



Fed sees signs economy's plunge is leveling off

Consumer prices dip as recession is expected to keep lid on inflation

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WASHINGTON - The Federal Reserve said Wednesday its latest survey of business conditions nationwide found five of its 12 regional banks reported a moderation in the pace of the economic decline. The Fed said several regions "saw signs that activity in some sectors was stabilizing at a low level ... (but) overall economic activity contracted further or remained weak."

The survey, known as the Beige Book, struck a slightly more positive tone than last month's report, which described an economy plunging rapidly after the financial shocks that occurred last fall.

Both President Barack Obama and Federal Reserve Chairman Ben Bernanke on Tuesday mentioned some recent signs of progress while cautioning that the recession was far from over.

The Fed also reported that production at the nation's factories, mines and utilities dropped a seasonally adjusted 1.5 percent in March, the fifth straight monthly decline. That matched February's drop and was worse than the 1 percent dip analysts expected.

Factories and mines are increasingly idle, as the total industrial capacity utilization rate fell to 69.3 percent from 70.3 percent, the lowest on records dating to 1967, the Fed said.

Consumer prices dipped unexpectedly in March, leaving prices over the past year falling at the fastest clip in more than a half-century. The recession is expected to keep a lid on inflation as widespread layoffs dampen wage pressures and weak demand keeps companies from raising prices.

The Labor Department said Wednesday that consumer prices edged down 0.1 percent last month as a drop in energy prices offset the biggest rise in tobacco prices in more than a decade. It was a better performance than the 0.1 percent rise in the Consumer Price Index that economists had expected.

Over the past 12 months, consumer prices have fallen 0.4 percent, the first 12-month decline since a similar drop for the year ending in August 1955.

Core inflation, which excludes energy and food, rose 0.2 percent last month, matching the gains of the past three months. It was slightly higher than the 0.1 percent rise economists expected.

Over the past 12 months, core inflation has risen 1.8 percent. While some economists have expressed fears the recession could spawn a destabilizing period of falling prices, other analysts point to the rise in core inflation as evidence that deflation remains only a distant threat.

In fact, some economists worry that all of the moves the Federal Reserve has made to fight the recession and the worst financial crisis in 70 years could be sowing the seeds for inflation troubles down the road.

In a speech Tuesday, Bernanke repeated assurances that the central bank is always mindful of the threats of inflation and is prepared to remove the monetary stimulus it has provided once the economy shows signs of stabilizing.

On Wall Street, stocks were mixed as investors worried about the latest signs that the economy has a long way to go before stabilizing and Intel Corp.'s decision not to provide detailed forecasts for future quarters. The Dow Jones industrial average added about 40 points in afternoon trading, while the Standard & Poor's 500 index rose and the tech-heavy Nasdaq fell.

For March, energy prices fell 3 percent, reversing a 3.3 percent jump in February. Gasoline prices fell 4

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percent last month, home heating oil plunged 8.5 percent and natural gas slid 4.8 percent.

Food costs dropped 0.1 percent in March. Dairy products led the decline with a drop of 2.4 percent.

More than half of the increase in costs outside of food and energy came from an 11 percent rise in tobacco prices, the biggest one-month surge in that category since December 1988.

New car prices also rose in March by 0.6 percent, but airline fares declined 2.3 percent.

Clothing costs, which had jumped in February by the largest amount in nearly two decades, posted a 0.2 percent drop in March.

The nation has not had a prolonged bout of deflation since the Great Depression of the 1930s, although Japan suffered through a deflationary period during the 1990s after a real estate bubble burst there.

The 0.1 percent dip in consumer prices followed a report Tuesday that inflation at the wholesale level fell 1.2 percent last month, a decline also heavily influenced by a plunge in energy prices.

Only last summer, Fed officials worried that a surge in energy costs could spread to other areas and boost inflation to unacceptable levels. But after the financial crisis struck in the fall, the central bank switched signals and is aggressively fighting to keep the economy from falling into an even deeper recession.

Job cuts across the economy are expected to keep the lid on wage demands and overall inflation. The government earlier this month reported that the unemployment rate shot up to 8.5 percent in March as businesses cut a net total of 663,000 jobs.

More layoffs were announced this week. UBS AG, Switzerland's largest bank, said it expects a first-quarter loss of about \$1.75 billion and will cut 8,700 jobs worldwide by the end of next year. ArcelorMittal SA, the world's largest steel maker, said it will idle a plant in Indiana and lay off about 400 workers. Credit card company Discover Financial Services said it plans to cut 500 jobs next month, or 4 percent of its work force.

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