

## Money Talks April 2022

By David Helscher

In April, the Consumer Price Index for All Urban Consumers (CPI-U), the most common measure of inflation, rose at an annual rate of 8.3%, above estimates but down from March's annualized rate of 8.5%. It's not surprising that a Gallup poll at the end of March found that one out of six Americans considers inflation to be the most important problem facing the U.S. When inflation began rising in the spring of 2021, many economists, including policymakers at the Federal Reserve, believed the increase would be transitory and subside over a period of months. One year later, inflation has proven to be more stubborn than expected. It may be helpful to look at some of the forces behind rising prices, the Fed's plan to combat them, and early signs that inflation may be easing.

The fundamental cause of rising inflation continues to be the growing pains of a rapidly opening economy, a combination of pent-up consumer demand, supply-chain slowdowns, and not enough workers to fill open jobs. Loose Federal Reserve monetary policies and billions of dollars in government stimulus helped prevent a deeper recession but added fuel to the fire when the economy reopened. More recently, the Russian invasion of Ukraine has placed upward pressure on already high global fuel and food prices. At the same time, a COVID resurgence in China led to strict lockdowns that have closed factories and tightened already struggling supply chains for Chinese goods. The volume of cargo handled in Shanghai, the world's busiest port, dropped by an estimated 40% in early April.

Although the 8.3% year-over-year "headline" inflation in April is a daunting number to consider, monthly numbers provide a clearer picture of the current trend. The month over month figure showed a 0.3% increase for April over March, down from the monthly increase of 1.2% from February to March. The annual inflation rate is high, but more than half of it was due to gasoline prices, which rose 18.3% in March alone. Despite the Russia-Ukraine conflict and increased seasonal demand, U.S. gas prices declined slightly in April, but the trend was moving upward, setting a new high in mid-May. The government's decision to release one million barrels of oil per day from the Strategic Petroleum Reserve for the next 6 months and allow summer sales of higher-ethanol gasoline may help moderate prices.

Core inflation, which strips out volatile food and energy prices, rose 6.2% year-over-year in April above estimates but down from 6.5% annualized in March. Another positive sign was the price of used cars and trucks, which rose more than 35% over the last 12 months, dropped 3.8% in March, but were up 0.9% in April. Equivalent rent and grocery staple items each showed a 0.5% increase on a month over month basis.

For the year ending in April, average hourly earnings increased 5.5%, not enough to keep up with inflation but enough to blunt some of the effects. Lower paid service workers received higher increases, with wages jumping by almost 15% for nonmanagement employees in the leisure and hospitality industry. Although inflation has cut deeply into wage gains over the last year, wages have increased at about the same rate as inflation over the 2-year period of the pandemic. One of the big questions going forward is whether rising wages will enable consumers to continue to pay higher prices, which can lead to an inflationary spiral of ever-increasing wages and prices. Recent signals are mixed.

The official measure of consumer spending increased 1.1% in March, but an early April poll found that 2 of 3 American had cut back on spending due to inflation.