

WASHINGTON (AP) — A near-record drop in grocery prices held inflation to its smallest monthly increase in more than four years during February as consumer prices rose only one-tenth of a per cent, the government said today.

Falling prices for beef led the decline at grocery counters where prices tumbled 1.5 per cent, the biggest monthly drop in 24 years, the Labor Department said.

Gasoline prices also declined, but the department said the food was the big factor in the slowdown of prices last month.

February's increase in overall consumer prices compared with an increase of four-tenths of a per cent in January and was the smallest since September, 1971, when prices also rose one-tenth of a per cent. All figures are adjusted to account for seasonal influences.

Nonfood prices also continued to increase at a moderate rate last month, while the cost of services such as medical fees and auto insurance went up sharply but at a somewhat slower rate than in January.

The department said the consumer price index in February stood at 167.1 meaning that consumers had to pay \$167.10 for goods and services that cost \$100 in the 1967 base period. The index is not seasonally adjusted.

Despite the small February increase in prices, consumer prices still were 6.3 per cent higher than a year ago. However, that is the lowest 12-month increase since July 1973, when prices had risen 5.7 per cent.

Wholesale prices, which foreshadow trends at the retail level, have fallen at an adjusted annual rate of 3.8 per cent since November.

The Labor Department also said that spendable earnings of workers showed no change in February after rising two-tenths of a per cent in January. Over the year, real earnings — what's left after taxes and inflation — were up 4.8 per

cent.

The Labor Department said the 1.5 per cent drop in grocery prices, which accounts for the major portion of the food index, was the second biggest drop since the Labor Department began tracking these prices in 1952.

The latest price report follows a spate of economic reports this week showing steady improvement in almost all sectors of the economy.

Industrial production in February increased for the 10th consecutive month, housing starts jumped 27 per cent to the highest level in nearly two years and businesses began expanding inventories by the biggest margin in over a year, the government reported.

Ford administration officials consider the economic news since the first of the year a vindication of their policies and a boost for the President's election chances.

Unemployment also has dropped dramatically over the past four months, and wholesale prices have declined at an adjusted annual rate of 3.8 per cent since November.

Treasury Secretary William E. Simon predicted earlier this week, in the administration's most optimistic forecast to date, that joblessness may drop below 7 per cent this year and that inflation will decline to about 2 per cent within three years.

But the Congressional Budget Office

warned that while the recovery is progressing, the improvement rate could slow sharply next year unless the economy is given more stimulation than the administration has proposed.