WORLD BUSINESS ACADEMY
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PERSPECTIVES

by ***Rinaldo S. Brutoco***

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Inflation Worries, Wages and the Money Trail

Why panic is unnecessary

Inflation is on everyone's mind these days. Currently running at 6.2 percent (4.6 percent if you strip out food and energy), inflation is at its highest rate in many decades—since 1990 to be precise. And, although that number is unacceptably high, a historical lens can put things into perspective. From the early 70s to the early 80s we suffered through a decade of double-digit inflation that ranged between 12-16 percent. That was *very* bad. Today, by comparison, not so bad at all.

First off, President **Joe Biden** is jumping on the problem while it is still in its infancy, which usually provides a better opportunity to rein it in. San Francisco saw gas prices hit $5.85 last week—the highest peak since 2014—and some people are cutting their cable bills to pay for gas! In response, Biden just last week released 50 million barrels of oil from the strategic national reserves, adding to supply in an attempt to drive oil prices down. And, while the amount he released is woefully inadequate to the task (the United Kingdom with a fraction of the US population released 150 million barrels which will prove to be more effective), he was aided last Monday when prices dropped by ten percent over fear that the Omicron variant will reduce demand even as supplies are climbing.

High prices at the pump are in part due to "price gouging" by the major oil companies and they'll attempt to keep them high. However, the combined effect of lower demand (airlines are already cutting flights to at least seven African nations, partial lockdowns in the UK and Austria will also reduce demand quickly), together with increasing supply will work slowly but surely to drop them. Prices at the pump are already starting to come down. That most visible inflation marker, and most frustrating for motorists, and will continue to fade even as other inflationary conditions (see below) also begin to recede.

Secondly, a good deal of inflation today is being caused by the supply chain "mess" plaguing the world, which is partly brought on by deferred spending during these last two pandemic years that's causing a large spike in purchasing now. Biden addressed this issue two weeks ago, by getting a waiver from unions at the major ports to work longer hours; and, by calling attention to what *has* arrived rather than to what has been delayed by the clogged ports. As I write this on Monday, he is hosting CEOs from Etsy, Samsung, Kroger, Food Lion, and Mattel among others to look at how retailers can alter their advertising and selling practices to emphasize what they have on hand rather than what may be in temporary short supply.

In one sign that supply issues are easing, Walmart announced right at Thanksgiving that their last quarter was very strong and that they would have shelves fully stocked going forward. Add in the fact that Thanksgiving and Black Friday sales were strong, in part due to slightly higher prices and in part due to store traffic being up 48 percent from last year (although still down 28 percent from 2019), and it suggests that supply on shelves will begin to catch up with demand as soon as Holiday shopping winds down. Altogether, it's apparent that while consumers are aware of inflationary pressures, they're not deterred enough to hoard their cash.

Thirdly, the cost of a shipping container moving goods from China to the US has gone up from roughly $3,500 last year to as high as $22,000 or more, and some of those increases are being fed into an inflationary spiral. Again, this will drop off significantly when new Holiday orders slow down starting the first week of December. That leaves all of December and all of January for shipping to catch up with demand and allow shipping prices to drop.

By the way, many of those increased shipping costs were *not* as yet passed on to consumers but the story itself has led to inflationary fears, punctuated by what consumers saw at gas stations and at grocery stores.

Fourth, the governments of the world have already spent $17 Trillion, including loans and guarantees (representing 16 percent of global GDP), fighting the pandemic. According to The Economist, "On current forecasts, government spending will be greater as a share of GDP in 2026 than it was in 2006 in every major advanced economy." Will that be inflationary? Yes, to a mild extent but it will also be stabilizing as the vast bulk of that money will go to individuals.

The consumer spending spree referred to above that contributed to the inflation numbers in the US was widely supported by the direct cash payments made by the Biden Administration to combat the pandemic's reduction in employment and commerce. That money went to individuals who used it to shore up their savings accounts and provided the "fuel" for the deferred spending we are now witnessing.

The pent-up demand and better savings rate that combined to create this inflationary spending spree should now also begin to taper off. With the Omicron variant heading our way we anticipate that spending and commerce will slow down which will also take inflationary pressures off the economy.

Fifth, and most fortunately, the spike in inflation this year is partly due to an increase in wages. Although the subject of "The Great Resignation" is one we ought to tackle in a future column as it requires a good deal of analysis to understand, it appears that rising pay for the lowest-paid sectors of society was a minor factor in increasing inflation. For the first time since 1970, the wages of the lowest quadrant of the pay scale rose faster than the other three quadrants above it. That is very good news indeed. It means we traded a temporary rise in inflation for a higher standard of living for the bottom 25 percent of wage earners. That trade-off is long overdue and well worth the price.

By following the government's "money trail" we understand that inflation is not presently a long-term challenge. It has raised the standard of living for many millions of Americans, it's reinvigorating our consumer economy right when we need it, and it will not likely be a factor six months or so from now. That's a reason to relax our fears about inflation and gives new meaning to this year's "Thanksgiving."

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