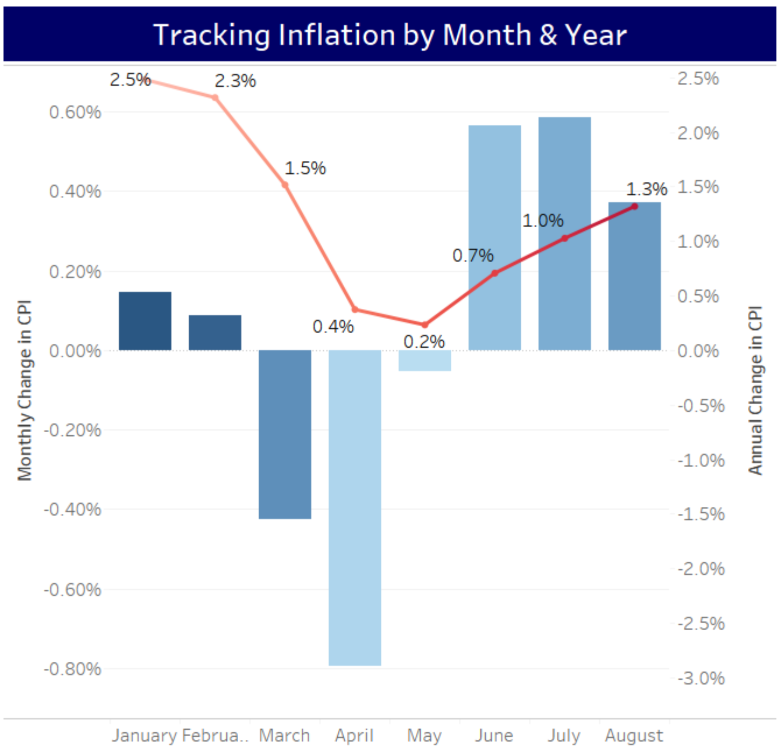
ECONOMIC VIEWPOINTS

Rising Prices Signal A Recovering Economy

Inflation is slowly creeping up, and this is a good sign in these unusual times. Rising prices are a sign of increased demand and therefore a recovering economy.

Consumer prices have now risen for three straight months in June, July, and August. Producer prices have increased for three of the last four months. They declined in June.



When the pandemic struck in March the immediate concern was prices were falling. Consumer prices fell in March, April, and May. Producer prices fell in February, March, April and June.

The concern: Deflation is as economically destructive as too-high inflation. Businesses receive lower prices for their products, but their fixed expenses like debt and rent remain stable. This can make it difficult for them to pay those fixed costs, which can make their ongoing viability questionable. Individuals and families can run into similar problems if they are forced to take lower wages while their fixed costs like mortgages, rent, and car payments remain stable.

What happened: The Federal Reserve moved aggressively to counteract this effect and it seems to have worked. Paired with a return to closer-to-normal demand, prices are rising again.

What's next: We want to see prices continue to rise because it will signal continued growth in demand. We would like to see inflation grow at an even faster rate, in fact. The Fed wants inflation running around 2% on an annual basis. Right now, consumer prices are growing at 1.3% annually. The Fed's preferred measure is running even lower than that.

Inflation will likely remain low as the pandemic persists. If the spread of the virus declines, the economy and inflation will pick up. If the virus resurges again, economic activity will fall and inflation – deflation more accurately – will become a concern again.

—Curtis Dubay, Senior Economist, U.S. Chamber of Commerce