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RISING U.S. CONSUMER PRICES ARE ERODING WAGE GAIN

Inflation is at 2.9 percent over the past 12 months, a gain last exceeded in early 2012

By Josh Mitchell
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WASHINGTON – Rising living costs are eating up almost all of Americans' wage gains, clouding the economy's long-term outlook.

Consumer prices – everyday expenses such as groceries and dental care – rose 0.2 percent in July, the Labor Department said Friday. Core prices, which strip out food and energy costs, also increased 0.2 percent. Higher housing costs – reflecting rent and mortgage payments – accounted for most of last month's increase.

The gains follow months of steady increases that have pushed up the inflation rate to the highest level in years. Overall prices rose 2.9 percent over the past 12 months, a gain last exceeded in early 2012. Core prices climbed 2.4 percent, the most since September 2008.

The figures give a mixed outlook on the economy and could stir debate in the upcoming midterm elections. Higher inflation means the economy is strengthening after years of sluggish growth. But it strains Americans' ability to spend, invest and improve living standards, pointing to longer-running ills in the economy.

Economic output grew at a 4.1 percent annual rate in the second quarter, the strongest in four years, and many economists believe growth will clock in at 3 percent for 2018 as a whole. The inflation figures, coupled with low unemployment, are likely to bolster the Federal Reserve's plans to steadily raise interest rates to keep the economy on an even keel.

But there is one sign of economic weakness: Paychecks are barely keeping up with higher prices, with Americans having to work longer hours to stay ahead. After inflation, hourly earnings were flat in July from a month earlier and they fell 0.2 percent over the past year, a separate report Friday showed. That marked just the second decline in the past six years.

After slipping in July, real weekly earnings are up just 0.1 percent over the past year.

Some economists believe inflation-adjusted wages will rebound in coming months as workers become scarcer and employers have to raise wages to compete for them. Also, inflation may fall back.

"The rise in inflation over the past year has sent real wages back into negative territory and is one reason we do not expect real consumer spending to maintain the breakneck pace of the second quarter," Wells Fargo economists Sarah House and Ariana Vaisey said in a note to clients. "Real earnings should improve ahead, however."

However, longer-run forces are limiting pay growth. Productivity – measuring the amount of goods and services workers produce per hour – has grown tepidly in recent years, in part due to an aging population. Technological advances may also be weaker than earlier productivity booms.