CPI: Inflation rate ticks up to 1.5%

January 14, 2011

By Annalyn Censky

NEW YORK (CNNMoney) -- Consumers saw higher prices on everything from rent to food last month, but the real pain was felt at the gas pump, according to a government report released Friday.

The Consumer Price Index, a key measure of inflation, increased 1.5% over the past 12 months ending in December, up from 1.1% in November, the Bureau of Labor Statistics said.

On a monthly basis, CPI rose 0.5% in December, marking a significant pick-up from the 0.1% growth seen in the previous month, and the largest monthly move since June 2009. Economists surveyed by Briefing.com had expected a 0.4% rise in December.

Most of that increase was due to gasoline prices, which surged 8.5% in December alone, as commodities rallied.

The overall increase is seen as a sign as that the economy is picking up steam. But economists also worry that if inflation accelerates too much, it could eat into the purchasing power of Americans at a time when unemployment is still high and wages are barely growing.

"It is disconcerting that inflation is starting to accelerate, and you have to wonder, with gas prices moving above $3 a gallon, whether the rate of inflation will continue to escalate," said **Bernard Baumohl,** chief global economist with The Economic Outlook Group.

Even though American consumers are beginning to feel the pain of surging commodity prices at the gas station, they're still not feeling it at the grocery store, where prices ticked up a mere 0.1% during the month.

Sooner or later, economists argue, producers will have to pass on the cost of rapidly rising agricultural prices, which surged more than 60% in the second half of 2010.

For those reasons, and because the economy seems to be improving slightly, many experts argue inflation will accelerate further in 2011.

"The possibility of us going through deflation, where prices are falling, is virtually improbable. It's just not going to happen. The economy is too strong, people are spending actively, and if anything, inflation is going to pick up," **Baumohl** said.

In November, fears of sluggish inflation led the Federal Reserve to initiate a controversial $600 billion bond-buying program as a way to keep interest rates low and stimulate the economy. The Fed tries to raise inflation slowly, to reach a target of about 2% per year.

Critics have argued that the policy, referred to as quantitative easing, may have came too late, fueling inflation to rise too rapidly, at a time when the economy would have shown improvement on its own anyway.

"If the economy is growing on its own, is it really a good idea for the Fed to continue to pursue quantitative easing?" **Baumohl** said. "The concern is now, the Fed may be behind the curve, as far as controlling inflation down the road."

Others point to the so-called core CPI, which strips out volatile food and energy prices, as a sign that the Fed will continue its stimulus program.

Core inflation is still at a historic low, after rising a mere 0.8% for the entire year, and only 0.1% for the month.

"Inflation is increasing but it remains relatively low which means that the Fed's monetary policies will be aimed at boosting spending and jobs," Kathy Lien, director of currency research for Global Forex Trading, said in a research note.