

News Brief: U.S. Inflation Highest Since 1982

In December, the U.S. Labor Department reported the consumer price index had increased 6.8% over the prior year, marking its biggest annual gain in nearly 40 years.

The consumer price index (CPI), which is calculated from a basket of products ranging from food to housing to recreation, has been trending above 5.0% since the spring. Even after removing food and energy prices, core CPI was still up 4.9%, the highest reading since August 1991.

Why is inflation an issue?

With the exception of a brief period in 2007 and 2008 when the rate bumped above 4%, inflation has generally stayed between 1.0% - 3.0% over the past several decades, which the Fed sees as an optimal range for steady, economic growth. When the rate starts trending above that, as it has since April, it can become a significant challenge – outpacing wage growth, shrinking buying power, and straining household budgets.

How did we get here?

By the spring of 2021, after a year of mandates and quarantines, consumers were eager to get back to restaurants, shopping, entertainment, and travel. Combined with vaccines rolling out and the federal government passing another massive stimulus package (\$1.9 trillion), consumers now had all the confidence, and dollars, needed to do so.

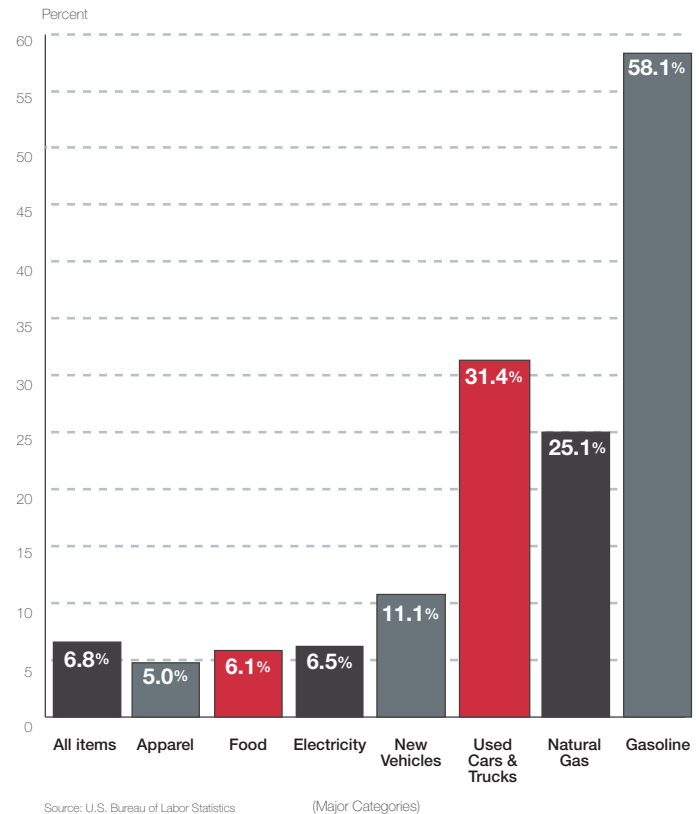
Unfortunately, production of goods was not able to keep up given labor and materials shortages. Oil producers shut in production during the pandemic and have not increased it fast enough. Some workers opted not to return to the workforce. Ports became logjammed, unable to efficiently process shipments. Supply chains have been unable to keep up. The result – high demand and limited supply – prices go up.

Where do we go from here?

The Fed is set to begin tapering its bond purchases this month but may need to tighten policy even faster to combat inflation. During a November 30th congressional hearing, Fed Chairman Jerome Powell stated, “*The recent rise in COVID-19 cases and the emergence of the Omicron variant pose downside risks to employment and economic activity and increased uncertainty for inflation. Greater concerns about the virus could reduce people’s willingness to work in person, which would slow progress in the labor market and intensify supply-chain disruptions.*”

Chairman Powell continued, “*It now appears that factors pushing inflation upward will linger well into next year*” but also that the Fed still “*expects inflation to move down significantly over the next year as supply and demand imbalances abate.*”

12-month percentage change, Consumer Price Index, selected categories, November 2021, not seasonally adjusted.



Key Upcoming Dates:

- **December 15** Federal Reserve’s next policy meeting concludes.
- **January 12** Labor Department releases latest CPI data.