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Inflation up slightly in January

By Michael A. Fletcher
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Rising energy and food costs pushed up inflation by a modest 0.2 percent in January, according to report released Friday, dampening fears that prices might be overheating with the improving economy.

Overall, inflation is up 2.9 percent for the 12 months preceding January, the Labor Department report said. The slight rise in prices last month was offset by January's 0.2 percent increase in hourly earnings, the report said.

The economy is showing the strongest signs of recovery since the recession hit in 2007. Unemployment has declined sharply in recent months and now stands at 8.3 percent, its lowest level in three years.

Meanwhile, the Federal Reserve has announced plans to keep interest rates near zero through 2014 to try to stimulate job growth. Some members of the central bank's governing board have expressed concern that the bank's commitment to the low interest could fuel inflation.

But some economists played down that possibility, even as they cast a wary eye on other inflationary pressures. Of greater concern is a spike in energy prices caused by tensions in the Middle East and stronger-than-expected growth in China and the United States, said **Bernard Baumohl, chief global economist for the Economic Outlook Group.**

"This report shows that inflation is moderating, which is a good sign," he said. "But I can't walk away comfortably because we all know that there are a number of events that very likely could put more upward pressure on the cost of living."

Gasoline prices have spiked by more than 50 cents a gallon in recent months, and they could continue to rise in the first part of this year, **Baumohl** said.

“We are likely to see gasoline prices surge to close to \$5 a gallon this spring,” **Baumohl** said. “That, obviously, would have an effect on consumer spending and would taper growth in the U.S.”