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Two Sides to a Story

By Ryder Taff

Inflation is classically defined as "too much money chasing too few goods."

Over the past dozen years of ultra low interest rates and successive rounds of quantitative easing, people have been sounding alarms of "too much money" that would certainly lead to higher inflation. For much of the time, fears about inflation never materialized. From 2010-2020, inflation averaged 1.7%. Year over year inflation crested 3% in 2011, but for the most part stayed below 2%. All of that money chased more and more goods. More people got to work, more goods were produced and this all resulted in mild inflation and modest GDP growth on top. After all, modest inflation is a sign of a healthy economy.

So why, after all of those years of printing money, has inflation just now reached 7.5%, averaging 4.5% for the past two years?

The story behind this level of inflation lies on the other side of the ratio. Yes, there is more money than ever in our economy, but also, oddly, fewer goods. In 2020, many businesses slowed or shut down production as they dealt with the effects of covid in the workplace or anticipated lower demand for their goods. Goods with notable shortages ranged from some of our largest expenses like vehicles, to our most urgent – who among us does not remember being gripped by fear the first time we noticed the grocery stores were low on toilet paper? Both of these shortages were attributed to supply chain issues – it wasn't that we needed *more* toilet paper but that less was being produced and shipped. Automotive factories were idled and key components weren't being delivered. When I drove by a dealership with only three cars on the lot, it wasn't because everyone in town suddenly wanted a Subaru, there just weren't any being made!

Increasing prices hurt consumers, but the pain isn't as evenly spread as the single inflation number indicates. Inflation is deeply personal. If you own your home, the bulk of your housing budget was locked in years ago. If your wages increased this year that is a good thing! Food is one of the most important parts of my budget, but I have immense flexibility to decide whether to eat out or stay in with a plate of rice and beans.

The annual rate of inflation since 2009 has finally hit an average of 2%. This is the healthy growth that the Federal Reserve was aiming for, and we expect rising interest rates throughout the year. They will seek to thread the needle between keeping inflation from getting too high for too long while still allowing our enormously complex economy to grow – a task that I do not envy! While recent inflation may be sharp, a strong economy is the ultimate target.

Air used to be free at the gas station, and now it's $1.50. You know why? Inflation.

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