U.S. Inflation Hits New Four-Decade High of 9.1%

Prices up broadly across the economy, with gasoline far outpacing other categories

By Gabriel T. Rubin WSJ July 13, 2022

U.S. consumer inflation accelerated to 9.1% in June, a pace not seen in more than four decades, adding pressure on the Federal Reserve to act more aggressively to slow rapid price increases throughout the economy.

The consumer-price index's advance for the 12 months ended in June was the fastest pace since November 1981, the Labor Department said on Wednesday. A big jump in gasoline prices—up 11.2% from the previous month and nearly 60% from a year earlier—drove much of the increase, while shelter and food prices were also major contributors.

The June inflation reading exceeded May's 8.6% rate, prompting investors and analysts to debate whether the Fed would consider a one-percentage-point rate increase, rather than a 0.75-point rise, later this month. Slowing demand is key to the Fed's goal of restoring price stability in an economy that is still struggling with supply issues, but raising interest rates also elevates the risk of a recession.

Core prices, which exclude volatile food and energy components, increased by 5.9% in June from a year earlier, slightly less than May's 6.0% gain, the Labor Department said.

As inflation climbs in the U.S., rising food and energy costs have pushed the nation's most popular price index to its highest level in four decades. WSJ's Gwynn Guilford explains how the consumer-price index works and what it can tell you about inflation. Illustration: Jacob Reynolds

On a month-to-month basis, core prices rose 0.7% in June, a bit more than their 0.6% increase in May—a sign of inflationary pressures throughout the economy.

"Inflation makes everything difficult," said Lara Rhame, chief U.S. economist for FS Investments. "It erodes your savings, your wages, your profits. It's punishing everybody."

Stocks declined on Wednesday after wavering for much of the day, with the S&P 500 index falling by 0.5%. Bond yields jumped following the inflation report, but yields on longer-term Treasuries quickly gave up those gains.

Despite June's inflation reading, economists point to recent developments that could subdue price pressures in the coming months.

Investor expectations of slowing economic growth world-wide have led to a decline in commodity prices in recent weeks, including for oil, copper, wheat and corn, after those prices rose sharply following the Russian invasion of Ukraine. Retailers have warned of the need to discount goods, especially apparel and home goods, that are out of sync with customer preferences as spending shifts to services and away from goods, and consumers spend down elevated savings.

"There's a pretty serious recession fear affecting a broad range of asset prices," said Laura Rosner-Warburton, senior economist at MacroPolicy Perspectives.

Retailers' ability to shed unwanted inventory could test whether pricing is returning to pre-pandemic patterns, Ms. Rosner-Warburton said. Some retailers, such as Target, have already said they are planning big discounts. Others with robust warehouse capacity, such as Walmart Inc., could be more likely to hold on to their excess inventory, analysts say.

"It would be really important if we do see discounting return, because it would show that we weren't that far away from the pre-Covid environment in terms of pricing behavior," Ms. Rosner-Warburton said.

Discounts haven't shown up prominently in inflation figures so far: Prices for apparel and home goods both rose last month. New and used car price increases, a significant source of upward pressure on inflation, both eased on a month-to-month basis in June.

The Fed last month raised its interest-rate target by 0.75 percentage point, the largest increase since 1994. Besides tempering demand, the central bank is trying to prevent consumer expectations of higher inflation from becoming entrenched, as such expectations can be self-fulfilling. Fed Chairman Jerome Powell has said the central bank wants to see clear evidence that price pressures are diminishing before slowing or suspending rate increases.

Persistent high inflation is putting a strain on businesses and consumers who, after decades of price stability, aren't used to it.

Dan Waag, 55 years old, the owner of Arlene's Sunny Side Cafe in Alcester, S.D., made the difficult decision to close for a week after concluding that a drop in the number of customers was leaving the restaurant's finances in the red.

"I know these are tough times with this inflation, little to no rain for the farmers, gas prices as high as they are," he wrote to his customers on Facebook.

Mr. Waag attributes the slowing demand to a poor season for the corn and bean farmers in the area, and the added toll of higher gasoline prices that might make an outing to his restaurant an unaffordable luxury. He hasn't changed his prices yet, but with his own rising costs and a drop in daily revenue from around $600-$700 to $300-$400, he feels he may have to soon.

High inflation and a poor farm season have driven Dan Waag to close Arlene's Sunny Side Ca

By closing for a week, he said he is betting customers will realize the value of having a non-fast food restaurant in their town of around 800 people. "I'm trying to show people, 'This is what it will be like if I have to stay closed,' " Mr. Waag said.

Consumer inflation expectations have improved somewhat, according to a Federal Reserve Bank of New York survey this week. Americans expect slower inflation increases over the longer run than they had in recent months. The bank said in its June Survey of Consumer Expectations that respondents see the annual inflation rate three years from now at 3.6%, down from their expectation in May of 3.9%. The bank also said respondents expect the annual inflation rate five years from now to be 2.8%, down from their May expectation of 2.9%.

Higher interest rates won't have the same effect on all prices simultaneously, economists say. Costs such as mortgages and rents—a big part of household budgets—respond over time to the demand-sapping effects of higher interest rates. Shelter costs rose by 0.6% in June over the prior month, the same rate as they did in May. The rent index rose 0.8% over the month, which was the largest monthly increase since April 1986.

Housing inflation is important because it represents around 40% of core CPI and around 17% of the Fed's preferred inflation gauge, the personal-consumption expenditures price index.

"High rents are really troubling because they're locked in once every year or once every two years, and that's what leads people to go ask their boss for higher wages," said Ms. Rhame.

Wages aren't keeping up with inflation. With annual wage growth at 5.1%, average hourly earnings adjusted for inflation are declining at their fastest pace in four decades. After accounting for seasonal and inflation adjustments, average hourly earnings decreased 3.6% from June 2021 to June 2022.

Record home prices and higher mortgage rates in May made it the most expensive month since 2006 to buy a home. Those conditions are leading prospective buyers to drop out of the market for now. But with limited supply and continued demand, it may take months before housing prices see significant declines.

"We entered this year with so much more demand than supply—even with many home buyers unable to compete in the market, there's still a lot of buyers," said Bill Adams, chief economist at Comerica Bank.