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Economy

December prices rise 7 percent, compared to a year ago, as 2021 inflation reaches highest in 40 years

Officials within the Fed and Biden administration expect high inflation will persist through much of 2022

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Prices rose at the fastest pace in four decades in December, increasing 7 percent over the same period a year ago, and cementing 2021 as a year marked by soaring inflation wrought by the ongoing coronavirus pandemic. Prices were also up 0.5 percent in December compared to the month before, according to data released Wednesday by the Bureau of Labor Statistics. While high, inflation actually eased from the rapid price growth seen in October and November.

On an annual basis, 2021 still saw the fastest price inflation since the early 1980s, as broken supply chains collided with high consumer demand for used cars and construction materials alike. Higher prices seeped into just about everything households and businesses buy, raising alarms for policymakers at the Federal Reserve and White House that inflation has spread throughout the economy.

Inflation has emerged as a top threat to the economic recovery from the coronavirus pandemic, as well as a sizable political risk, as Republicans continue to blame stimulus measures for overheating the economy even though relief packages passed during both the Biden and the Trump administrations.

President Biden said in a statement that slowing month-to-month price growth showed the administration was making progress in its initiatives to slow the pace of inflation. “At the same time,” Biden said, “this report underscores that we still have more work to do, with price increases still too high and squeezing family budgets.”

Steep increases in the cost of housing, and used cars and trucks, powered the overall rise in prices. Economists have been especially worried about rising home and rent costs, which can get locked in through a long-term contract and may not improve after the pandemic abates or supply chains clear up.

Throughout the pandemic, used cars have consistently driven the cost of living higher, as a global shortage of microchips and high consumer demand for autos have sent prices to unprecedented highs.

“From a demand side, this is great, but the challenge is being able to meet that demand given the supply chain and workforce constraints,” said Chad Moutray, chief economist at the National Association of Manufacturers. Moutray said a narrow majority of the group’s members believe supply issues will ease in the second half of this year, although chip and worker shortages could continue to be a problem.

One bright spot was the price of gasoline fell 0.5 percent in December after months of steep increases. White House officials have been hoping for a turnaround following their moves over the past few months to lower prices at the pump, including releasing strategic oil reserves in November. Still, gas remains 49.6 percent more expensive than it was a year ago.

While energy price hikes could be short-lived, they hit households hard, especially Americans on fixed incomes, such as Carla Hurt, who supports her mother and college-aged son in Akron, Ohio.

The 62-year-old has cut back on errands and tried to minimize doctors’ appointments, but her home heating bill can still hit $500 a month. “When you’ve got three people existing on $2,500 a month, it doesn’t take much to throw you out of whack,” Hurt said. “We make sure that every trip in the car is utilized to its fullest.”

There are also signs that inflation is spreading to other categories, such as funeral expenses. The Pittsburgh conglomerate, Matthews International reported record sales in 2021, driven by unexpectedly strong demand for caskets and cemetery products. But CEO Joseph Bartolacci warned in a recent earnings call that recent price hikes in funeral products had not yet been enough to offset rising costs, and that further price increases could be needed.

The cost of food was up 6.3 percent compared to the year before, as worker shortages and the spread of the coronavirus bedevil grocery supply chains and are causing empty shelves as recently as this week. Indexes for household furnishings, apparel, new vehicles and medical care were also all up.
Similar to November, indexes for motor vehicle insurance and recreation were among the few categories that declined compared to the month before.

Overall, economists aren't worried about inflation, on its own causing a recession, as the economy grew rapidly throughout 2021 and created some than 6.4 million jobs. Rather, the concern is that the Federal Reserve would be forced to combat inflation with sudden and aggressive interest rate increases, and the rising cost of borrowing could choke off the economic recovery.

Indeed, rising inflation prompted the Fed to make its strongest move yet to tackle inflation, moving up the timeline for what could be as many as three interest rate increases starting as soon as March. More generally, officials within the Fed and Biden administration have said they expect high inflation will persist through much of 2022.

In the meantime, policymakers must get ahead of consumers' own inflation expectations, which can be self-fulfilling if people change their behavior now to avoid higher prices in the future.
Testifying before the Senate Banking Committee on Tuesday, Federal Reserve Chair Jerome H. Powell said it was essential to get prices down to more sustainable and stable levels to ensure a lasting recovery.

"If inflation does become too persistent, if these high levels of inflation become too entrenched in the economy or people's thinking, that will lead to much tighter monetary policy from us, and that could lead to a recession and that would be bad for workers," Powell said to lawmakers.

Bernard Baumohl, chief global economist at the Economic Outlook Group, wrote in a note Wednesday economic growth is already showing signs of slowing, both in the U.S. and abroad, which makes the economy more vulnerable to rate hikes.

"The risk of a policy mistake is high if the Fed chose to stamp its foot on the monetary brakes with four or more rate hikes this year when economic activity is already backpedaling," **Baumohl** writes. "To have both would likely end this economic story with a familiar epilogue — recession."

In many ways, soaring inflation has overshadowed parts of the economy that made tremendous gains last year. The economy added a record-breaking 6.4 million jobs, far more than expectations, and the unemployment rate fell from 6.4 percent in January to 3.9 percent in December. And sprawling stimulus measures helped keep consumer demand healthy despite multiple waves of the coronavirus. Rank-and-file workers' hourly paychecks rose by 5.8 percent on the year, but after accounting for inflation and seasonal factors, those workers hourly earnings fell by 1.9 percent in 2021.

While the Fed is ultimately charged with keeping inflation under control, the Biden administration has lately been touting its own moves to lower prices, including targeting corporate consolidation to help create fairer and more competitive markets for product

Democrats also argue that their safety-net and infrastructure plan would reduce costs for working-class families, including for housing, health care, groceries, elder care, child care and education. But negotiations broke down over an impasse between Sen. Joe Manchin III (D-W.Va.) and the White House, leaving the Build Back Better agenda in jeopardy.
"We continue to press for steps in working with Congress to do that — to do exactly that: to lower costs for the American people," White House press secretary Jen Psaki told reporters on Tuesday. "That's why we want to get Build Back Better done."

Heading into the midterm elections, Republicans are expected to hammer Democrats on inflation, arguing that the sprawling stimulus measures from earlier in the pandemic overheated the economy. GOP lawmakers have also criticized the Fed, saying the central bank is already are behind the curve when it comes to controlling high prices.

"The high and accelerating inflation experienced under this Administration, partly as a predicted result of reckless spending legislation passed by Democrats last year, is a stealth tax that continues to hit Americans' wallets through higher costs at the pump and in grocery aisles," tweeted Sen. Mike Crapo (R-Idaho), who sits on the Senate Banking Committee.

Looking ahead, Fed leaders expect inflation will fall to 2.6 percent by the end of 2022 and 2.3 percent by the end of 2023, according to Fed projections from December. White House officials also say prices will simmer down as supply chain backlogs improve, more people become vaccinated and the overall recovery continues.

"What we do think, which is consistent with most outside forecasters including the Fed, is we expect that as 2022 moves along, as we roll the clock forward through the year, that inflation...will decelerate considerably from where it is," Mike Pyle, chief economic adviser to Vice President Harris told The Post.

Yet some economists are skeptical that inflation will drop so precipitously, even once inflation measures reach their peak. Their concern is that even once prices start to tick down, the trend will be gradual and uneven, rather than a plunge toward the Fed's 2 percent annual target.

Constance Hunter, Chief Economist for KPMG, said that while supply issues will linger as long as the pandemic looms over the economy, the demand side of the equation should ease up this year as fiscal stimulus, and support from the Fed, fades away.

But going into a third year of pandemic life, there's no guarantee of what's to come.

"Looking forward, if we can confidently say that omicron is the last hurrah, we could confidently forecast the path," Hunter said. "But unfortunately that's just not where we are. That's not within our capability."

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