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HIGHER CONSUMER PRICES TAKING THEIR TOLL ON WORKERS' EARNINGS

Fed Faces Dilemma If Higher Energy Prices Slow the Economy

Washington, D.C. – The consumer price index (CPI) shot up 0.6 percent in March and has risen at an average annual rate of 4.3 percent in the first three months of 2005, the Labor Department reported today. Workers' earnings, in contrast, have been rising more slowly. After adjusting for inflation, the average hourly earnings of private nonagricultural production and nonsupervisory workers have declined 0.5 percent (1.9 percent at an annual rate) in the same period; real average weekly earnings have declined 0.4 percent.

"Wages aren't keeping up with higher prices for gasoline, health care, and even clothing, so American families are being squeezed," said **Sen. Jack Reed** (D-RI), Democratic member of the **Joint Economic Committee (JEC)**. "Unfortunately, there's little relief in sight for consumers, because the Fed will probably fight inflation by raising interest rates more quickly and the President shows no signs of changing course on economic policy."

Part of the increase in the CPI over the past three months has come from rapidly rising energy prices (up 21.1 percent at an annual rate). But even when the effects of volatile food and energy prices are removed, the core CPI has risen 3.3 percent at an annual rate so far this year, compared with a rate of 2.2 percent in 2004. Among items in the core, medical care has risen at a 6.0 percent annual rate so far this year and apparel, which has typically been characterized by falling prices, has risen at an annual rate of 3.4 percent.

As long as core inflation has remained contained, the Federal Reserve has pursued what it calls a "measured" pace of interest rate increases. Thus far, the pickup in core inflation has been modest, as have been the effects of rising energy prices in slowing the economy. If both trends intensify, however, the Fed will face a dilemma between fighting inflation by raising rates more quickly and fighting a faltering economy by keeping interest rates low.

The Joint Economic Committee, established under the Employment Act of 1946, was created by Congress to review economic conditions and to analyze the effectiveness of economic policy.

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