Look Out! Inflation

The United States economy, with 8.8 percent unemployment rate and 13.5 million unemployed workers, is experiencing a set back as inflation is gaining momentum. Energy and food prices have been rising sharply in recent months. "The combined increase in [prices of] the necessities of food and energy creates a harsh double-whammy for already stressed consumers," according to Craig Johnson of the Customer Growth Partners. He estimates that food and energy eat up about 15 percent of consumer spending at today’s prices, compared with about 12.7 percent two years ago.¹

Inflationary pressures have been gaining momentum since summer of 2010. The cost of living inflation accelerated from 1.4 percent in the third quarter of 2010, to 2.6 percent in the fourth quarter of 2010, and to 5.2 percent in the first quarter of 2011. During the same three quarters, the cost of food inflation accelerated steadily from 0.7 percent, to 2.1 percent, and 5.2 percent. The cost of energy inflation has been out of control, rising from 5.4 percent, to 22.7 percent, and to 38.3 percent.²

Increasing fuel prices push prices of food items and other commodities even higher, resulting in a more rapid general inflation. Accelerating inflation hampers “real” growth and slows the already sluggish economy. In addition, low-income households feel a harsher double-whammy as they spend a larger percentage of their incomes on the necessities. On average, low-income households use up 18 percent of their budgets on food and gasoline (at $4.00 per gallon). In contrast, high-income households spend 12 percent of their budgets on food and gasoline (at the same price).³


² The cost of living inflation is measured by the percentage change of the Consumer Price Index (CPI). The cost of food inflation is measured by the percentage change of the CPI-Food and the cost of energy inflation is measured by the percentage change of the CPI-Energy. All CPI data are adjusted for seasonal changes. Data source: Economagic.com: Economic Time Series Page, http://www.economagic.com/