U.S. Inflation
Past, Present, and Future
U.S. inflation has surged over the last year, reaching 7% in 2021.

Source: U.S. Bureau of Labor Statistics (Jan 2022)

To see how this compares to price fluctuations over time, let’s look back at historical inflation—and where experts think it may be headed next.

**Inflation Over Time**

Sources: MacroTrends (Jan 2022), National Bureau of Economic Research (July 2021), The White House (July 2021)

1969
A booming economy in the late '60s leads to rising prices.

1974
The OPEC oil embargo causes a surge in oil prices.

1979
The Iranian Revolution and Iran-Iraq war leads to a second oil price jump.

1990
The price of crude oil increases due to the uncertainty of the first Gulf War.

2007
Skyrocketing gas prices cause a temporary increase in inflation.

2021
The COVID-19 recovery leads to surging consumer demand, supply chain issues, and a labor shortage.

**Real Wage Growth**

Source: U.S. Bureau of Labor Statistics via St. Louis Federal Reserve (Jan 2022)

Wage growth was artificially inflated in 2020 because lower-paid workers lost their jobs, while most higher-paid workers remained employed.

Source: The White House (April 2021)

<table>
<thead>
<tr>
<th>Number of years with positive real wage growth</th>
<th>Number of years with negative real wage growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>33</td>
<td>24</td>
</tr>
</tbody>
</table>

Shaded areas indicate U.S. recessions. Inflation rate as measured by CPI, not seasonally adjusted. Real wage growth measures the difference in the growth in average hourly earnings of production and nonsupervisory employees, total private, not seasonally adjusted, after accounting for inflation.
What is Inflation?

Inflation measures how quickly the prices of goods & services are rising. Moderate price growth is generally a sign of a healthy economy. As the economy grows, consumer demand increases and prices go up.

North Carolina State University (Jun 2019)

There are two types of inflation:

Cost-push inflation

- Production costs (e.g. materials, wages) increase
- Supply declines due to higher costs
- Businesses pass costs on to the consumer through higher prices

Demand-pull inflation

- Consumer demand surges
- Supply declines due to higher demand
- Consumers are willing to pay more and prices rise

Source: Nasdaq (Jun 2021)
Comparing Current Inflation to Historical Periods

We are currently experiencing both cost-push inflation and demand pull inflation. This is different from the other inflationary periods over the past 50 years, where rising oil & gas prices led to cost-push inflation.

* Year-over-year inflation is at least 3.9% for 6 consecutive months or more.

Source: American Enterprise Institute (Oct 2021)

Since 1965, there have been 6 periods of sustained high inflation*.

* Year-over-year inflation is at least 3.9% for 6 consecutive months or more.

Recent inflation has been the highest in categories like energy, vehicles, and food.

Select categories with inflation greater than 10% are shown.

Source: U.S. Bureau of Labor Statistics (Jan 2022)
What Has Caused the Current Inflation?

Amid lockdown restrictions, demand for goods increased dramatically. It remained high even after demand for services recovered.

### Personal Consumption Expenditures Relative to February 2020

Source: Federal Reserve Bank of St. Louis (Jan 2022)

At the same time, business inventories are at record lows.

### Inventory to Sales Ratio

Retailers can cover just over 1 month of sales from existing inventories, down 24% compared to February 2020.

Source: Federal Reserve Bank of St. Louis (Jan 2022)

Not only that, there is a severe labor shortage.

The lack of supply has led to higher material and wage costs for businesses.

### Total Private Job Openings

Source: Federal Reserve Bank of St. Louis (Jan 2022)
Inflation Rate Forecasts*

Over the next few years, various institutions expect inflation to stabilize.

<table>
<thead>
<tr>
<th>Year</th>
<th>Organization for Economic Cooperation and Development (OECD)</th>
<th>International Monetary Fund (IMF)</th>
<th>U.S. Federal Reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>1.4%</td>
<td>1.4%</td>
<td>1.3%</td>
</tr>
<tr>
<td>2021</td>
<td>7.0%</td>
<td>7.0%</td>
<td>5.8%</td>
</tr>
<tr>
<td>2022P</td>
<td>4.8%</td>
<td>5.9%</td>
<td>2.6%</td>
</tr>
<tr>
<td>2023P</td>
<td>2.5%</td>
<td>2.7%</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

*The OECD and IMF measure inflation with the Consumer Price Index (CPI), whereas the U.S. Federal Reserve measures inflation using Personal Consumer Expenditures (PCE). The CPI is based on a survey of what households are buying, while the PCE is based on a survey of what businesses are selling. The PCE also attempts to account for people adjusting their buying patterns when goods becomes more expensive, while the CPI uses the same basket of goods and services each time. An investment cannot be made directly into an index.


To combat inflation, the Federal Reserve is looking to raise interest rates. This encourages people to spend less and save more.

However, for inflation to moderate near the 2% target, issues beyond consumer demand—like supply chain hiccups and labor shortages—will also need to be resolved.
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The Consumer Price Index (CPI) represents the price of a weighted average market basket of consumer goods and services purchased by households. Personal Consumption Expenditures (PCEs) refers to a measure of imputed household expenditures defined for a period of time.

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