

Historic Inflation Wave Has Broad Impact

by Dalton Brown, News Reporter
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EDWARDSVILLE - A recent wave of inflation has led to price increases across a range of industries - meaning everything from groceries to heating bills is costing customers more. Timothy Sullivan, the director of SIUE's Office of Regional Economic Analysis, says we haven't seen anything like this for decades.



“It’s been a long time since we’ve seen this,” Sullivan said. “I was in high school and college last time we had inflation like this, and I’m in my mid-50’s. If you’re under the age of 30, you have no adult memory of inflation like this.”

Most consumers are going to encounter inflation in their food prices, but the energy sector has had the largest 12-month price change, Sullivan said. While economists have identified three possible sources of inflation, they disagree about which one is currently at fault.

One argument is that it’s being driven by demand - that the federal government has increased incomes through stimulus packages and that’s what is driving inflation. Another argument is that it’s supply-driven, caused by problems with factory workers and supply chain issues.

The third argument is that it’s driven by monetary policy - that because there are more dollars in circulation chasing the same number of goods, the cost of those goods is going up. Sullivan said how soon we can expect relief depends on which theory is right.

“If it’s driven by supply chain issues, then these things are likely to resolve themselves over the next few months and this inflation will be temporary,” Sullivan said. “If it’s driven by some of the other issues, we might be looking at inflation that’s longer-lasting.”

The good news, Sullivan said, is that financial markets are predicting this inflation to be temporary. In the meantime, customers may have to change their shopping habits like they did in the 1970s and 1980s.

“This was the rise of the discount store - this was when people stopped shopping at department stores and started shopping at places like Target and Walmart because the prices were lower,” Sullivan said. “This was the rise of the big discount warehouses like Sam’s Club and Costco, largely because people were trying to stretch their dollars - that’s what consumers can do.”

Sullivan said there isn’t much state and local government can do beyond investing in supply chain infrastructure and encouraging businesses to lower prices, which they should do regardless of inflation. But if this wave of inflation turns out to not be as temporary as financial markets currently predict, we could see prices rise elsewhere.

“Increases in inflation are often followed by increases in mortgage rates and credit card rates,” Sullivan said. “We haven’t seen that yet, but it is something that, if this turns out not to be transitory, that’s something we are going to see.”