U.S. Consumer Prices Remain Steady

Christine Hauser

Consumer prices remained mostly flat in August, according to a government report released Friday, another sign that inflation is so tame that the economy could be on the brink of deflation.

Just days ahead of a Federal Reserve policy meeting, the Labor Department said the Consumer Price Index, a benchmark measure of inflation, rose 0.3 percent in August, compared with 0.3 percent in July, on a seasonally adjusted basis. Excluding volatile energy and food prices, the core index was flat in August. It had risen 0.1 percent in July, and 0.2 percent in June.

Year-over-year core inflation has been running at 0.9 percent for five consecutive months, its lowest pace in more than 50 years.

The C.P.I. results were in line with analysts' forecasts, which had called for a 0.3 percent increase in August, with the core index up 0.1 percent.

The report came a day after the Labor Department announced that higher energy costs pushed its Producer Price Index slightly higher in August. The index, which follows prices paid to producers for goods, rose 0.4 percent in August after a 0.2 percent increase in July, the first in three months.

The data sets the stage for Federal Reserve policy makers, who are meeting on Tuesday against the backdrop of an economy with stable and extremely low inflation, suggestions of deflation, sluggish growth and struggling job and housing markets.

Officials from the Federal Open Market Committee last met on Aug. 10, when, with short-term interest rates close to zero, they voted to use proceeds from the Fed's mortgage bonds to buy long-term Treasury securities, a measure that signaled growing concern about the slowing recovery and the risk of deflation.

Such meetings have been preceded by weeks of speculation about what action Fed officials might take, and how or if they would adjust their language on the economy in the announcements after the meeting. The C.P.I. numbers fueled speculation among economists and in financial markets about the potential for further Fed action.

Dan Greenhaus, chief economic strategist for Miller Tabak & Company, said his firm already expected the Federal Reserve to start a second round of quantitative easing "toward the end of this year or beginning of next, and a flat reading on core inflation only increases those odds." Quantitative easing refers to a monetary policy aimed at increasing the excess reserves of banks, and thus encouraging more lending.

"They could buy additional assets in an effort to drive down interest rates and spur more economic activity than they are seeing," he said.

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Bruce McCain, chief investment strategist at Key Private Bank, said he expected the Fed to maintain the status quo. “I suspect that if they see greater signs of weakness later this year they could institute something a bit more forceful in terms of quantitative easing,” he said.

The bond market rallied Friday, while the broader stock market was mostly flat. The markets also absorbed a Thomson Reuters/University of Michigan preliminary September reading on consumer sentiment that came in at 66.6, down from 68.9 in August.

Paul D. Ballew, a former senior economist with the Federal Reserve, said he expected policy makers to have discussions on several fronts, including the pace of the recovery and the direction of fiscal policy pertaining to taxes and spending levels. He also expects them to continue their “communications strategy” to convey the message that the central bank is ready to continue to provide support.

Mr. Ballew, who is now a senior vice president with Nationwide, called it the “ ‘keep the spirits up’ approach.”

“The question for the Fed at that juncture is, are we seeing signs of the recovery picking up the pace a bit?” he added.

Last month, Ben S. Bernanke, the Federal Reserve chairman, described inflation as being “slightly below” the desirable level, but said deflation was “not a significant risk.” He said the Fed would “strongly resist deviations from price stability in the downward direction.”

James F. O’Sullivan, the chief economist of MF Global Ltd., noted that since Mr. Bernanke spoke, some of the crucial macroeconomic numbers, like retail sales and weekly jobless claims, have not deteriorated to the extent that would prompt a move by the Fed.

“It seems highly unlikely they are going to initiate a new round of asset purchases,” Mr. O’Sullivan said.

“The message from Fed officials in the last couple of weeks is that it is clearly on the table,” he said. “But there is not enough agreement on it yet to start up the program and they want to wait out the data to see what happens.”

But the sluggish economy has been challenging as the Fed works to meet its mandate of securing price stability while promoting employment. Fed officials have signaled that they would take measures to address any continued weakening in the job market and other areas.

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