Inflation Truths

How Build Back Better will help, not hurt

November 30, 2021

Ellen Teller, Moderator

Ellen Teller is Director of Government Affairs at the Food Research and Action Center (FRAC). She joined FRAC in 1986, and previously served as an attorney at the American Bar Association, Center for Science in the Public Interest and the Consumer Federation of America. She is the Board Chair of the Coalition on Human Needs.

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Jared Bernstein

Jared Bernstein is a member of President Biden's White House Council of Economic Advisers.

He was a Senior Fellow at the Center on Budget and Policy Priorities from 2011 to 2020. From 2009 – 2011, he was Chief Economist and Economic Advisor to then-Vice President Biden.

Josh Bivens

Josh Bivens is the director of research at the Economic Policy Institute (EPI). His areas of research include macroeconomics, fiscal and monetary policy, the economics of globalization, social insurance, and public investment. He frequently appears as an economics expert on news shows, including "NewsHour," the "Melissa Harris-Perry" show on MSNBC, American Public Media's "Marketplace," and programs of the BBC.

Rakeen Mabud, Ph. D.

Rakeen Mabud is the Managing Director of Policy and Research and Chief Economist at the Groundwork Collaborative. Rakeen is an expert on economic inequality and the 21st century workplace, with a particular focus on how structural factors such as racism and sexism perpetuate inequities.

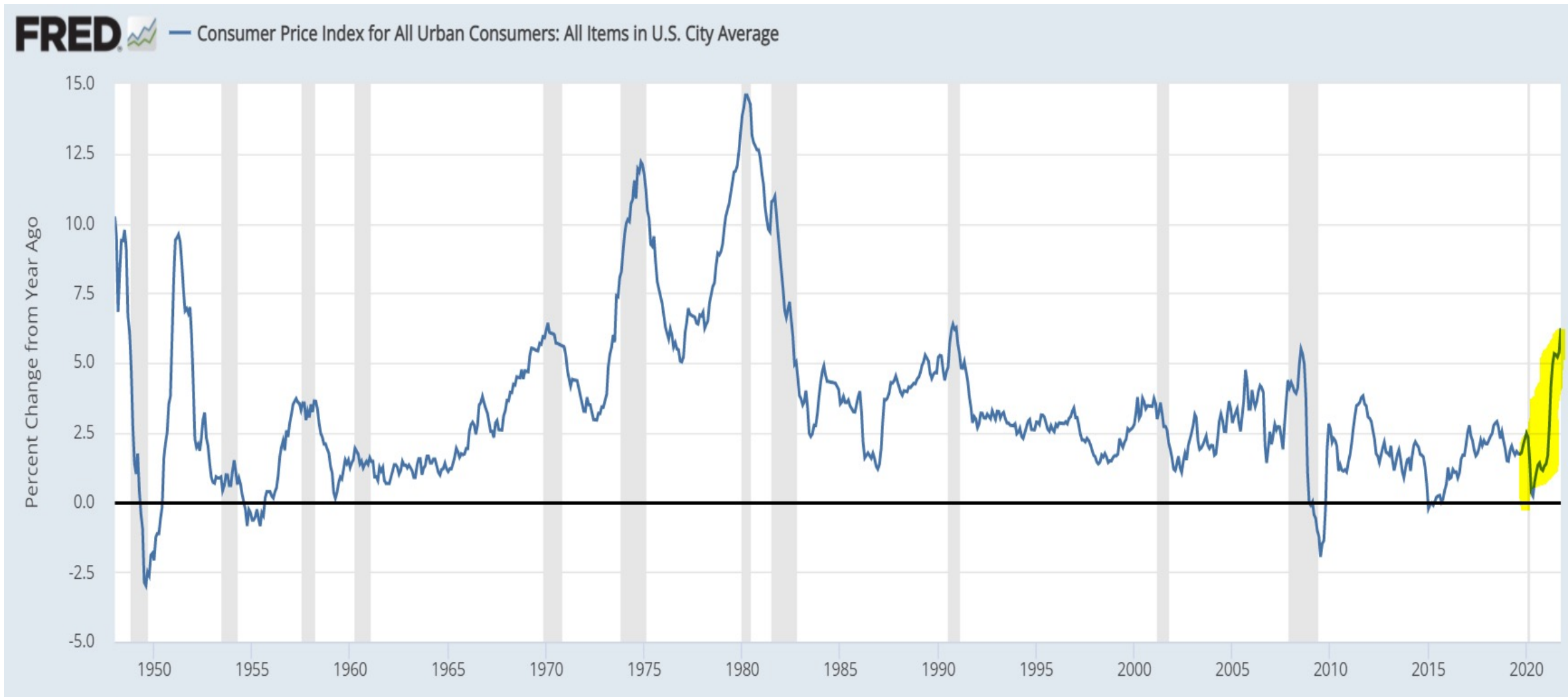# Inflation acceleration explanation with no procrastination, exasperation, or frustration

Jared Bernstein

CEA

11/30/21

Presentation to CHN

Inflation highly elevated, but historical context is always warranted

Consumer Price Index for All Urban Consumers: All Items in U.S. City Average

What's driving the current inflation?

- Goods over services imbalance
- Supply chain snarls
  - Logistics: Ports, trucking, warehousing
  - Semiconductors➔motor vehicles
- Labor supply
  - Child/elder care
  - Covid
  - Savings
- Healthy household balance sheets
- Firms rediscover pricing power
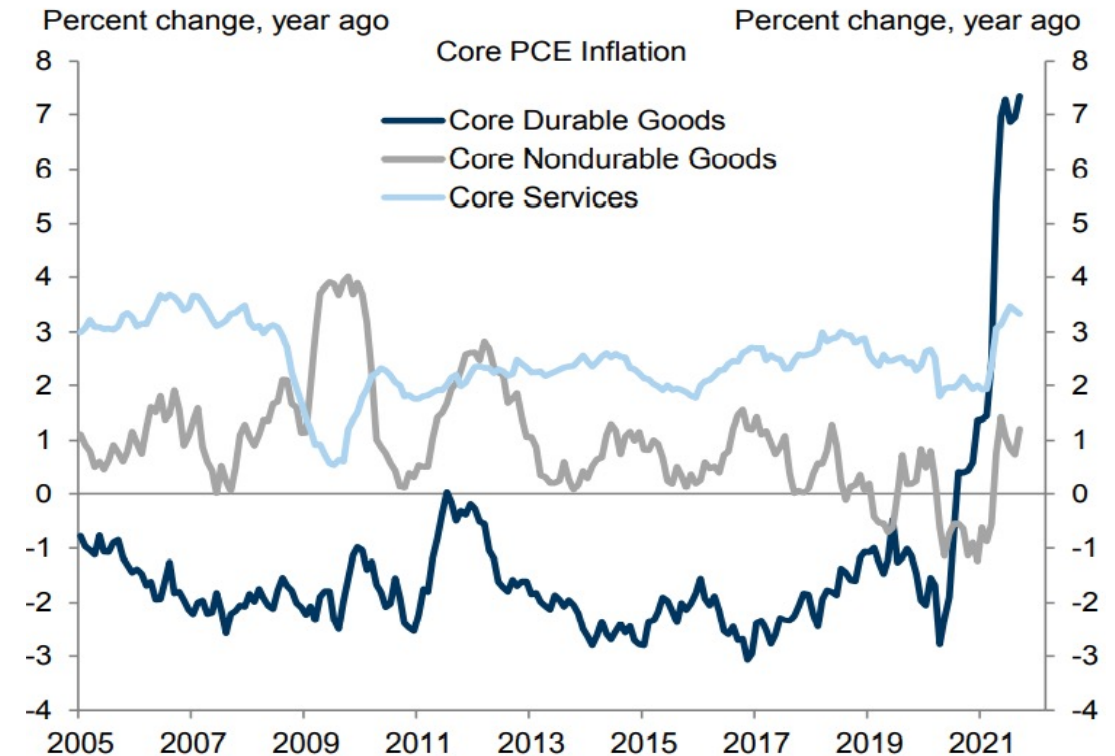
Strong demand + constrained supply = price pressures!

ALL OF THESE HAVE COVID LURKING IN THE BACKGROUND

Percent change, year ago · Percent change, year ago

Core PCE Inflation

— Core Durable Goods
— Core Nondurable Goods
— Core Services

What impact is inflation having on families?

- Tough on family budgets in key areas: food, energy, housing
- But both aggregate REAL incomes and low-wages show gains
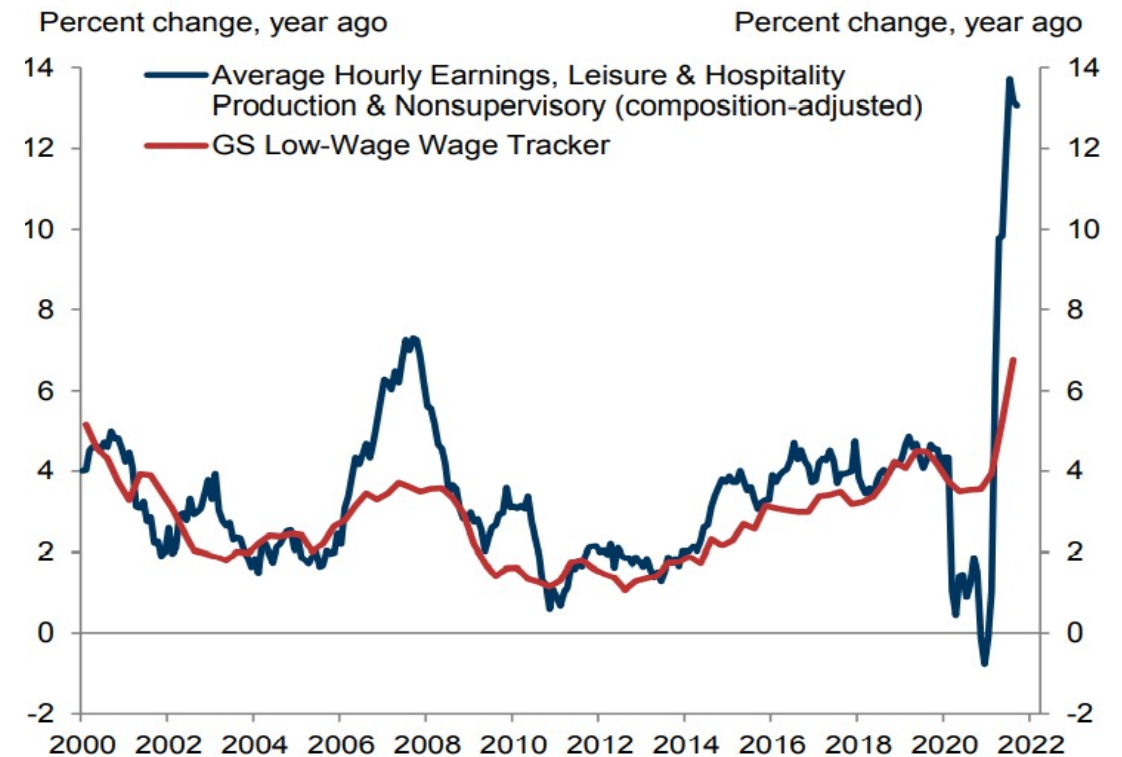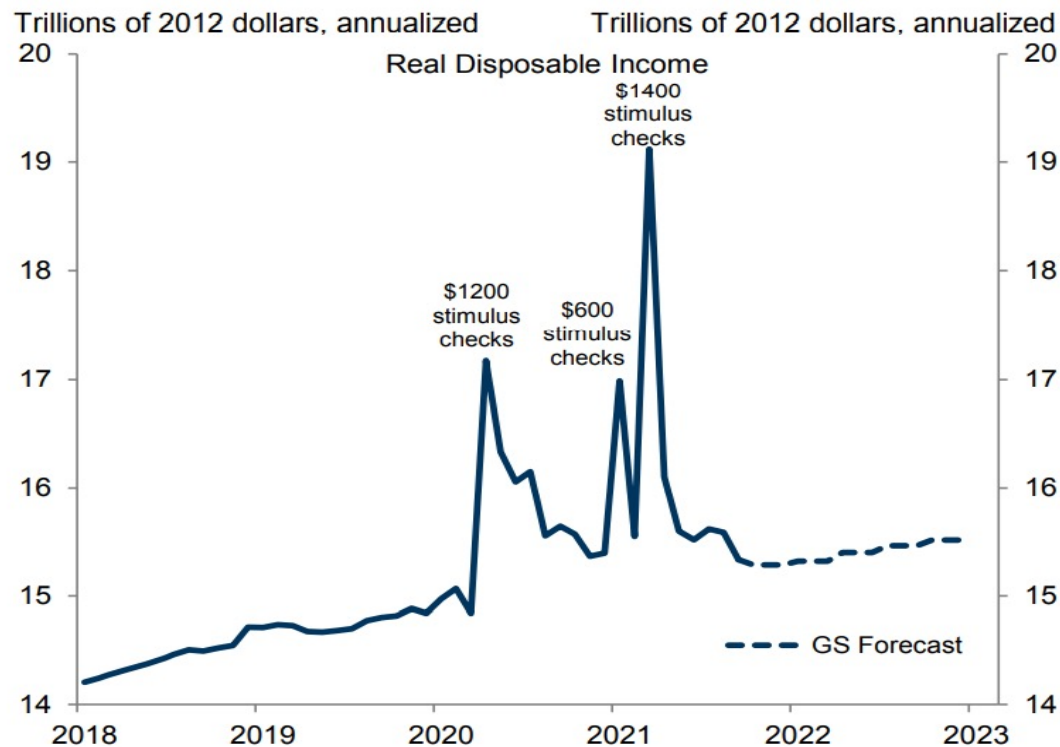
Source: Goldman Sachs Research

A genie grants you one wish…

- Genie: "Jared, I will grant you one wish, but not any wish: inflation will immediately return to its pre-pandemic trend."

- I would definitely *not* take that deal without guarantee of preserved gains:

- Poverty FELL in 2020, properly measured.

- Expanded Child Tax Credit, Enhanced UI, less hunger, fewer evictions

- Very strong labor market recovery pulled forward.

And if U.S. policy was the instigator, why similar increases elsewhere?

Inflation Acceleration
Consumer prices have been rising at a faster pace in both the U.S and the eurozone.

Headline and core rates of consumer-price inflation

Legend:
- U.S.
- U.S. core
- Eurozone
- Eurozone core

Y-axis: 7%, 6, 5, 4, 3, 2, 1, 0, -1

X-axis: Sept. 2020, '21
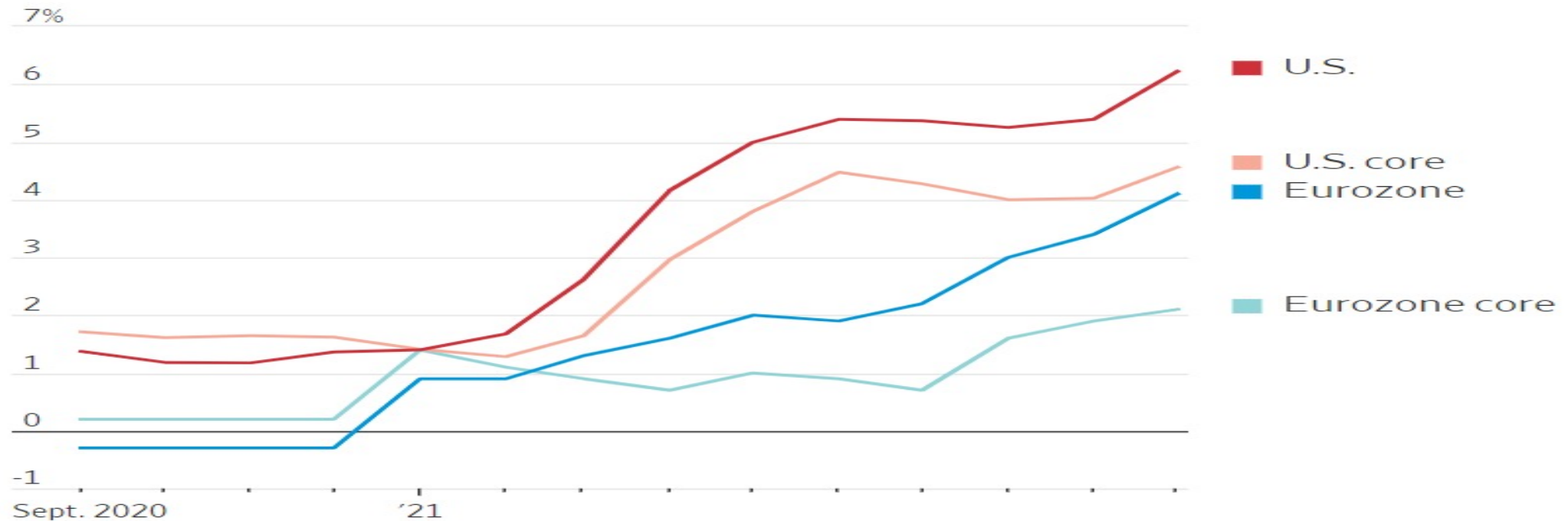
Note: OECD core inflation excludes energy and food prices.
Source: Organization for Economic Cooperation and Development

Goldman Sachs Research Group's CPI forecast...
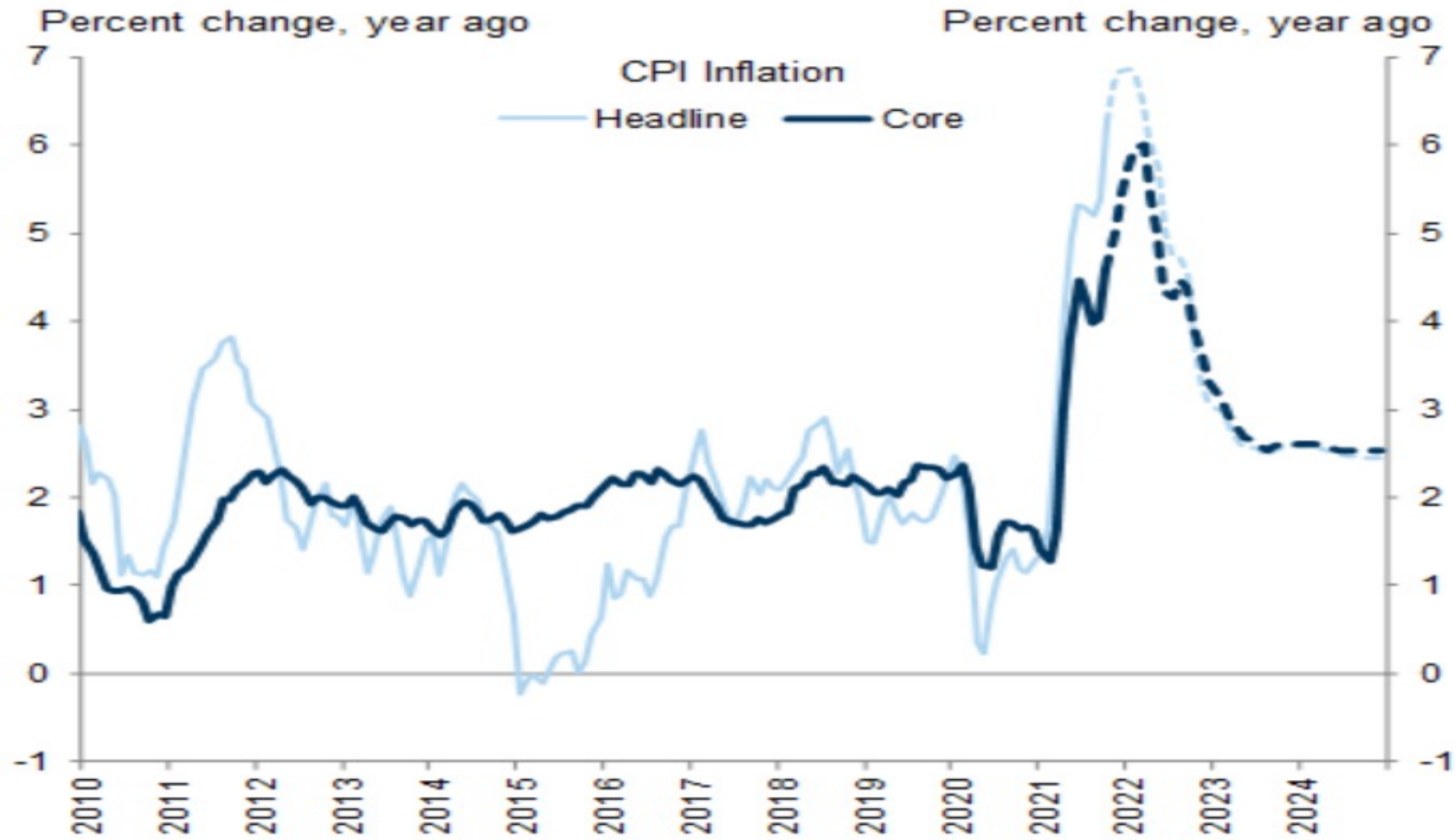
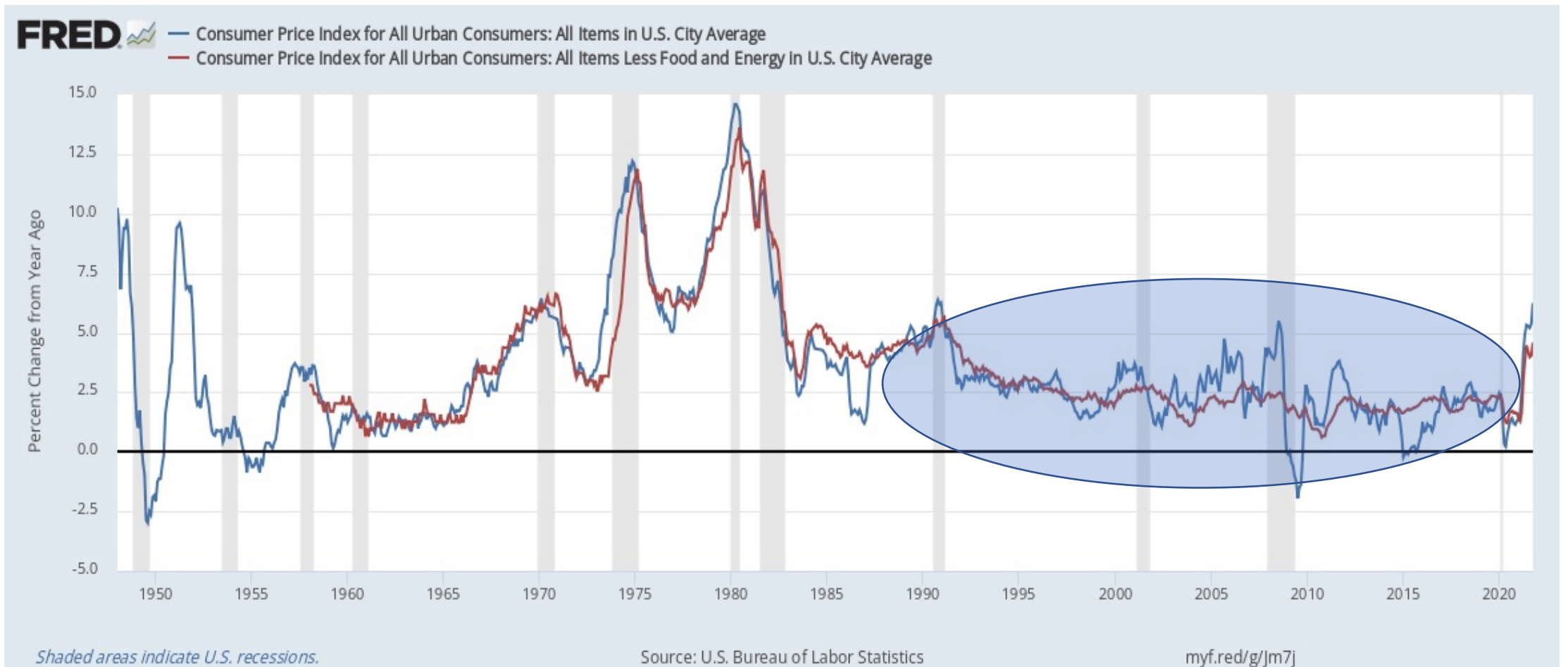# BBB not inflationary in near-term; eases price pressures in longer-term

- Spends out slowly, unlike stimulus or Rescue Plan

- Very partially offsets "fiscal drag"

- Is paid for (with highly progressive taxes)

- Increases economy's productive capacity

- Lowers costs that families often struggle with – including prescription drugs, health care premiums, child care, and home care for seniors.

- This, along with IIJA, is how we boost the economy's "supply-side," not trickle-down tax cuts for the wealthy

Notes on inflation

Josh Bivens, Ph.D.

Research Director, Economic Policy Institute

The public hates inflation – way more than economists think they probably should

Consumer Price Index for All Urban Consumers: All Items in U.S. City Average
Consumer Price Index for All Urban Consumers: All Items Less Food and Energy in U.S. City Average

Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

myf.red/g/Jm7j

Economics of today's inflation

- Inflation is co-determined – no stand-alone inflation "dial"
- Collateral damage caused by turning the "less inflation" dials would be big
- Today's inflation not caused by generalized macroeconomic "overheating"
- Instead, caused by Covid's persistence
  - Shift in spending towards goods and away from services and supply chain snarls
- Today's inflation is a negative-feedback, not positive-feedback, process. That's good – it's self-limiting and will largely be muffled by the labor market.
- BBBA won't cause more inflation today, and will make us more resilient against inflationary shocks tomorrow

No stand-alone inflation dial, and, we need these jobs back

FRED — All Employees, Total Nonfarm

Thousands of Persons

156,000
152,000
148,000
144,000
140,000
136,000
132,000
128,000

May 2018   Sep 2018   Jan 2019   May 2019   Sep 2019   Jan 2020   May 2020   Sep 2020   Jan 2021   May 2021   Sep 2021

Shaded areas indicate U.S. recessions.   Source: U.S. Bureau of Labor Statistics   myf.red/g/Jm7w

Inflation not about too-much stimulus

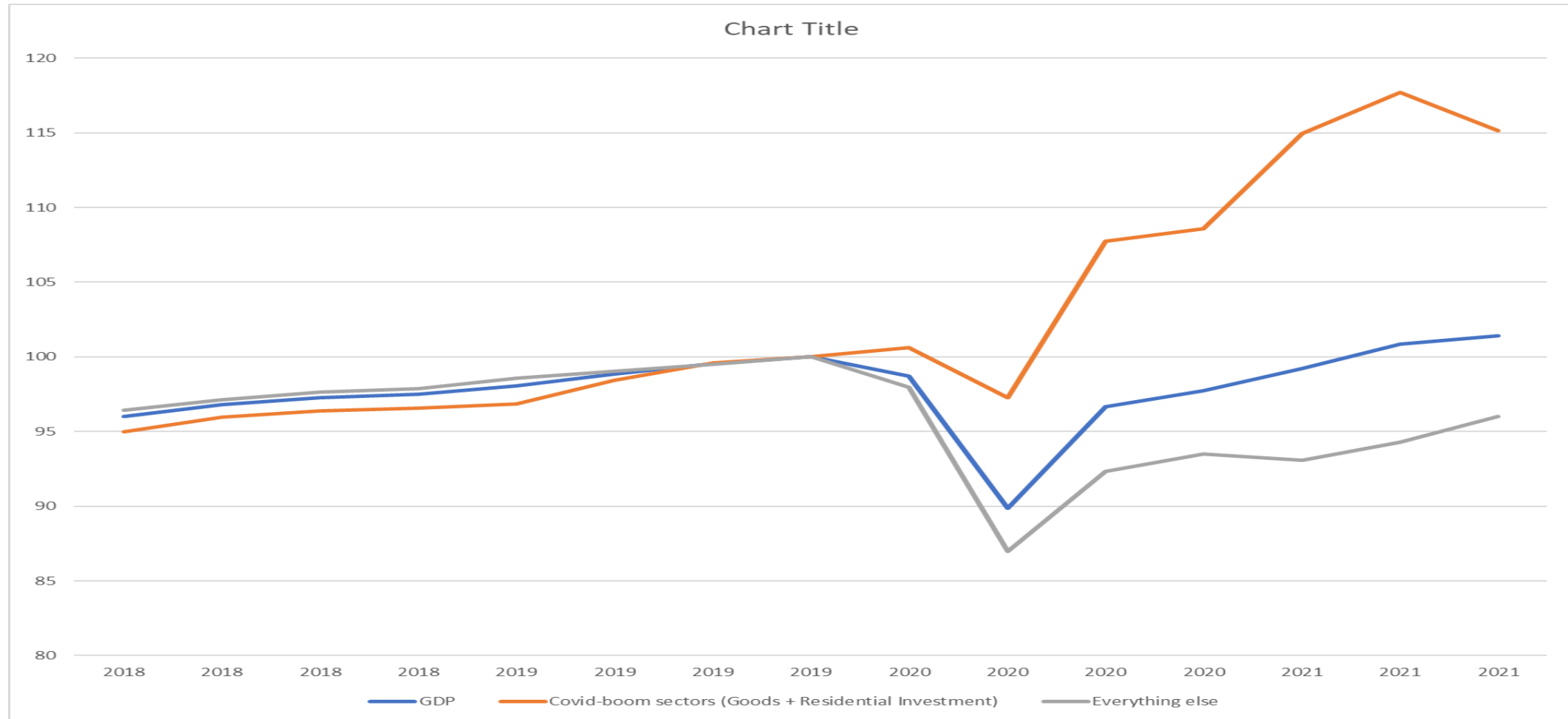**Aggregate demand not excessive relative to pre-pandemic capacity**

Actual and potential GDP in $billions, 2017—present
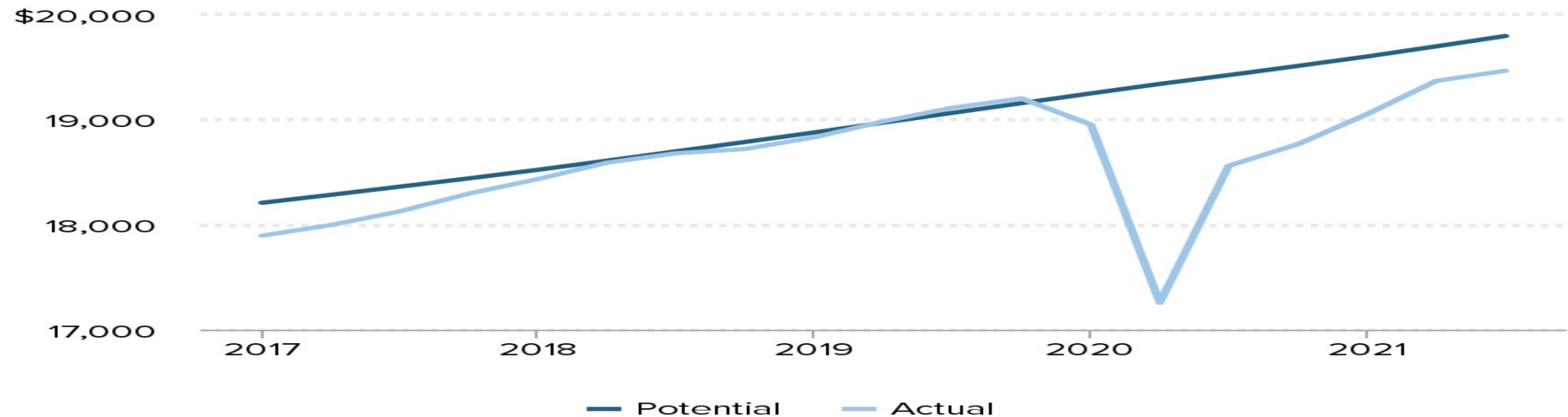
Source: Author's analysis of Bureau of Economic Analysis (BEA) NIPA Table 1.5.6 Real Gross Domestic Product, Expanded Detail, Chained Dollars.
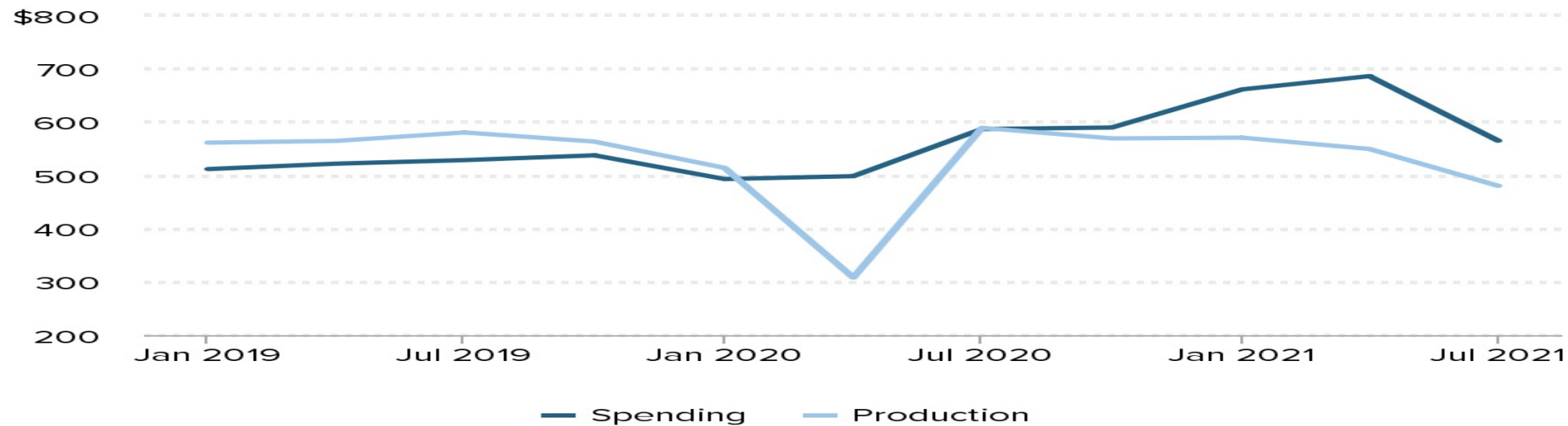
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Inflation is about Covid: Demand and supply

Supply chain rigidity keeps production from rising to meet spending demands
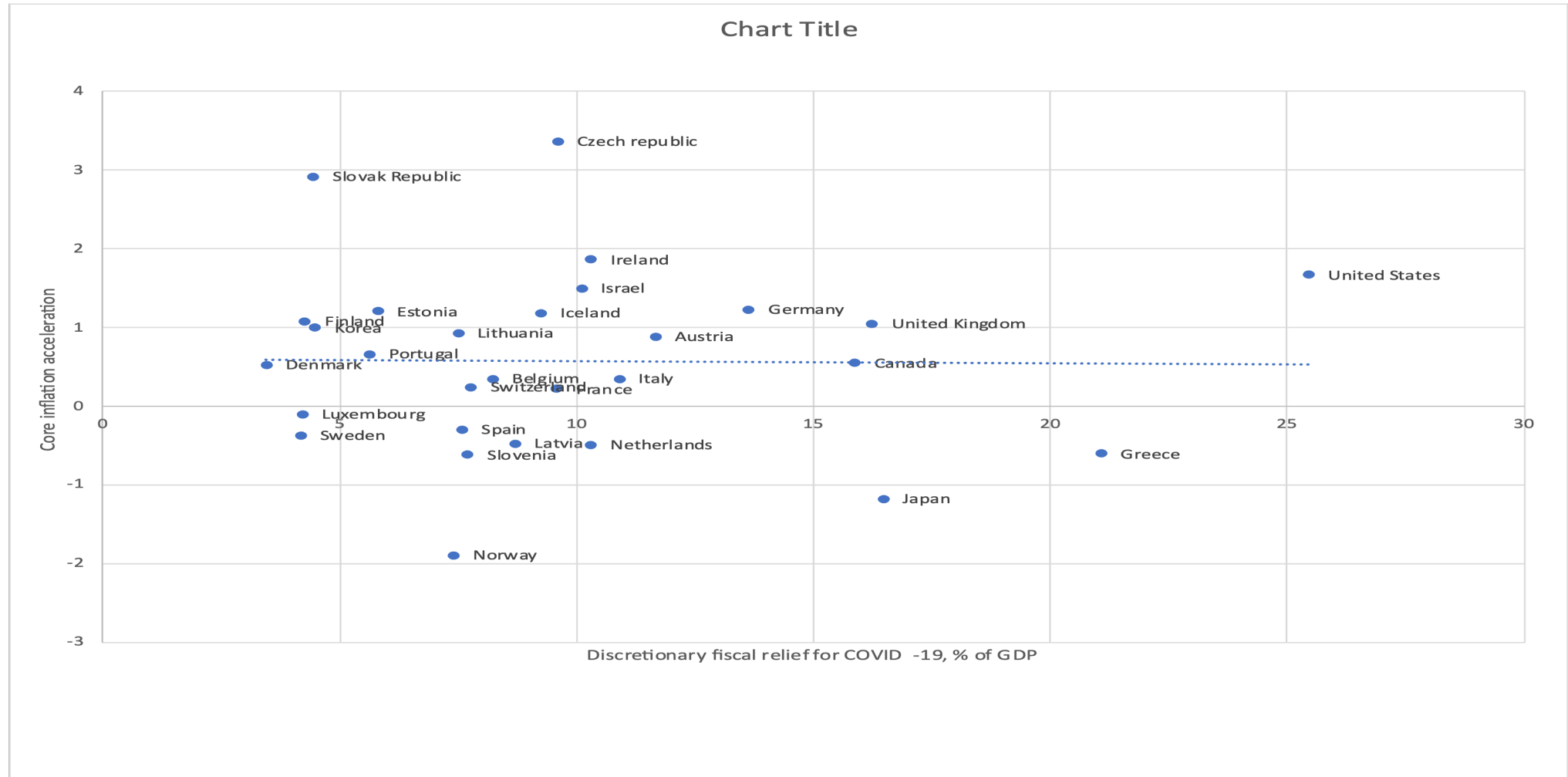
Domestic production of motor vehicles lagging far behind spending

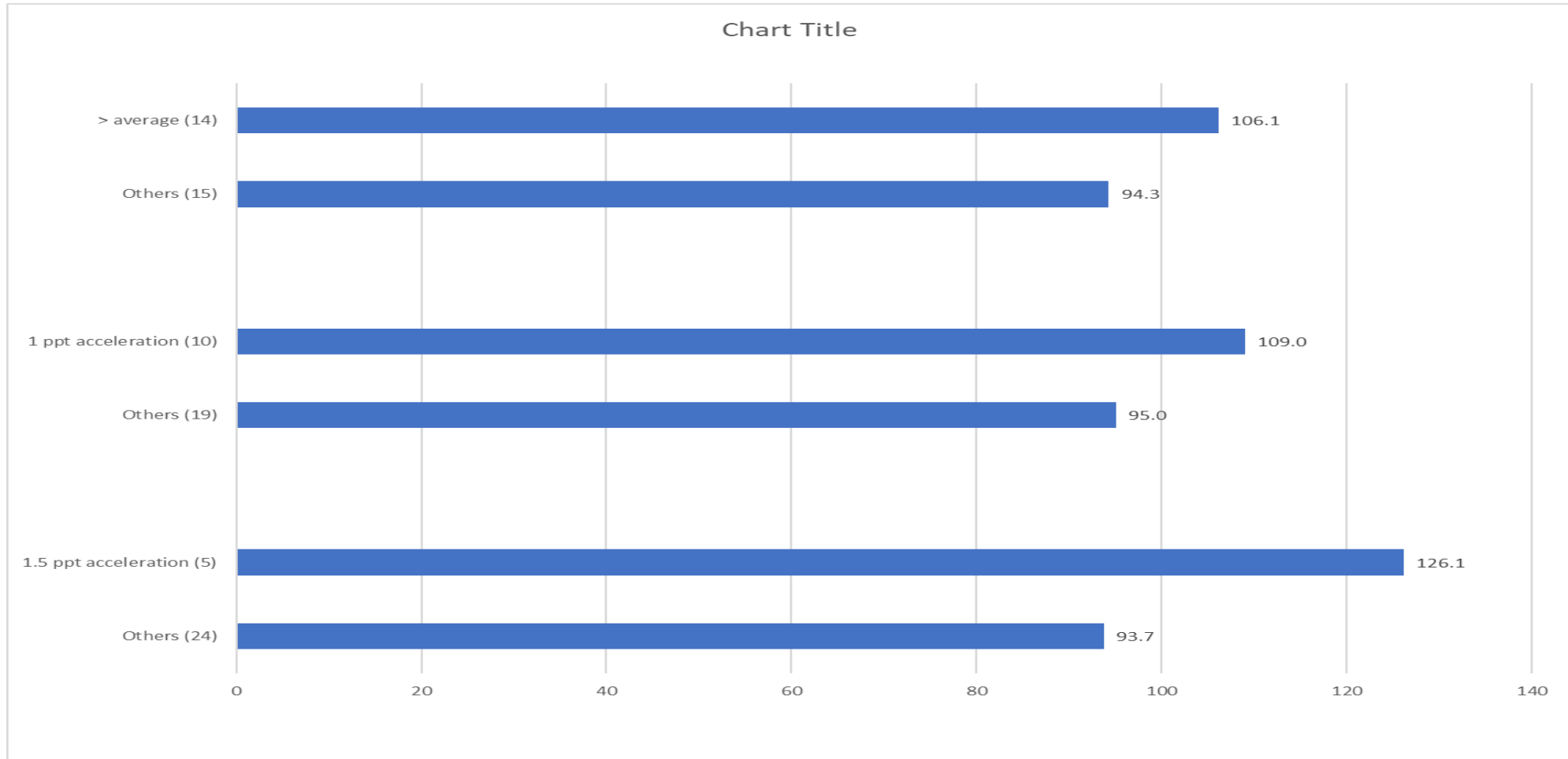PCE, motor vehicles versus motor vehicle output, $2012 billions

Source: Author's analysis of Bureau of Economic Analysis (BEA) NIPA Table 1.5.6 Real Gross Domestic Product, Expanded Detail, Chained Dollars.
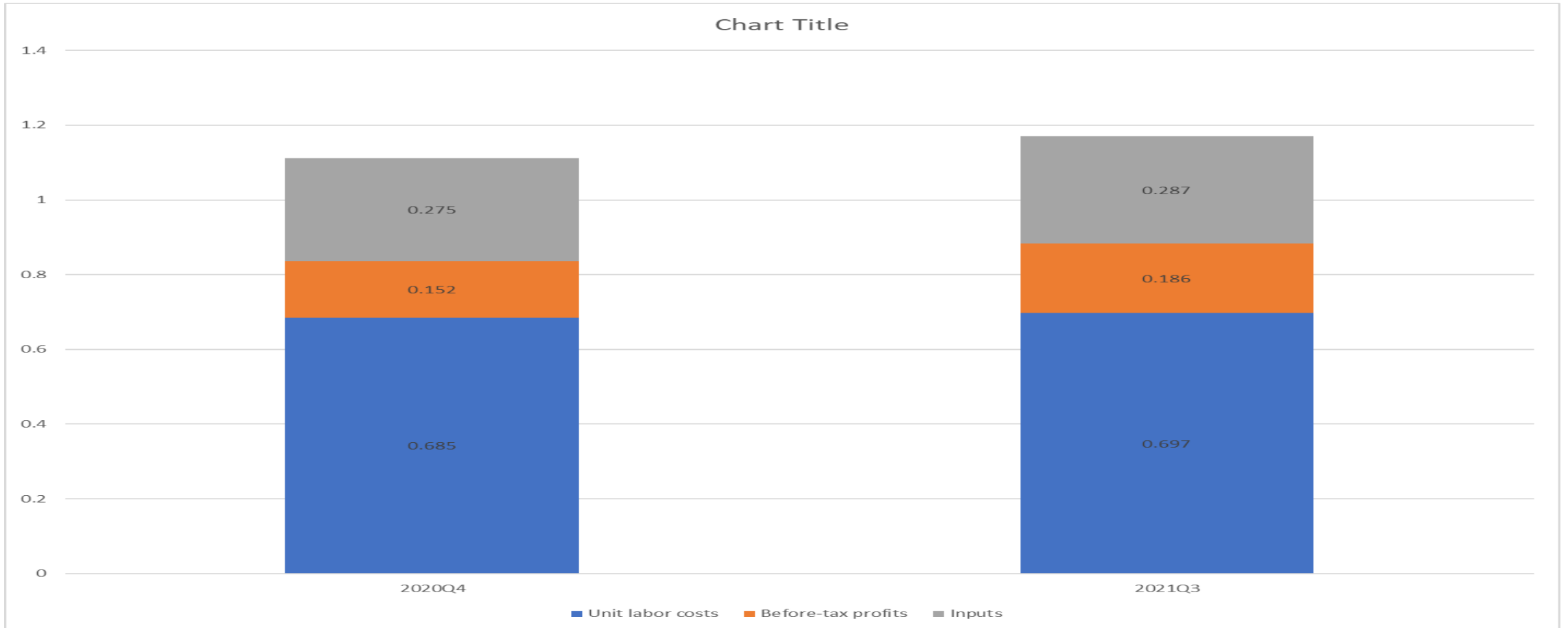
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Across countries, faster inflation associated with larger Covid case counts, not more stimulus

Chart Title

Core inflation acceleration — Discretionary fiscal relief for COVID -19, % of GDP

Across countries, faster inflation associated with larger Covid case counts, not more stimulus

Chart Title

Category	Value
> average (14)	106.1
Others (15)	94.3
1 ppt acceleration (10)	109.0
Others (19)	95.0
1.5 ppt acceleration (5)	126.1
Others (24)	93.7

Unit labor costs rising *slower* than other determinants of prices

Thank you!

Look out for an email with a captioned recording, slides, and other resources from our presenters.