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Despite Price Fears, There Are Few Hikes Past Food, Energy

By SCOTT STODDARD

Soaring commodity costs are pressuring companies to raise prices, fueling fears that weak economic growth may not be enough to cool inflation.

Federal Reserve Chairman Ben Bernanke and other central bankers worldwide have sounded the alarm that rising inflation expectations could trigger a 1970s-style wage-price spiral.

Several high-profile companies have announced big price hikes, anecdotal evidence of rising inflation outside of food and energy.

But the data show that companies have largely shielded consumers from the bulk of commodity price increases.

Wholesale Vs. Consumer

Core producer prices, which exclude food and energy, rose at a 3% annual rate in April, the highest since the end of 1991.

Core consumer goods prices rose just 0.1% in April vs. a year earlier. Service prices excluding energy climbed 3.1%, a two-year low.

"We're starting to see some pipeline pressures if you look at PPI data, but we haven't seen it trickle through to the consumer," said Don Rissmiller, chief economist at Strategas Research Partners, an investment strategy, economics and policy research firm.

Oil prices have jumped as much as 20% since the end of April, topping \$139 on Friday before falling to a still-lofty \$131.31 on Tuesday. Steel and other raw materials also have climbed.

Those increases haven't worked their way through the pipeline. Firms desperately want to raise prices on their wares. But consumers are unable or unwilling to pay, in large part because of soaring energy prices.

"The price pressures upstream . . . we haven't really seen it hit yet, but it's big," said Kevin O'Marah, chief strategist at AMR Research.

Dow Chemical, (DOW)**Kimberly-Clark** (KMB) (maker of Huggies diapers and Kleenex tissues), imaging products maker Eastman**Kodak** (EK) and consumer products giant**Procter & Gamble** (PG) are among those that have announced big price hikes recently, citing soaring costs of everything from oil to fiber to silver.

The jump in input prices is swamping firms' ability to offset them with productivity gains.

"They can't do it anymore because prices are increasing at a far faster rate than they have been for the past decade," O'Marah said.

[Marlin Steel Wire](#), a maker of steel baskets, is on the front line of the battle to control costs.

The Baltimore-based company watched steel prices jump 20% from mid-April to early May, says President Drew Greenblatt.

"We are raising prices because our steel prices are going up a lot, our energy prices are going up a lot and our plastic prices are going up a lot," Greenblatt said. "It's been out of control."

He adds that the company has been able to absorb half of the cost increases by introducing robots to boost output per worker, improving safety to lower insurance costs and reducing scrap in the manufacturing process.

Meanwhile, economists say rising unemployment has prevented workers from demanding significant increases in wages, which typically account for a big share of operating expenses. That has tempered fears of the wage-price spiral of 30 years ago that produced double-digit inflation.

Job losses and smaller pay gains, along with declining household wealth from lower home and stock prices, have prevented many firms from significantly raising prices.

"It's hard to get the end user to accept price increases," Rissmiller said. "At the end of day, they don't have a lot of real income to go around."

Consumers are cutting back sharply on discretionary items like apparel, autos and appliances.

Not surprisingly, prices for all three of those sectors are down on a year-over-year basis.

In a Sunday flier in the Los Angeles Times, department store chain Mervyn's touted a "buy one polo shirt, get two free" offer.

"Anything that is in the aspiration consumer category — things you want — are really under a lot of pressure" because consumers are forced to spend more on necessities such as food and gas, Rissmiller said.

Companies that can't offset or pass on higher costs might have to accept lower profits.

Many economists have said inflation will naturally fade due to the weak economy, which has grown at an annual rate of less than 1% in each of the past two quarters.

But Bernanke late Monday said that risks of a "substantial" economic downturn have waned. He stressed that the Fed will "strongly resist" any signs that consumers are losing faith in the central bank's ability to maintain stable prices.

It was the latest in a series of hawkish statements that indicate the Fed has turned its attention to inflation after slashing interest rates to boost the economy and ease the credit crisis.

"He is starting to pivot away from the concerns about the housing sector and the credit crunch to inflation risks posed by the commodity price run-up and the weak dollar," said Dana Johnson, chief economist at Comerica Bank and a former Fed economist.

Wall Street will pay attention to Wednesday's beige book report and Friday's May consumer price index for signs that firms are finding it easier to pass on higher costs.

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