RAMBLER INVESTMENT FUND

Inflation: No Need to Freak Out About Quite Yet

Luke Schutt

"Inflation" has become the buzz word to use when talking about the U.S. economy as of late. Whether people know what they're talking about, or haven't got a clue, it has become one of the repeating topics revolving around our discussions related to the U.S. economy. What many people don't seem to understand right now is that some inflation can be healthy, especially when coming out of an economic downturn. Inflation caused by a resurgence in consumer spending and demand after a year of COVID-19 related supply chain should not be an immediate cause of panic, but instead a growing pain in the overall recovery. The best thing someone can do to not irrationally panic about crazy inflation is to listen to Jerome Powell discuss the recent Consumer Price Index (CPI) numbers when testifying to Congress on June 22nd of this year. Music to my ears.

That "music" starts with the news regarding progressing vaccination rates. Thanks to vaccination efforts across the country (which everyone should go get to help out other fellow humans), we have been able to see significant progress in the recovery from the COVID-19 pandemic and are definitely nearing the end on our way out of that downturn. This progress has allowed for many Americans to go back to more normal levels of disposable income and the vaccination has allowed many U.S. companies to start resuming their operations at a much more normal pace. As the economy has begun to recover to its pre pandemic GDP growth rates, the growth in our employment has been able to counter the recent mass of layoffs. In fact, according to recent consumer spending numbers, the United States has reached near pre-pandemic levels of consumer spending. This has allowed for many companies to start recovering the revenues lost during the pandemic and for the entire U.S. economy to experience more normal economic performance, even though we still have not reached a full recovery.

Federal Reserve Chairman Jerome Powell has urged people to calm their fear regarding inflation, due to the fact that much of the supply chain and operations of companies across the United States still remains somewhat bottlenecked in their recovery. Everyone can remember the massive layoffs, the heavily restricted operations many industries faced, and the economic uncertainty that many felt as the pandemic showed no sign of an end. Though we were faced with these challenges not so long ago, much of the economy has begun to function at a more normal pace and there is a lot of bullish optimism surrounding the economy. However, as demand for certain goods and services becomes relatively more stable, there are still barriers as to how quickly supply can keep up with this more consistent demand causing the price increase that many have seen throughout the economy. This has been a key warning cry that Jerome Powell has echoed, stating that the temporary spike in the CPI will wane, but only with time as the economy reacts to the quick post COVID-19 opening.

One challenge that many industries face in meeting this demand is that they cannot fill all of their employment availability. Whether it be newfound financial comfortability or not wanting to go back to work in person, many Americans do not feel comfortable going back to work just yet. Although the unemployment rate is currently at a healthy 5.9% in the latest jobs report, many employers still feel they are short staffed the U.S. economic recovery. This labor shortage has left many businesses behind the curve of the surging demand in the U.S. economy. With demand outpacing supply so significantly, prices have started to increase quickly. However, as the economy becomes more stable and COVID-19 continues to dwindle, we have begun to see a tapering to many of the unemployment benefits provided because of the COVID-19 pandemic. That, partnered with the American Rescue Plan eventually running out of funding, could force some to go back into the work force. The labor shortages are definitely a significant factor in the sudden increase in the CPI, but it is one that can be solved for through time and a fuller economic recovery, and therefore should not be a cause of panic.

The U.S. economy's supply chain has not only been bottlenecked by the labor shortage, but it has also been restricted by the pandemic's enduring effects economic performance and the relative unpredictability of the recovery from the pandemic. Due to the grueling economic challenges faced in 2020, many companies lost significant revenue and had to make massive layoffs. Now, as we turn the corner in 2021, companies have had to try and bring their operations close to full capacity again to meet demand. While entire industries try to bring back their operations, they're doing so while still missing significant portions of revenue that were dedicated towards those very operations. Some industries, like energy and travel, not only struggle with these challenges, but they also have to deal with some of the most significant surges in demand. For example, gasoline prices have increased significantly as of recent, and many have raised quick concerns regarding inflation. The fact of the matter is crude oil hit extreme lows in 2020, and much of the of the increase in prices can be linked to the fact that while demand has now started to increase since its low, it is outpacing supply. (To add to the unpredictability of the market, a major U.S. oil-based contractor was held for ransom, slowing supply even more.)

The travel industry is another great example of price irregularity that can be waned over time. In 2020, travel was hit like very few industries have been hit before. Since then, in early 2021, the demand for travel has skyrocketed in a relatively short amount of time to the surprise of U.S. airlines. When asked about price escalation, specifically in travel, Fed Chair Powell responded, "Those are things that we would look to, to stop going up and ultimately to start to decline as these situations resolve themselves," and continued by stating, "the incoming data are very consistent with the view that these are factors that will wane over time, and inflation will then move down toward our goals and we'll be monitoring that carefully." Although demand may have picked up across many sectors of the U.S. economy, it wasn't until recently that many of the strict guidelines for COVID-19 started to be lifted, allowing for companies to actually open themselves up to that demand. This has provided to be yet another hurdle in the full recovery for many sectors in the U.S. economy. Although these challenges do still exist, I find it hard to believe that as vaccination rates continue to rise in the United States, a more normal U.S. economy should not follow. As economic performance starts to stabilize, these challenges surrounding operational capacity should no longer exist to the degree they do now.

Many fear inflation the minute they see a price increase in any good they may buy regularly. In reality, there is nothing to fear, only things to monitor. We are recovering from one of the most shocking and unpredictable economic events in recent history, and therefore nothing is very predictable. The economy is poised for a very strong recovery from the lows of the COVID-19 pandemic, but it is only going to come with patience. Without actually understanding what is going on in the economy, we can't panic over inflation every time your gas or your local grocery store increases its prices.