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MONDAY ECONOMIC REPORT

Consumer Prices Soared 7.5% Over the Past 12 Months, Most Since 1982

By Chad Moutray – Feb. 14, 2022

The Weekly Toplines

- Consumer prices rose 0.6% in January. Food and energy prices both soared 0.9% in January, but with gasoline costs down 0.8%. Excluding food and energy, core consumer prices increased 0.6% in January, also matching the rate in December.

- The consumer price index has risen 7.5% over the past 12 months, up from 7.1% in December and the fastest year-over-year pace since February 1982. At the same time, core inflation (which excludes food and energy) increased 6.0% year-over-year in January, up from 5.5% in the prior release and the biggest increase since August 1982.

- Overall, prices are predicted to continue growing by more than consumers have become accustomed to in recent years. Even with some deceleration over the course of this year, core consumer inflation should still be rising around 3.5% year-over-year by the end of 2022.

- For its part, these data will put continued pressure on the Federal Reserve to tackle inflation. The Federal Open Market Committee has already said that it will end all asset purchases by early March, and it will likely start reducing its balance sheet over the summer. In addition, the FOMC will almost certainly increase short-term rates at its March 15–16 meeting, perhaps by 50 basis points (but at least by 25 basis points).

- The Index of Consumer Sentiment declined from 67.2 in January to 61.7 in February, the lowest reading since October 2011, according to preliminary data from the University of Michigan and Thomson Reuters. Americans felt more pessimistic about both current and future economic conditions, largely on inflation worries.

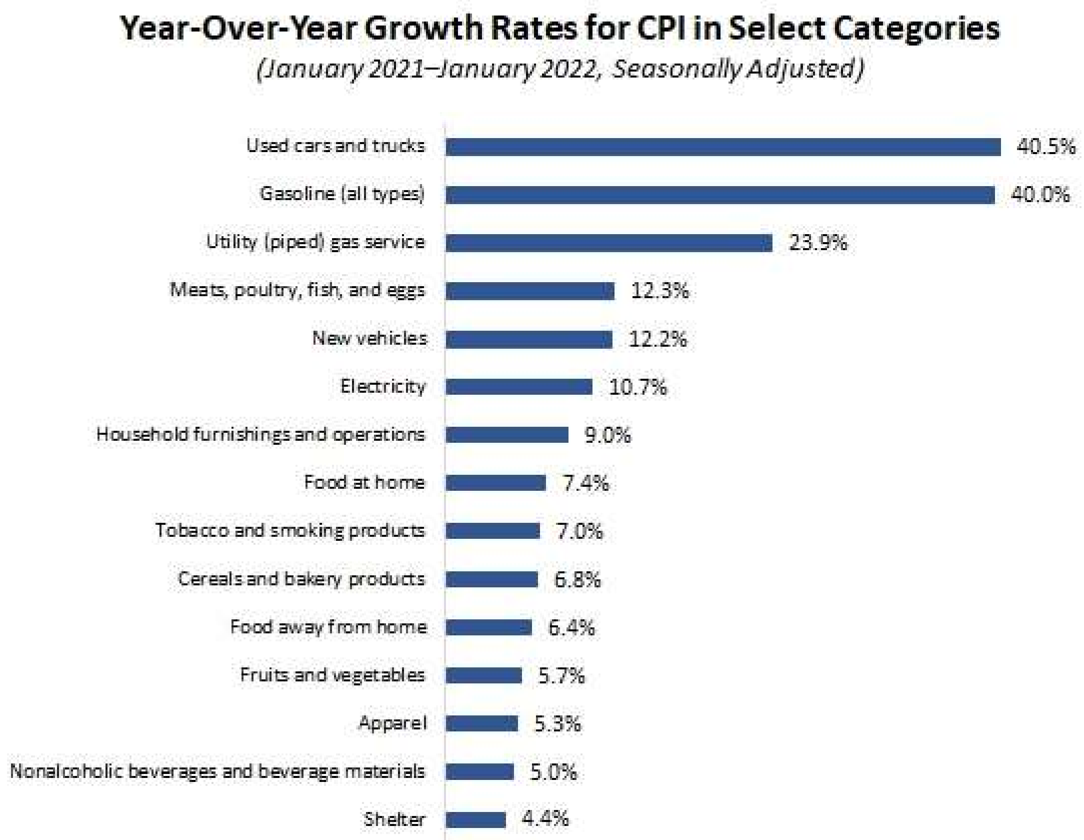
- The National Federation of Independent Business reported that the Small Business Optimism Index declined to 97.1 in January, an 11-month low. Supply chain disruptions, workforce shortages, inflation and COVID-19 continue to challenge small business owners. Respondents cited difficulties in finding workers as the top “single most important problem,” followed by inflation.

- In the NFIB survey, the net percentage of respondents reporting higher prices today than three months ago rose from 57% to 61%, the highest rate since the fourth quarter of 1974. At the same time, the net percentage of respondents saying they had increased compensation in the past three months rose from 48% to 50%, a new record.

- The U.S. trade deficit rose to $80.73 billion in December, which was just shy of the all-time high of $80.81 billion recorded in September. The U.S. trade deficit reached an all-time high of $859.13 billion in 2021, up from $676.68 billion in 2020.

- The goods trade deficit increased to $101.43 billion in December, a record high, with goods imports jumping to $259.70 billion, also an all-time high. Goods exports rose to $158.27 billion, which was not far from October's record pace ($159.01 billion). At the same time, the service-sector trade surplus improved to $20.70 billion, the strongest reading since May.

- U.S.-manufactured goods exports totaled $1,133.25 billion in 2021, using non-seasonally adjusted data, soaring 18.91% from $953.02 billion in 2020. Likewise, manufactured goods imports grew 19.08% from $2,068.29 billion in 2020 to $2,463.03 billion in 2021.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, Feb. 7
Consumer Credit

Tuesday, Feb. 8
International Trade Report
NFIB Small Business Survey

Wednesday, Feb. 9
None

This Week's Indicators:

Monday, Feb. 14
None

Tuesday, Feb. 15
New York Fed Manufacturing Survey
Producer Price Index

Wednesday, Feb. 16
Industrial Production

Thursday, Feb. 10
Consumer Price Index
Weekly Initial Unemployment Claims

Friday, Feb. 11
University of Michigan Consumer Sentiment

NAHB Housing Market Index
Retail Sales

Thursday, Feb. 17
Housing Starts and Permits
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, Feb. 18
Conference Board Leading Indicators
Existing Home Sales

Deeper Dive

- **Consumer Credit:** U.S. consumer credit outstanding rose 5.1% in December, down from 10.7% in November. Revolving credit, which includes credit cards and other credit lines, increased 2.4% in December, slowing after jumping 22.8% in November. Revolving credit has continued to rebound following pandemic-related weaknesses, rising to the best level since March 2020. This is a sign that Americans have once again increased their willingness to take on revolving credit, even with some deceleration in December. Over the past 12 months, revolving credit has risen 6.6%, the strongest year-over-year growth since February 2017. This strength should bode well for continued consumer spending growth moving forward.

  Meanwhile, nonrevolving credit, which includes auto and student loans, increased 6.0% in December, easing from 7.0% growth in November. On a year-over-year basis, nonrevolving credit has increased 5.7%. Overall, U.S. consumer credit outstanding has risen 5.9% over the past 12 months, the strongest year-over-year reading since July 2017.

- **Consumer Price Index**: Consumer prices rose 0.6% in January, matching the pace in December and continuing to increase solidly. Food and energy prices both soared 0.9% in January, but with gasoline costs down 0.8%. Excluding food and energy, core consumer prices increased 0.6% in January, also matching the rate in December.

  The cost of used cars and trucks increased 1.5% in January, but prices for new vehicles were flat. With the sector grappling with supply chain disruptions and the chip shortage, new vehicles and used cars and trucks have seen price growth of 12.2% and 40.5% year-over-year, respectively. Consumers also paid more for apparel, household furnishings and supplies, medical care services, shelter and transportation services.

  The consumer price index has risen 7.5% over the past 12 months, up from 7.1% in December and the fastest year-over-year pace since February 1982. At the same time, core inflation (which excludes food and energy) increased 6.0% year-over-year in January, up from 5.5% in the prior release and the biggest increase since August 1982.

  Overall, price pressures for consumers remain very elevated. Automobiles exerted an outsized impact in this report, as noted above. The data are expected to stabilize over the course of this year, especially once bottlenecks start to abate. A more favorable base comparison in 2022 will also help. Yet, consumer prices are predicted to continue growing by more than consumers have become accustomed to in recent years, with core consumer inflation rising around 3.5% year-over-year by the end of 2022.

  For its part, these data will put continued pressure on the Federal Reserve to tackle inflation. The Federal Open Market Committee has already said that it will end all asset purchases by early March, and it will likely start reducing its balance sheet over the summer. In addition, the FOMC will almost certainly increase short-term rates at its March 15–16 meeting, perhaps by 50 basis points (but at least by 25 basis points).

- **International Trade Report**: The U.S. trade deficit rose from $79.33 billion in November to $80.73 billion in December, which was just shy of the all-time high of $80.81 billion recorded in September. These data have been skewed over the course of 2021 by supply chain disruptions and the chip shortage. For the year, the U.S. trade deficit reached $859.13 billion in 2021, up from $676.68 billion in 2020 and an all-time high.

  The goods trade deficit increased from $98.27 billion in November to $101.43 billion in December, a record high. Goods imports jumped from $254.52 billion to $259.70 billion, an all-time high. Goods exports rose from $156.25 billion to $158.27 billion, which was not far from October's record pace ($159.01 billion). At the same time, the service-sector trade surplus improved from $18.94 billion to $20.70 billion, the strongest reading since May.

  In December, goods exports rose on increases for consumer goods (up $1.24 billion), non-automotive capital goods (up $887 million), automotive vehicles, parts and engines (up $797 million) and industrial supplies and materials (up $463 million). Exports for foods, feeds and beverages declined $1.07 billion for the month. Meanwhile, sharp increases in goods imports for consumer goods (up $5.18 billion), automotive vehicles, parts and engines (up $2.41 billion) and non-automotive capital goods (up $2.32 billion) were enough to offset decreases for industrial supplies and materials (down $3.25 billion) and foods, feeds and beverages (down $760 million).

Interestingly, goods exports and goods imports for consumer goods both hit new records in December. Exports of pharmaceutical products helped lift consumer goods exports, whereas cell phones and toys accounted for the bulk of the rise in consumer goods imports.

Looking at longer-term trends, U.S.-manufactured goods exports totaled $1,133.25 billion in 2021, using non-seasonally adjusted data, soaring 18.91% from $953.02 billion in 2020. Likewise, manufactured goods imports grew 19.08% from $2,068.29 billion in 2020 to $2,463.03 billion in 2021.

- **NFIB Small Business Survey:** The National Federation of Independent Business reported that the Small Business Optimism Index declined from 98.9 in December to 97.1 in January, an 11-month low. The headline index has drifted lower for the most part since June (102.5). Supply chain disruptions, workforce shortages, inflation and COVID-19 continue to challenge small business owners. Small businesses suggesting that the next three months were a “good time to expand” edged down from 11% to 9%, also the weakest reading since February 2021, and sales and earnings expectations remained challenged.

  Pricing measures remained very elevated. In January, the net percentage of respondents reporting higher prices today than three months ago rose from 57% to 61%, the highest rate since the fourth quarter of 1974. With that said, the net percentage planning a price increase over the next three months eased from 49% to 47%. At the same time, the net percentage of respondents saying they had increased compensation in the past three months rose from 48% to 50%, a new record, with the net percentage planning to raise compensation in the next three months pulling back from the all-time high of 32% to 27%.

  Respondents once again cited difficulties in obtaining qualified labor as the top “single most important problem,” followed very closely by concerns about inflation. While the labor market remained tight, there was also some slight easing in pressures in January. The percentage of respondents suggesting they had job openings they were unable to fill declined from 49% to 47%, a still-elevated pace. The percentage of respondents citing few or no qualified applicants for job openings edged down from 57% to 55%, and the net percentage of respondents planning to increase hiring over the next three months declined from 28% to 26%.

  Meanwhile, 58% of small firms made a capital investment over the past six months, up from 57% in December and an eight-month high. The percentage of respondents planning to make a capital investment over the next three to six months remained at 29%.

- **University of Michigan Consumer Sentiment:** The Index of Consumer Sentiment declined from 67.2 in January to 61.7 in February, the lowest reading since October 2011, according to preliminary data from the University of Michigan and Thomson Reuters. Americans felt more pessimistic about both current and future economic conditions, largely on inflation worries. The statement also noted, “Importantly, the entire February decline was among households with incomes of $100,000 or more; their Sentiment Index fell by 16.1% from last month and 27.5% from last year.” Overall, consumer confidence has trended lower since April 2021 (88.3). Final data will be released on Feb. 25.

- **Weekly Initial Unemployment Claims:** The week ending Feb. 5 saw 223,000 initial unemployment claims, a five-week low and declining from 239,000 for the week ending Jan. 29. Meanwhile, there were 1,621,000 continuing claims for the week ending Jan. 29, the same pace as the prior week. Overall, these data continue to reflect a labor market that has improved mightily over the course of the past year.

Take Action

- If you have not already done so, please take a moment to complete the latest NAM Manufacturers' Outlook Survey. This survey will help gauge how manufacturing sentiment has changed since the fourth-quarter survey. In addition, this survey includes some special questions on supply chain disruptions, price increases, incentives to move production to the U.S., tax policy and workforce shortages. To complete the survey, click here. Responses are due by Friday, Feb. 25, at 5:00 p.m. EST. As always, all responses are anonymous.

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