



## 2007 inflation up by largest amount in 17 years

Food and energy costs spur increase; industrial production stalls

**The Associated Press**

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WASHINGTON - Higher costs for energy and food last year pushed inflation up by the largest amount in 17 years, even though prices generally remained tame outside of those two areas. Meanwhile, industrial output was flat in December, more evidence of a significant slowdown in the economy.

Consumer prices rose by 4.1 percent for all of 2007, up sharply from a 2.5 percent increase in 2006, the Labor Department said Wednesday. Consumers felt the pain when they filled up their gas tanks or shopped for groceries. Prices for both energy and food shot up by the largest amount since 1990.

In a second report, the Federal Reserve said that output at the nation's factories, mines and utilities showed no growth in December, adding to a string of weak economic reports showing that the economy was slowing at the end of last year.

The unchanged output in December was the poorest showing since industrial output actually fell by 0.5 percent in October. Output had been up by 0.3 percent in November.

The December weakness reflected flat output at U.S. factories, a tiny 0.1 percent rise in the mining industry and a 0.2 percent drop at the nation's utilities.

The Consumer Price Index rose by 0.3 percent in December, slower than the 0.8 percent in November, as food costs were flat for the month and energy prices rose by 0.9 percent after an even bigger 5.7 percent jump in November.

Outside of food and energy, inflation rose a more moderate 0.2 percent in December. This measure of core inflation rose by 2.4 percent for all of 2007, down slightly from a 2.6 percent increase in 2006.

The Federal Reserve is closely watching to see whether the jump in food and energy becomes more widespread and starts pushing core inflation higher.

Analysts said that with core prices generally remaining well-behaved, it will give the central bank the leeway to cut interest rates further to battle a serious economic slowdown triggered by a steep slump in housing and a spreading credit crisis.

The expectation is that the Fed will cut a key rate by a half-point when officials meet at the end of this month. Federal Reserve Chairman Ben Bernanke raised hopes for further rate cuts in a speech last week when he said that economic risks had grown significantly in recent weeks.

The rising risk of a recession has prompted politicians to consider stimulus packages to give the economy a jump-start to either prevent a recession or at least mitigate its fallout. President Bush has said he may unveil a plan around his Jan. 28 State of the Union address. Democrats in Congress and presidential candidates in both parties are putting forward their own plans.

The CPI report showed that the 4.1 percent increase in overall prices was the biggest since a 6.1 percent jump in prices in 1990.

Energy costs rose by 17.4 percent this past year while food costs rose by 4.9 percent. Both were the biggest increases since 1990. Gasoline prices were up 29.6 percent, the biggest increase since they soared by 30.1 percent in 1999.

The 2.4 percent rise in prices outside of food and energy was the smallest since a 2.2 percent rise in 2005.

Clothing costs and the price of new cars actually fell for the year, both dropping by 0.3 percent, while airline fares, reflecting higher fuel costs, were up 10.6 percent and medical care, always one of the leading areas of price increases, rose by 5.2 percent for 2007.

Workers' wages failed to keep up with the higher inflation. Average weekly earnings, after adjusting for inflation, dropped by 0.9 percent in 2007, the biggest setback since a 1.5 percent fall in 2005.

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