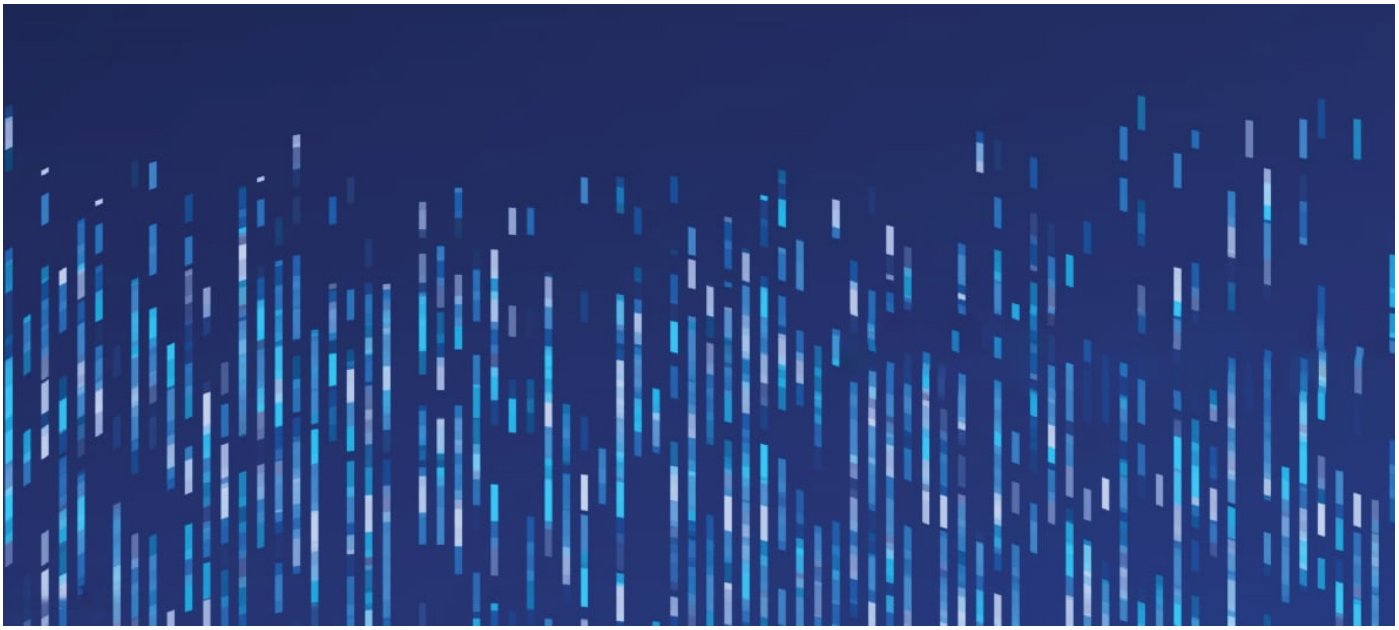

Capital Bytes – November 17, 2021

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What Does Inflation at 30-Year Highs Mean for Our Economy?

The latest data from the Labor Department showed that the consumer price index (CPI) increased at its fastest annual pace since 1990, which was just ahead of a recession. Ironically, price increases were also trending near these levels in July 2008 as America entered into the Great Recession. For October, the prices of goods and services rose at a 6.2% annual rate, which was the fifth-straight month the index topped 5%. The so-called core price index, which strips out more volatile (but extremely critical) food and energy prices, jumped 4.6% from the same period last year. The core increase was also the biggest jump since 1991.

Real Inflation Is Even More Severe in America

The consumer price index is a basket of goods and services whose prices are averaged, computed, adjusted, and tracked over time. Since its inception, some experts have been critical of the index, claiming that it does not accurately reflect the real price changes consumers are experiencing. Over the summer (between May and June), Forbes Advisor tracked month over month price changes in a few categories. In just 30 days, you can see the dramatic changes in some sectors … and remember that similar monthly inflation rates have continued throughout October.

- Used cars and trucks: 10.5% increase
- Fuel oil: 2.5% increase
- Meats, poultry, fish and eggs: 2.9% increase (specific products have seen large gains, such as uncooked beef steaks, which rose 6.0% in price since May)
- Car and truck rentals: 5.2% increase
- Airline fares: 2.7% increase
- Dishes and flatware: 1.9% increase
- Women's apparel: 1.6% increase

Pundits continue to put the blame squarely on supply chain disruptions, which are likely to worsen as holiday season shopping, travel and consumption demand increases. But consumers are cutting back their spending to save on rapidly rising prices of stuff. Consumer spending increased a mere 1.6% in the third quarter, dramatically less than the 12% year over year increase we saw in Q2. Spending on services, however, was up nearly 8% last quarter.

This may be a different inflation problem than we've faced previously, but we can learn from the Great Inflation that ended in tough economic times in the early and mid-80s. Three major contributing factors were excessive growth in money supply, government overspend and the energy supply issues in the mid-'70s. Maybe today's scenario isn't so unique afterall?

With the prices of just about everything rising, consumers are scaling back some of their usual expenditures. Some are chopping features on their mobile devices or entertainment, while others are reducing the amount of times they dine out in a month or what brands of food they purchase. The cure for higher prices may be the higher prices themselves, but if inflation remains stubbornly high and consumers continue to reduce spending, stagflation becomes a real concern.

Shadow Inflation Also Taking Its Toll on American Culture

- Reduction in general customer attention when shopping
- Reduced food portions
- Longer lines and hold times for service
- Fewer creature comforts during travel (more sporadic hotel cleaning services, less staff, canceled amenities)
- Less choice for consumers when it comes to cars, tech, etc.
- Businesses likely to be less clean

- On a deeper level, these pressures and changes could affect the overall well-being and decorum of our society

The quickened pace of inflation could also increase our chances of a pullback in consumer spending and a potentially dramatic reaction from the Federal Reserve, ending in a hard economic landing. The acceleration of costs and shortage of labor is no doubt forcing businesses and average Americans to burn through reserves quicker. One could argue that these trends may result in a deeper recession in the next cycle.

And while labor shortages continue to drive up costs, business owners are figuring out ways to operate with less staff, which could also mean less jobs for humans in the long term altogether. Let’s also keep in mind that many businesses have been forced to hike prices after suffering with lower margins for some time. It’s unlikely that hard goods will see price reductions, even when the economy cools. Services may see more price easing, but higher costs are unlikely to dramatically correct to the downside, even when supply chain issues ease.

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