Inflation’s at a 40-year-high, and the future is uncertain

When will prices stop going up? It's unclear. But consumers are getting hit from all sides right now.

By **Diti Kohli** Globe Staff, Updated June 10, 2022, 11:51 a.m.

A recent Suffolk University/Globe poll found that many Massachusetts residents are skipping food staples at the grocery store, canceling vacation plans, and dipping into savings due to inflation. SAUL LOEB/AFP VIA GETTY IMAGES

Seemingly unending inflation is rippling through the American economy and hurting households already struggling with the sky-high costs of groceries, gas, and other essentials.

Friday brought another reminder of just how bad it is.

New figures released by the Bureau of Labor Statistics showed prices have climbed by 8.6 percent since May 2021. Just from April to May, the consumer price index — a federal metric measuring what people pay for goods and services — jumped 1 percent, far faster than was typical pre-pandemic. Even so-called core inflation, which excludes volatile commodities such as food and gas, sits at 6 percent.

The “1970s called, and it wants its inflation back,” wrote analysts at TD Securities. “There is no room to sugar coat this.”

Or as Boston College economics professor Brian Bethune put it: “We are in the worst of the worst right now.”

The figures dampened hopes from economists and the White House that inflation would finally begin to cool after surging over the past year. In April, monthly increases appeared to be tapering off, and another key inflation gauge saw its first slowdown since November 2020.

But now comes a fresh reminder of the fastest price increases in 40 years, renewed fears of an upcoming recession, and predictions of more aggressive interest rate hikes from the Federal Reserve. The stock market reacted accordingly, with major indexes tumbling nearly 3 percent Friday.

The annual percentage change in prices since May 2002

It's hitting consumers from all sides. Grocery bills have risen at an annual rate of more than 10 percent for several months. Dairy rose 2.9 percent from April to May, the bureau found, the largest monthly uptick since July 2007. Meat, poultry, fish, and eggs rose by at least 1.1 percent in a month.

Then there's gas. The average price for a gallon in Massachusetts hit $5 Tuesday, and

AAA reported that the nationwide average reached a record $4.98 Friday. That's below the record of $5.50 in July 2008, after adjusting for inflation, but still shockingly high.

And energy costs, up 34.8 percent in a year, directly affect shipping and transportation, fueling the upward spiral in prices.

What most worries Austin Litvak, the director of investment research at Boston's O'Brien Wealth Partners, is steep cost increases in "less price-sensitive markets" — think housing, recreation, and medical care.

"Inflation trends in these markets tend to be more sustained," he wrote, suggesting those higher prices may stick around.

And the brunt of the soaring sticker prices is hitting low-income families hardest. A recent Suffolk University/Globe poll found that many Massachusetts residents are skipping food staples at the grocery store, canceling vacation plans, and dipping into savings due to inflation. Nearly one in three households does not have enough to eat, a new Greater Boston Food Bank report found.

"Between price increases within food and gas prices and utilities, this becomes very financially challenging," a participant in the food bank's survey said.

Bethune called the higher prices "a regressive tax" on households with less money in the bank.

"People with lower incomes typically drive older cars that guzzle more gas," he said. "They are more dependent on food and fuel as part of their overall basket of goods. Higher-income people — they're less exposed."

The causes, at this point, have become all too familiar. For months now, officials have pointed to high consumer demand, pandemic supply chain disruptions, and the Russian invasion of Ukraine as the reasons for the all-around increases.

Many wealthier households are continuing to spend more than $2 trillion in additional savings they collected during the pandemic. Some retailers, including Target, have reported excess inventories. To Bethune, those are “an early sign that bottlenecks are easing.”

With the warm weather upon us, demand for travel and summer activities is growing, pushing up prices for airfare and hotels. Restaurants are grappling with rising food costs for everything from chicken to wine, and are passing at least some of those on to customers. Wages are increasing, too, though not as quickly as prices.

The only glimmer of good news lies within the supply chain, where longstanding issues seem to be easing. Factories in China that halted production during a months-long COVID lockdown have reopened, and the backlog in cargo ships waiting to unload in Los Angeles and Long Beach, Calif., fell for the fourth straight month in May, The Wall Street Journal reported.

President Biden has also repeatedly attributed up to 70 percent of the bump in food and fuel to Russian President Vladimir Putin. The war in Ukraine has disrupted the economies of two major global producers of wheat and energy, influencing the cost of items ranging from gasoline to breakfast cereal.

But there’s little sign the fighting, or Western sanctions on Russia, will end any time soon.

Where we go from here is unclear.

Economists surveyed by Bloomberg expected inflation to cool off to 6.3 percent — still sharply elevated — by the end of 2022. The Department of Energy says gas prices will decline in the third quarter of the year. Most Americans, though, are less certain: Many believe inflation will worsen over the next year and are accordingly adjusting spending habits, according to a poll conducted by the The Washington Post and George Mason University’s Schar School of Policy and Government.

And the global world economy is suffering alongside our own. On Tuesday, the World Bank said it predicts annual global growth this year will amount to 2.9 percent, lowering its sights from 4.1 percent in January.

Biden also released a large amount of oil from the US petroleum reserves in an effort to tamp down gas prices. But mostly, he has chosen to give the Fed "the space to do their job." In practice, that has largely meant raising interest rates to keep the the economy from overheating.

It may yet work, wrote the left-leaning Economic Policy Institute, in a response to Friday's report. But in the meantime, the institute wrote that the situation is "pretty ugly — and "shows the pain workers and their families are experiencing."

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