Supply Chains and the Rise of Inflation

November 10, 2021
About the Kem C. Gardner Policy Institute

Our Mission: Develop and share economic, demographic, and public policy research that sheds light and helps people make informed decisions.

Our Vision: Be Utah’s preeminent public policy institute and a vital gathering place for policy leadership and thoughtful discourse that helps our community prosper.
Headline Inflation Higher Than Past Decade, Near 30+ Year Highs

12-Month Percent Change, U.S. Consumer Price Index

Shaded areas indicate U.S. recessions. Source: U.S. Bureau of Labor Statistics  myf.red/g/HlO
Headline Inflation Climbs and Levels

12-Month Percent Change, U.S. Consumer Price Index

Source: Bureau of Labor Statistics

<table>
<thead>
<tr>
<th>Month</th>
<th>Percent Change</th>
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</thead>
<tbody>
<tr>
<td>Oct-20</td>
<td>1.2%</td>
</tr>
<tr>
<td>Nov-20</td>
<td>1.2%</td>
</tr>
<tr>
<td>Dec-20</td>
<td>1.4%</td>
</tr>
<tr>
<td>Jan-21</td>
<td>1.4%</td>
</tr>
<tr>
<td>Feb-21</td>
<td>1.7%</td>
</tr>
<tr>
<td>Mar-21</td>
<td>2.6%</td>
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<tr>
<td>Apr-21</td>
<td>4.2%</td>
</tr>
<tr>
<td>May-21</td>
<td>4.9%</td>
</tr>
<tr>
<td>Jun-21</td>
<td>5.4%</td>
</tr>
<tr>
<td>Jul-21</td>
<td>5.4%</td>
</tr>
<tr>
<td>Aug-21</td>
<td>5.3%</td>
</tr>
<tr>
<td>Sep-21</td>
<td>5.4%</td>
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</tbody>
</table>
Inflation 101

The U.S. is experiencing cost-push and demand-pull inflation

Source: Kem C. Gardner Policy Institute
Inflation Running Hot

Standard deviations from 5-yr moving average, Consumer Price Index

Motor fuel
Hotels and lodging
Household furnishings
Food at home
Food away from home
Hospital services
Recreation
All items
Rent
Tuition and childcare
Core
Medical prof. services
Motor vehicles
Airfare and city transit

2020 2021

Standard Dev. from Mean

-5.0 -2.5 0.0 2.5 5.0

Source: BLS, Moody's Analytics
Breaking Down Inflation

U.S. Consumer Price Index Components, by Month

Source: BLS, Moody’s Analytics
Supply Chain Bottleneck

U.S. Supply Chain Stress Index, 2019 Q4=100

More stressed than pre-pandemic normal

Less stressed than pre-pandemic normal

Source: Moody's Analytics
Pandemic Recession Disruption

Wage Growth and Prime-age Non-employment Rate, quarterly 1994Q1-2021Q3

Source: BLS and Moody’s Analytics

Note: ECI is Employment Cost Index
When Will the Supply Side Wake Up?

Until the supply side of the economy wakes up and catches up with the fast-reviving demand side coming out of the pandemic, the economic statistics will undoubtedly hold more surprises...But there is money to be made. And, if history is any guide, when businesses can make a healthy profit, they will solve the problems. Quickly.

Mark Zandi, Moody’s Analytics
Inflation Forecast

Annual Percent Change, U.S. Consumer Price Index

Source: Revenue Assumptions Working Group July Forecast
Are Inflation Expectations Becoming Unmoored?

Inflation Expectations

Inflation Expectations by Income Level

Source: Federal Reserve Bank of New York