds ago | Report Abuse

You hit the nail on the head. If there are indeed prices drops, they are on selected items this LYING government chooses to list. It is intellectual dishonesty at its best!! As several MW posters have observed, food and energy were not included in the CPI when the Bush OIL Bubble was inflating. Now that it has burst, business (the moaning is motivated by the federal reserve) is conveniently lobbying for more taxpayer aid by moaning that "deflation" is upon us. BS is exactly right. How many times can we allow ourselves to be fooled? Current price drops show that the sleeping consumer might actually be stirring (lower consumption). We are seeing the reverberations of the Bush Oil Bubble which burst a few months ago.

Link | Track Replies | Reply to Rasputyn

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ShoesWithHoleToSave 23 minutes ago +5 Votes (7 Up / 2 Dn) | Report Abuse

>>"That's what people do to Fascist leaders - they hang them with piano wires. "

Hang all socialists who want to turn us into slaves.

B.Bohan 17 minutes ago +5 Votes (5 Up / 0 Dn) | Report Abuse

We're already enslaved to TARP, TARP 2, etc.

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xrayMover 15 minutes ago +7 Votes (8 Up / 1 Dn) | Report Abuse

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