

Why Is Inflation Rising Right Now?

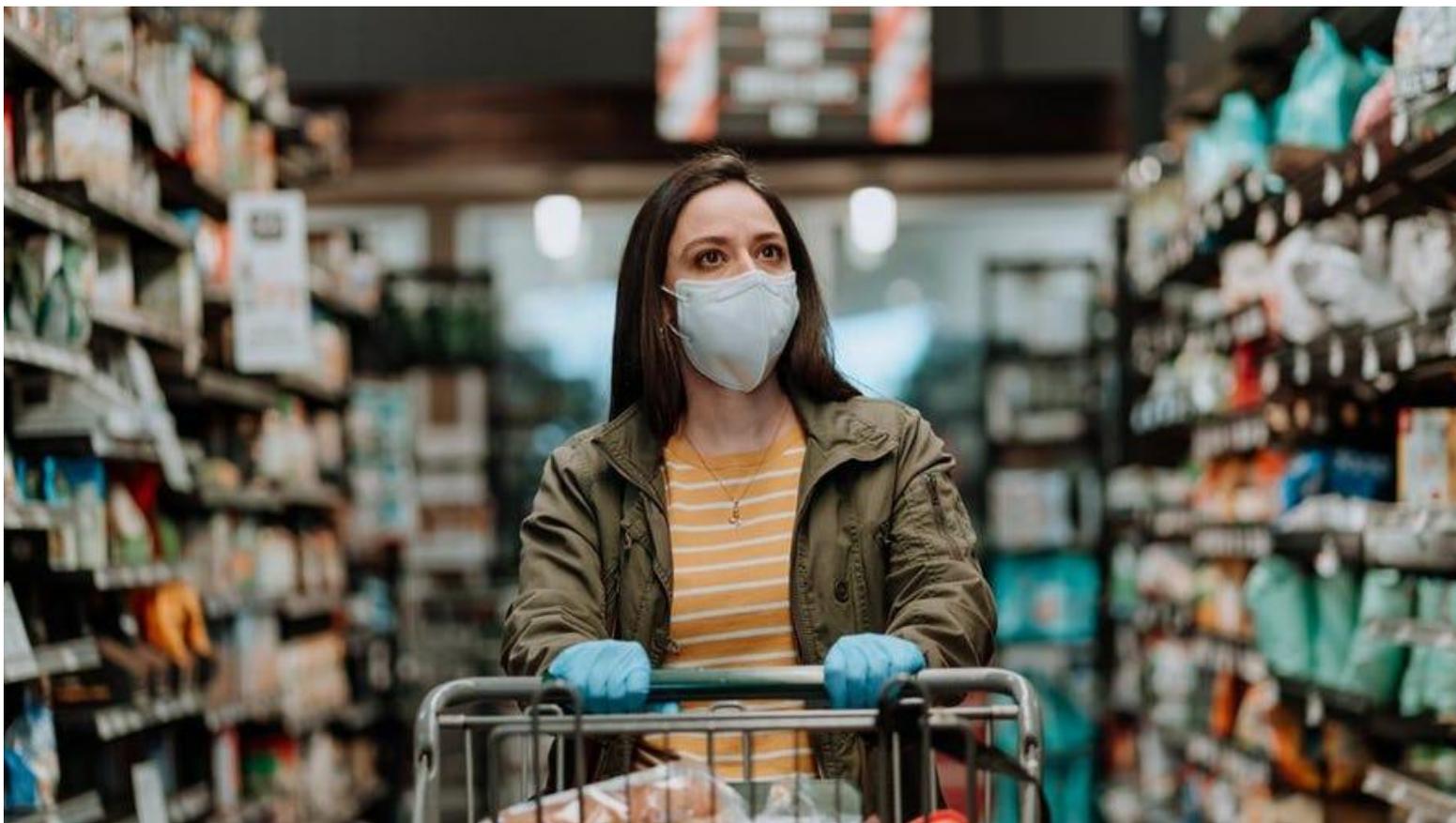


Taylor Tepper

Forbes Advisor Staff

Updated: Oct 13, 2021, 9:21am

Editorial Note: Forbes Advisor may earn a commission on sales made from partner links on this page, but that doesn't affect our editors' opinions or evaluations.



Overall, prices climbed 5.4% year over year, according to the Bureau of Labor Statistics (BLS) and 0.4% over the past month. The indexes for food, shelter and gasoline were key drivers of inflation growth last month. Of course, those items are key to the basic financial life of normal Americans, thereby stretching their bottom line even thinner.

When you strip out volatile food and energy prices (so-called core CPI inflation), the picture was somewhat brighter. Prices rose by just 0.2% in September, slightly higher than in August, and climbed by 4% over the last 12 months. That's still well above the [Federal Reserve's](#) 2% target, but not as high as recent months.

Certain items contributed mightily to these historic gains, as any driver can attest. New vehicles jumped 1.3% over the past month, and are now 8.7% higher compared to 12 months prior, while gas prices shot up by 1.2%. Grocery prices were 1.2% more expensive in September than in August, continuing an expensive trend. Over the past year, food is 4.6% more expensive. Shelter costs have risen by 3.2% during the same period.

One of the Fed's key jobs is to keep price growth stable, and Fed officials have been telling anyone who'll listen to expect higher [inflation](#) in the near term as the economy gets back to normal. They're also saying that current inflation pressure should give way to more healthy price growth over the longer haul.

But those calls of "transitory" high inflation have been undermined by persistently high prices. In a [recent speech](#), Atlanta Federal Reserve Bank President Raphael Bostic admitted as much.

"Wednesday's still elevated Consumer Price Index marks about six months worth of hot inflation data, suggesting that inflation is not as transitory as many investors previously expected," said Nancy Davis, founder of Quadratic Capital Management.

Workers are feeling the sting, too. Saying that higher prices will moderate once the economy gets back to normal is easier than actually living through the increase, especially as September wages only gained 4.6% from the year prior.

Investment type

All



All 7

Cryptocurrency 5

Online Trading 2

Partner	Fees	Minimum	Highlights	
	Fees Vary By Product	\$2	Coinbase: The Simple, Safe Way To Buy, Manage And Sell Your Cryptocurrency.	Next
	\$0	\$0	All-In-One Investing, Including Crypto. Download The App And Get Up To \$1000 When You Open An Account.	Next
	\$0	\$0	Robinhood Provides Tools To Help You Invest. The Platform Is Built To Be Intuitive And Accessible For Newcomers And Experts.	Next
	Fees Vary By Product	Varies By Product	America's #1 Cryptocurrency IRA Platform. Invest In Cryptocurrencies Like Bitcoin, Ethereum And More Inside Your Retirement Account.	Next
	.50% For Trade. Additional Fees may vary.	\$0	Invest In Your Future With The Crypto Platform Built For The 21st Century. Get Started Today With As Little As \$1 And No Minimum Balance Required.	Next

[Advertiser Disclosure](#) | [Privacy policy](#)

Brothers from Another: Inflation Gains and the Covid-19 Recession

To get a sense of what's happening with inflation, let's look at airfare.

Once the Covid-19 pandemic began last spring, demand for travel plummeted. Folks canceled tickets en masse, delayed vacations and hunkered down as stay-at-home orders took effect. This, of course, led to airfare prices to drop precipitously.

In April 2020, for instance, airfares fell 24% year over year, and they would spend most of the rest of 2020 at these depressed levels. When you compared airline ticket prices in the time of Covid-19 to prices from the before-times, they were typically about 25% less expensive.

almost 25% higher than a year before, if only because so few people were buying tickets then.

This is one of the key points that the Fed has been pounding away at: You must pay attention to these so-called base effects. Now that vaccines are widely available and Covid-19 cases are dropping, more people will fly. Yes, airline prices are much higher than a year ago, but they remain [cheaper](#) than where they were pre-pandemic.

Still, these base effects don't explain everything. Take used cars and trucks: While prices declined going into the [recession](#), it is not the case that used cars and trucks became less expensive than they were in February 2020. In fact, they've never been more expensive than they are now.

The reasons for that hike are tied to the pandemic, to be sure. Supply is limited thanks to new car production being stymied by an [ongoing chip shortage](#), people hanging onto their leases for longer and rental car companies—a major source of used cars—having fewer to unload after limiting their inventory when the pandemic struck.

The Fed has warned the public over these and other supply-chain issues, too, saying that it'll take time for sectors of the economy to get back to normal. Once these kinks are worked out, the Fed asserts, inflation will stop growing so quickly.

Should You Be Worried About CPI Inflation?

That's cold comfort for families in the market for a used car, and consumers will need to be judicious with how they allocate their budget over the next few months. But weird price movements were an inevitable side effect of closing down the economy to quash the virus, so they shouldn't be totally unexpected. Luckily, they're likely to be short-lived though may persist while the Fed works to get people back to work, notes Nancy Davis, founder of Quadratic Capital Management.

“I believe the Federal Reserve is more focused on the employment part of its dual mandate and will remain accommodative for as long as it takes to ensure the economy returns to full employment,” she said. In short, the Fed's low interest rates and bond purchases, so-called “easy money” meant to encourage economic activity, likely aren't going anywhere for the time being and businesses (and their stocks) may continue to grow.

This kind of support is likely needed as the recent jobs reports have disappointed many. While employers have generally added more workers, the unemployment rate remains well above pre-pandemic levels and many millions remain out of work. Fed Chair Jerome Powell has said repeatedly that he is focused on getting back to full employment and that he won't be swayed by temporary rises in inflation.

In fact, the [Fed announced last August](#) that it would tolerate higher inflation than its target rate for a modest period of time since inflation has been too low for the last 10 to 15 years. That said, the Fed doesn't expect higher inflation to stick around once more people are back at work.

In testimony before Congress at the end of June, Powell acknowledged that inflation was up in recent months and blamed it on base effects, higher oil prices, consumers reopening their wallets, and supply chain issues.

“As these transitory supply effects abate, inflation is expected to drop back toward our longer-run goal,” Powell said.

Market observers are now left wondering just how transitory is this transitory inflation spike and how long will average Americans stomach it.