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Housing Starts and Producer Prices Drop

By [JACK HEALY](#)

New figures showing a decline in wholesale prices and a drop in new-home construction highlighted how weak the economy remains, even as some optimists declare the [recession](#) to be over.

Producer prices fell more than expected in July as the costs of food and energy slipped, the Labor Department [reported Tuesday](#). The 0.9 percent monthly decline came after three months of increases, and suggested that demand was weak up and down the ladder of production, from consumer goods to intermediate goods like chemicals and rubber to raw materials.

Producer prices declined a record 6.8 percent from last July, when crude oil prices soared above \$145 a barrel and pushed the costs of fuels, food and other products sharply higher. The decline in the last 12 months is the largest drop in 60 years, since the government starting keeping such records.

So-called core prices excluding food and energy costs fell 0.1 percent, their second monthly decline of the year.

The figures offered more evidence that inflation remained a distant concern for the American economy, even as some investors speculate that higher oil prices, rising interest rates and a weaker dollar are in the pipeline, a result of the government's enormous recovery programs.

On Friday, the government reported that consumer prices were unchanged in July from a month earlier and were down sharply from a year ago, reflecting the drop in gasoline and transportation costs. Economists say that there is still tremendous slack, and that wages are likely be flat over the next few months as unemployment ticks up.

"The economy remains weak and even as it begins to recover, the amount of excess capacity is high," said Peter

Kretzmer, senior economist at [Bank of America](#).

On Tuesday, the government reported that producer [food prices](#) fell 1.5 percent in July. Energy prices were 2.4 percent lower, after surging 6.6 percent a month earlier. The overall drop in producer prices was a pullback after a 1.8 percent monthly increase in June.

Despite several glimmers of rising prices and increased activity in the housing market, the Commerce Department's [report on housing starts](#) and building permits showed that the market for new homes remained weak with building loans tight and so many foreclosures on the market.

New-home construction fell a seasonally adjusted 1 percent in July from a month earlier, to an annual rate of 581,000, the government said. Building permits were down 1.8 percent, and housing completions also dropped, falling 0.9 percent for the month.

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