
[Databases selected:](#) ProQuest Newsstand, Argus Leader, St. Cloud Times

Prices pinch businesses

Mitch LeClair. St. Cloud Times. St. Cloud, Minn.: Apr 12, 2011. pg. A.1

Abstract (Summary)

The federal government tracks price changes with the Consumer Price Index, which records a certain "basket" of products in major metropolitan areas across the U.S. It rose 2.2 percent in the 12 months since last February, with the largest hikes in food and energy markets. Energy costs The prices of unleaded gas and diesel fuel have increased almost a dollar per gallon since this time last year, and higher delivery costs often get passed along to retailers and consumers.

Full Text (1357 words)

Copyright 2011 - St. Cloud Times MN - All Rights Reserved

Special to the Times

While economists continue to debate recipes for a healthy modern economy, the ingredients have become expensive.

Rising prices have consumers and producers in Minnesota scratching heads and trimming budgets.

Jeff Muntifer, owner of the Dutch Maid Bakery in St. Cloud, has recently faced record prices, like a 50-pound cube of shortening that cost him about \$14 a year ago and now costs more than \$40.

Mace flavoring, formerly \$10 a bottle, is now \$75.

"You can only raise (prices) so much," he said, or "people are just not going to buy."

Matt Murray, one of the owners of Von Hanson's Meat Market in Waite Park, also reported spiking prices.

Beef is the "highest it's been in 10 years," but pork and chicken haven't risen as much, he said.

Bobby Hendrickson, a livestock marketer for National Farmers Organization, echoed those sentiments. "For the past year, the markets have gone one way, and that is up," Hendrickson said.

The federal government tracks price changes with the Consumer Price Index, which records a certain "basket" of products in major metropolitan areas across the U.S.

It rose 2.2 percent in the 12 months since last February, with the largest hikes in food and energy markets. The "core" measure -- without food and energy -- rose by just more than 1 percent.

The CPI showed a severe drop at the end of 2008 and a subsequent, steady upward climb; it now registers about 1 percent above its level three years ago.

Another measure of nationwide prices reflects these movements but shows a more abrupt recent rise.

Up, down, in between

The Billion Prices Project (BPP) is a collection of data the Massachusetts Institute of Technology pulls from millions of online retailers on a daily basis.

Like the CPI, the BPP dropped in 2008, bottomed out late that year and then climbed to now register 3 percent higher than it did when the project began in summer 2008 -- 2 percent of that has occurred in the last three months.

Christopher Phelan, a professor of economics at the University of Minnesota, warned against looking at recent price spikes too narrowly.

"Not all prices are going up," he said, pointing out that Minnesota real estate prices dropped significantly in the last 12 months.

Phelan, who is also a consultant to the Federal Reserve Bank of Minneapolis, added that he hasn't seen a sustained price rise across the economy.

"Food does skyrocket some months, then go down," he said.

Businesses peddling goods other than real estate and food are also facing persistent increases.

Kevin Schlangen, owner of Gateway Tire and Auto, said the cost of everything "commodity-related" continues to rise.

Tires, oil, certain auto parts -- they have all gotten more expensive in the past year, he said, though at least one cost did stay steady.

"Natural gas has actually maintained (its price)," Schlangen said.

Energy costs

The prices of unleaded gas and diesel fuel have increased almost a dollar per gallon since this time last year, and higher delivery costs often get passed along to retailers and consumers.

Soda and "pretty much every product on a semi" also has gone up, said Jeff Neu, general manager at the Shortstop gas and convenience store on Minnesota Highway 23.

Loren Gohmann, office manager at Littfin Lumber in St. Cloud, and Brent Kohler, branch manager at Cole Papers in St. Joseph, both said they have seen prices rise at their respective businesses as well.

Gohmann said lumber prices moved up in recent months until leveling off lately, while the costs of another component of truss manufacturing has yet to cool. "Steel prices are rising rapidly," he said.

Kohler, whose wholesale paper company sells to local print shops and schools, said the price of paper from his manufacturers, such as Boise Inc., has risen at least 10 percent in the last year.

He added that on average, Cole Papers sees a 4 to 6 percent increase per year, but April 2010 and February 2011 each brought 5 percent spikes, resulting in the double-digit bump.

The owner of Dutch Maid didn't have a clear answer to questions regarding the causes of raw materials' skyward price climb.

Muntiferung blamed speculators for a 2008 spike in flour that sent prices from about \$8 a bag to \$28, but he thought the current price of about \$15 isn't the result of jumpy forecasters.

Muntiferung thought fluctuations in world grain and oil markets have probably played a part, as droughts and unrest have interrupted supply chains.

In Hendrickson's opinion, corn's jump from \$3 to \$6 a bushel in the past year is the leading factor in beef's rise.

Kohler, manager at Cole Papers, said he thought gas and shipping costs are bumping up his prices, while Gohmann said increased demand for steel coming from China has possibly pushed those prices up for Littfin Lumber.

Money supply

During a U.S. House Financial Services Committee hearing in March titled "The Relationship of Monetary Policy and Rising Prices," economist Joseph Salerno blamed the Federal Reserve for recent commodity-price rises of up to 40 percent.

The Pace University professor also testified to possible distorting effects of money printing.

"When the Fed initially expands the money supply, not everyone receives a share of the new money immediately," he said.

The first recipients of the money -- "subsidized agribusiness, defense contractors, the creditors of financial institutions bailed out by the Fed," according to Salerno -- enjoy benefits at current prices before general levels rise.

Receiving money later, laborers and entrepreneurs suffer, he said, because their wages and profits adjust after months or years of living through rising price levels.

Attesting to a stale wage environment, both Gohmann and Kohler said their companies in Central Minnesota have held labor costs steady for a few years while facing respective price increases for production inputs.

According to Phelan, however, month-to-month changes in certain areas are not necessarily evidence of inflation -- a word whose definition is as evasive as agreement on monetary policies.

John Olson, professor of economics at the College of St. Benedict and St. John's University, said the "standard definition of inflation" is a sustained increase in the average price level of all goods and services.

According to him, it is usually, but not always, the result of excessive money supply growth.

Phelan agreed with Olson's definition but put more emphasis on the Federal Reserve recently printing an unprecedented amount of new dollars.

"If you do what they've been doing for the last few years, long-term, you will get inflation," Phelan said.

He stressed that a growing money supply doesn't always result in an equal, immediate jump in the price level.

A month-to-month or even year-to-year relationship between prices and money supply doesn't correspond that well, Phelan said, adding that a decade-by-decade look gives a more accurate picture of the causes behind an increase in prices.

In a 1997 paper for the Federal Reserve Bank of Cleveland, former branch Vice President Michael Bryan commented on the somewhat ambiguous term: "For many years, the word 'inflation' was not a statement about prices but a condition of paper money -- a specific description of a monetary policy. Today, 'inflation' is synonymous with a rise in prices, and its connection to money is often overlooked."

Thomas Hoenig, president of the Federal Reserve Bank of Kansas City, told the London School of Economics on March 30 that current Fed policies of buying assets and printing money might temporarily increase output and employment, "but in the long run, we risk instability, damaging inflation and lost jobs, which is a dear price for middle and lower income citizens to pay."

He also commented on rising commodity prices.

"While some of the increase may reflect global supply and demand conditions, at least some of the increase is driven by highly accommodative monetary policies in the United States and other economies," he said.

After barely climbing above zero through 1961, the Federal Reserve's monetary base rose from about \$140 billion in 1981 to \$880 billion in September 2008. It has almost tripled in the last 30 months and now sits at about \$2.4 trillion.

Indexing (document details)

Subjects: Price increases, Natural gas, Consumer Price Index, Energy industry, Costs
Author(s): Mitch LeClair
Document types: News
Section: *World/Nation*
Publication title: St. Cloud Times. St. Cloud, Minn.: Apr 12, 2011. pg. A.1
Source type: Newspaper
ISSN: 08995028
ProQuest document ID: 2318429551
Text Word Count 1357
Document URL: <http://proquest.umi.com/pqdweb?did=2318429551&sid=1&Fmt=3&clientId=47943&RQT=309&VName=PQD>

Copyright © 2011 ProQuest LLC. All rights reserved.

