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MONDAY ECONOMIC REPORT

Consumer Prices Have Risen 7.9% Over the Past 12 Months, a 40-Year High

By Chad Moutray – March 14, 2022

The Weekly Toplines

- Consumer prices rose 0.8% in February, continuing to increase solidly. Food and energy prices increased 1.0% and 3.5% in February, respectively, with gasoline costs up 6.6%. Excluding food and energy, core consumer prices increased 0.5% in February, suggesting broad-based growth in costs beyond food and energy.

- The consumer price index has risen 7.9% over the past 12 months, the fastest year-over-year pace since January 1982. At the same time, core inflation (which excludes food and energy) increased 6.4% year-over-year in February, the biggest increase since August 1982.

- Overall, price pressures for consumers remain very elevated—a trend that will continue over the coming months. With the Russian invasion of Ukraine, prices are likely to accelerate further, particularly for food, energy and certain commodities.

- The Federal Reserve will be in focus this week. The Federal Open Market Committee has ended its asset purchases, likely starting to reduce its balance sheet over the summer. The FOMC will increase short-term rates by 25 basis points at this week’s meeting. There will also be another increase of 25 basis points at the May 3–4 meeting, with more hikes at subsequent meetings.

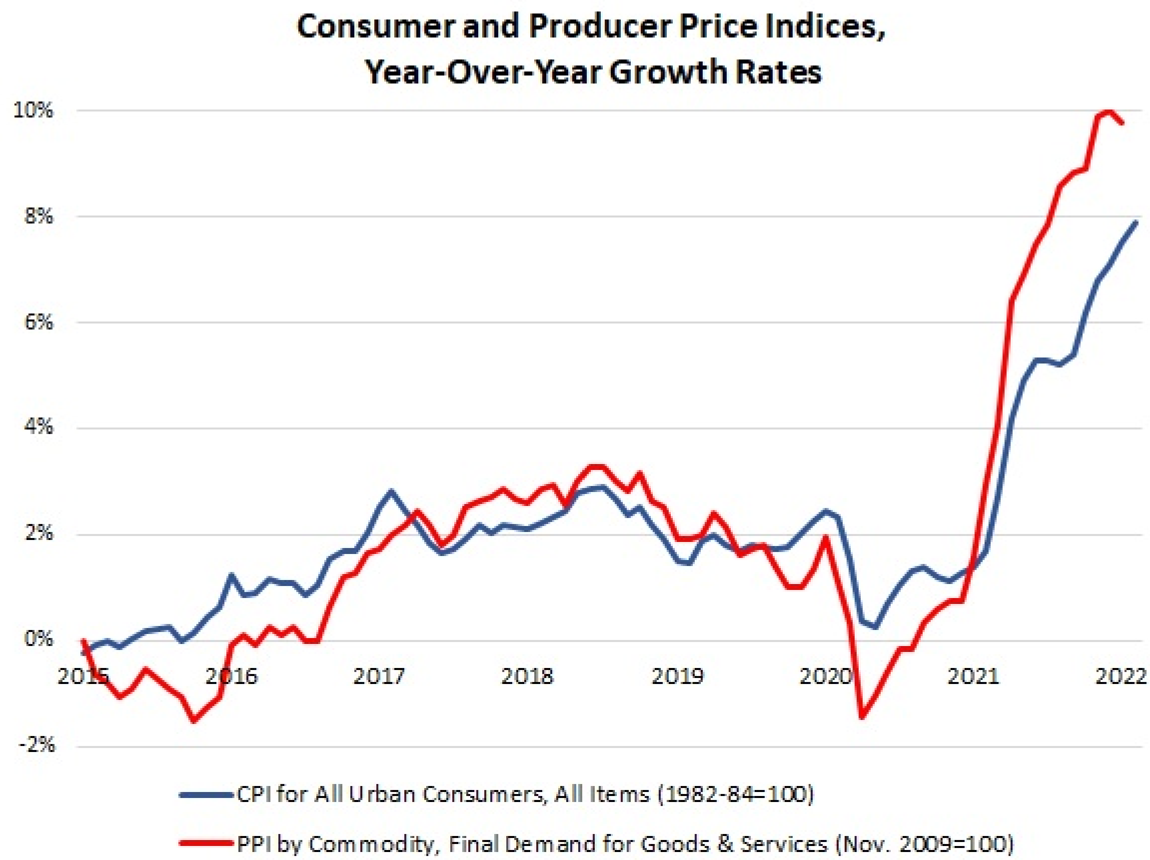
- The Index of Consumer Sentiment declined to the lowest reading since October 2011, according to preliminary data from the University of Michigan and Thomson Reuters. Confidence was lower “due to falling inflation-adjusted incomes, recently accelerated by rising fuel prices as a result of the Russian invasion of Ukraine.”

- There were 855,000 manufacturing job openings in January. The number of job postings continues to be well above pre-pandemic levels. Over the past 10 months, job openings in the sector have averaged 873,000, including the record 943,000 in July.

- In the larger economy, nonfarm business job openings declined from a record 11,448,000 in December to 11,263,000 in January. There were 6,513,000 unemployed Americans in January, which translated into 57.8 unemployed workers for every 100 job openings in the U.S. economy.

- In addition, total quits in the manufacturing sector rose from 322,000 in December to 331,000 in January, a new record. That translated into 2.6% of the manufacturing workforce and continues a trend of very significant “churn” in the labor market, exacerbating the workforce difficulties that companies are experiencing.

- The U.S. trade deficit rose to $89.69 billion in January, another record high, with the goods trade deficit jumping to $108.86 billion, also an all-time high. Goods exports, on the other hand, decreased to $155.89 billion but remained not far from October's record pace ($159.02 billion).



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, March 7
Consumer Credit

Tuesday, March 8
International Trade Report
NFIB Small Business Survey

Wednesday, March 9
Job Openings and Labor Turnover Survey

Thursday, March 10
Consumer Price Index
Weekly Initial Unemployment Claims

Friday, March 11
University of Michigan Consumer Sentiment

This Week's Indicators:

Monday, March 14
State Employment Report

Tuesday, March 15
New York Fed Manufacturing Survey
Producer Price Index

Wednesday, March 16
FOMC Monetary Policy Statement
NAHB Housing Market Index
Retail Sales

Thursday, March 17
Housing Starts and Permits
Industrial Production
NAM Manufacturers' Outlook Survey

Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, March 18
Conference Board Leading Indicators
Existing Home Sales

Deeper Dive

- **Consumer Credit:** U.S. consumer credit outstanding rose 1.9% in January, slowing from the 6.1% gain in December. Revolving credit, which includes credit cards and other credit lines, fell 0.3% in January, declining for the first time in nine months. As such, Americans pulled back on their willingness to take on new debt at the beginning of the year, ending a rebound seen in prior months and likely the result of reduced spending. Nonetheless, revolving credit has risen 8.2% over the past 12 months, a very solid reading.

  Meanwhile, nonrevolving credit, which includes auto and student loans, increased 2.5% in January, easing from 6.4% growth in December. On a year-over-year basis, nonrevolving credit has increased 5.5%. Overall, U.S. consumer credit outstanding has risen 6.1% over the past 12 months, the strongest year-over-year reading since April 2017.

- **Consumer Price Index:** Consumer prices rose 0.8% in February, up from 0.6% in January and continuing to increase solidly. Food and energy prices increased 1.0% and 3.5% in February, respectively, with gasoline costs up 6.6%. Over the course of the past 12 months, food and energy costs have soared 7.9% and 25.6%, respectively. Excluding food and energy, core consumer prices increased 0.5% in February, down from a gain of 0.6% in January.

  The consumer price index has risen 7.9% over the past 12 months, up from 7.5% in January and the fastest year-over-year pace since January 1982. At the same time, core inflation (which excludes food and energy) increased 6.4% year-over-year in February, up from 6.0% in the prior release and the biggest increase since August 1982.

  Overall, price pressures for consumers remain very elevated—a trend that will continue over the coming months. With the Russian invasion of Ukraine, prices are likely to accelerate further, particularly for food, energy and certain commodities.

  For its part, these data will put continued pressure on the Federal Reserve to tackle inflation. The Federal Open Market Committee has ended its asset purchases, and it will likely start reducing its balance sheet over the summer. In addition, the FOMC will increase short-term rates at its March 15–16 meeting by 25 basis points. There will also be another increase of 25 basis points at the May 3–4 FOMC meeting, as well as other hikes at subsequent meetings.

- **International Trade Report:** The U.S. trade deficit rose from $81.96 billion in December to $89.69 billion in January, another record high. Supply chain disruptions and the chip shortage have skewed the data across the past year. The goods trade deficit jumped from $101.75 billion to $108.86 billion, an all-time high, with goods imports increasing from $259.96 billion to a record $264.75 billion. Goods exports, on the other hand, decreased from $158.21 billion to $155.89 billion but remained not far from October’s record pace ($159.02 billion). At the same time, the service-sector trade surplus slipped from $19.79 billion to $19.17 billion.

In January, goods exports declined largely due to reduced activity for consumer goods (down $2.98 billion) and automotive vehicles, parts and engines (down $659 million), offsetting gains for non-automotive capital goods (up $1.09 billion) and industrial supplies and materials (up $450 million). Meanwhile, goods imports rose for the most part across the board, including sharp increases for automotive vehicles, parts and engines (up $1.58 billion), industrial supplies and materials (up $1.54 billion), foods, feeds and beverages (up $1.36 billion), non-automotive capital goods (up $1.07 billion) and consumer goods (up $669 million).

U.S.-manufactured goods exports totaled $92.33 billion in January, using non-seasonally adjusted data, soaring 13.06% from $81.66 billion in January 2021. Likewise, manufactured goods imports grew 17.58% year-over-year from $181.46 billion to $213.36 billion.

- **Job Openings and Labor Turnover Survey:** There were 855,000 manufacturing job openings in January, up from a revised 746,000 in December. (The Bureau of Labor Statistics originally estimated the previous month to be 856,000.) Durable and nondurable goods postings both increased in January. The number of job postings continues to be well above pre-pandemic levels, as companies ramp up activity and need more workers to meet the additional capacity. Over the past 10 months, job openings in the sector have averaged 873,000, including the record 943,000 in July.

  In the larger economy, nonfarm business job openings declined from a record 11,448,000 in December to 11,263,000 in January. There were 6,513,000 unemployed Americans in January, which translated into 57.8 unemployed workers for every 100 job openings in the U.S. economy. That number speaks to the extreme tightness of the labor market, with more job openings than people looking for work. (In February, the number of unemployed Americans fell to 6,270,000.)

  In addition, total quits in the manufacturing sector rose from 322,000 in December to 331,000 in January, a new record. That translated into 2.6% of the manufacturing workforce and continues a trend of very significant "churn" in the labor market, exacerbating the workforce difficulties that companies are experiencing. At the same time, there were 4,252,000 quits in the nonfarm business economy, slipping for the second straight month from the record 4,510,000 in November but remaining very elevated.

  Manufacturers hired 483,000 workers in January, up from 457,000 in December and the highest in 21 years. Both durable and nondurable goods firms hired more workers in January. Total separations increased from 434,000 to 476,000, a 13-year high. Therefore, net hiring (or hiring minus separations) was 7,000 in January, slowing from 23,000 in December. Net hiring has averaged 36,000 over the past nine months.

- **NFIB Small Business Survey:** The National Federation of Independent Business reported that the Small Business Optimism Index declined from 97.1 in January to 95.7 in February, a 13-month low. The headline index has drifted lower for the most part since June 2021 (102.5). Supply chain disruptions, workforce shortages and inflation continue to challenge small business owners. Small businesses suggesting that the next three months were a "good time to expand" edged down from 9% to 8%, a 12-month low, and sales and earnings expectations remained challenged.

  Respondents cited inflation as the top "single most important problem," followed closely by difficulties in obtaining enough qualified labor. Pricing measures remained very elevated. In February, the net percentage of respondents reporting higher prices today than three months ago jumped from 61% to a record 68%. With that said, the net percentage planning a price increase over the next three months eased from 47% to 46%. At the same time, the net percentage of respondents saying they had increased compensation in the past three months pulled back from a record 50% to 45%, with the net percentage planning to raise compensation in the next three months inching down from 27% to 26%.

The labor market remained tight. The percentage of respondents suggesting they had job openings they were unable to fill rose from 47% to 48%, and the percentage of respondents citing few or no qualified applicants for job openings increased from 55% to 57%. With that said, the net percentage of respondents planning to increase hiring over the next three months declined from 26% to 19%, a 12-month low and likely reflecting ongoing uncertainties.

Meanwhile, 57% of small firms made a capital investment over the past six months, edging down from 58% in January. The percentage of respondents planning to make a capital investment over the next three to six months declined from 29% to 27%.

- **University of Michigan Consumer Sentiment:** The Index of Consumer Sentiment declined from 62.8 in February to 59.7 in March, the lowest reading since October 2011, according to preliminary data from the University of Michigan and Thomson Reuters. Americans felt less upbeat in their current assessments and their outlook for the coming months, but particularly the latter. According to the release, confidence was lower "due to falling inflation-adjusted incomes, recently accelerated by rising fuel prices as a result of the Russian invasion of Ukraine." Overall, consumer confidence has trended lower since April 2021 (88.3). Final data will be released on March 25.

- **Weekly Initial Unemployment Claims:** The week ending March 5 saw 227,000 initial unemployment claims, up from 216,000 for the week ending Feb. 26. That is not far from the average of the past six weeks (231,500). At the same time, the week ending Feb. 26 saw 1,494,000 continuing claims, up from 1,469,000 for the week ending Feb. 19. Overall, these data continue to reflect a labor market that has improved significantly over the course of the past year.

Questions or comments? Email NAM Chief Economist Chad Moutray at cmoutray@nam.org.