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HEADLINE: PRICE REPORT SPARKS BOND MARKET RALLY;
ECONOMY: FLAT WHOLESALE FIGURES FOR MAY CALM INFLATION FEARS AND EASE
EXPECTATIONS OF A RISE IN INTEREST RATES, BUT SLUGGISH RETAIL SALES POINT TO
CONTINUED CONSUMER CAUTION.

BYLINE: By JUBE SHIVER Jr., TIMES STAFF WRITER

DATELINE: WASHINGTON

BODY:

Wholesale prices remained flat in May, calming fears that inflationary pressures are building in the economy and easing expectations that the Federal Reserve might feel compelled to raise interest rates to keep prices in check.

With both food and wholesale energy costs subsiding after big advances earlier this year, the Labor Department's producer price index -- which measures inflationary pressures before they reach the consumer -- was unchanged in May. The respite followed a 0.6% rise in April, the biggest monthly gain in 2 1/2 years, and a 0.4% increase in March.

The moderation came as consumers turned more tightfisted in May. The Commerce Department reported that sales at retail stores rose only 0.1% in May following a revised 1.5% jump in April. Many economists had forecast that pent-up demand would boost retail sales by as much as 1.3% in May following a harsh winter that had dampened customer traffic in the stores.

But the absence of any fresh sign of resurgent inflation was enough to buoy financial markets and provide some relief for President Clinton, who has been touting low interest rates as a sign that his economic programs are working.

The surprisingly sharp price rise in April had caused concern that inflation could be making an unexpected comeback, and some analysts feared that Friday's wholesale price report would confirm the trend and force the Fed to raise rates.

The President met with Federal Reserve Chairman Alan Greenspan on Wednesday night for an hourlong discussion that the White House described as an overall review of Clinton's economic program.

"The upward pressure in prices earlier this year, I think, had been alarming to the Administration, but now the President has a little more breathing room," said David Cross, an analyst at WEFA Group, an economic consulting firm in Bala Cynwyd, Pa.

On Wall Street, blue chip stocks rose and the bond market advanced strongly. The yield on the Treasury's 30-year benchmark bond fell to 6.81% from 6.87% on Thursday.

On the retail front, automobile sales advanced 0.4% after soaring 2.1% in April, and purchases at building material, hardware and garden supply stores remained strong.

But stores selling furniture, appliances and other household furnishings reported that sales fell 0.9%, nearly wiping out the previous month's 1% gain.

"These numbers can be pretty volatile," said Campbell Harvey, associate professor of finance at the Fuqua School of Business at Duke University. "But I think consumers are telling us they are not confident that the economic recovery can hold up."

Other data, however, has suggested the economy is stronger than previously believed.

For example, the May employment report released earlier this month showed an unexpected drop in the jobless rate -- to 6.9% from 7.0% -- as well as a jump in payroll jobs.

The economy's lack of clear direction has helped undercut support for a fiscal stimulus package and generated widespread debate about whether the Federal Reserve Board should push up interest rates to head off a revival of inflation.

Commerce Secretary Ronald H. Brown said that although retail sales were "disappointingly weak," the report shows the economy is not falling back into recession. But, Brown told the Associated Press, the economy "is still far from its potential."

Producer Price Index

For finished goods; seasonally adjusted change from prior month.

May, '93: 0%

April, '93: +0.6%

May, '92: +0.3%

Source: Department of Labor

GRAPHIC: Chart, Producer Price Index, Los Angeles Times

SUBJECT: WHOLESALE PRICES; INTEREST RATES; PRODUCER PRICE INDEX; LEADING ECONOMIC INDICATORS; UNITED STATES -- ECONOMY