



September 2024

Inflation in the Midwest

August 2024

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All the data referenced in this report come from the U.S. Bureau of Labor Statistics' Consumer Price Index (CPI) database. This source produces estimates of price levels neither for Iowa exclusively nor for any metropolitan area within Iowa; therefore, this report references data from the Midwest region (Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin) to represent changes in consumer prices in Iowa.

Key Findings

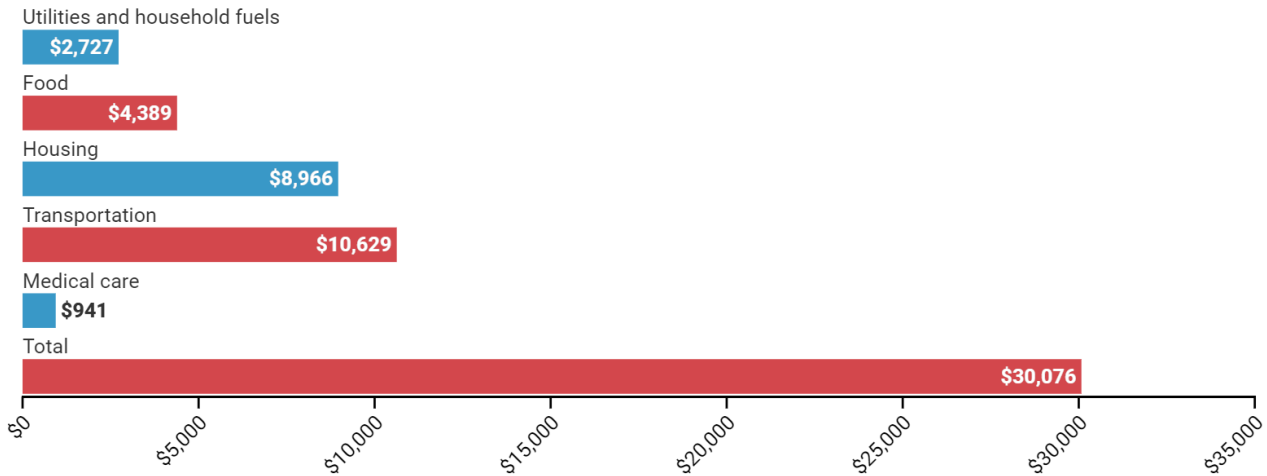
- Inflation over the last year was 2.6% for the Midwest, down from 2.7% in July. It was 2.5% for the U.S., down from 2.9% in July.
- **In August, inflation in the Midwest exceeded inflation in the U.S. for the first time since July 2022.**
- **Because of inflation, the average Iowa household has spent over \$30,000 more since 2020 to maintain the same standard of living.**
- In August, the average midwestern household spent about \$1,100 more due to inflation relative to 2020.
- From July to August, prices across all consumer goods rose by 0.1% in the Midwest. Last month, prices rose by 0.51%.
- **Since the pandemic, overall inflation in the Midwest is 22.3%.**
- Food inflation has slowed significantly in the Midwest, currently sitting at a 1.8% year-over-year increase versus 3.9% a year ago and 12.9% two years ago.
- Commodity prices have experienced 1.1% deflation in the Midwest since a year ago. While helpful for consumers, this has an outsized negative impact on Iowa's agricultural economy.
- Prices for housing and services grew the most with a 5% year-over-year increase; prices for durables fell the most with a 4.8% year-over-year decline.
- **It would require deflation for the rest of the year for year-over-year inflation to return to the Fed's 2% target by the end of the year for either the U.S. or the Midwest.**

Iowa households lost \$30,000 to inflation since 2020

In early 2021, inflation across the United States began to rise at rates far above the historic norm. In the Midwest, consumer prices have risen by 22.33% since March of 2020 when emergency fiscal and monetary measures went into effect to blunt the impact of economic shutdowns. As a result, the typical Iowa household must now spend \$1,095 per month more than it did in 2020 to maintain the same standard of living. That same household has spent an additional \$30,075 since 2020 to maintain the same standard of living.¹ The cost increases have been led by a surge in housing, transportation, and food prices, which have risen by \$382, \$300, and \$155 per month, respectively. Figure 1 shows the increase in costs for Iowans in five key consumer categories and the cumulative increases in costs since 2020.

Figure 1. Inflation's Impact on What Iowans Buy

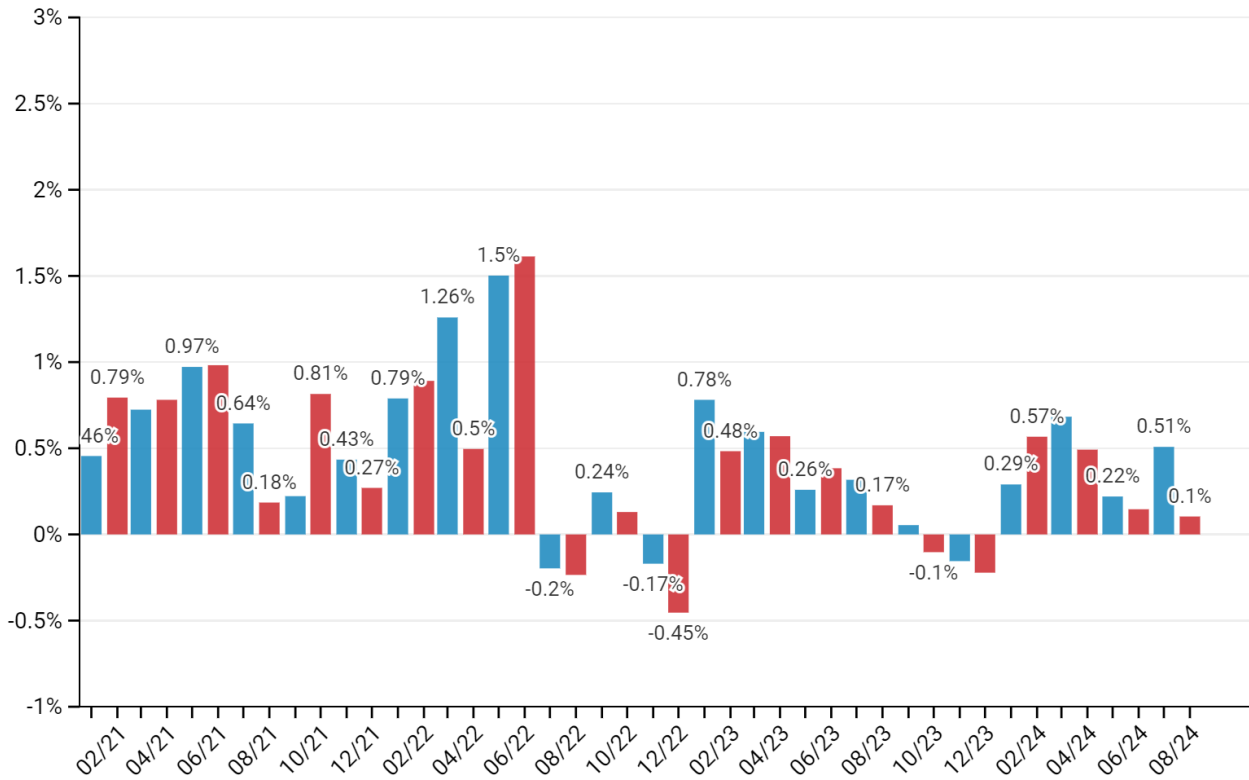
How much more has the average Midwest household spent since 2020 because of inflation?



Inflation continues to cool

August's inflation print indicates that inflation is continuing to trend down. At the national level, inflation fell 0.4% to 2.5%, while Midwest inflation only fell 0.1% to 2.6%. Although a positive sign that inflation is cooling, this month's print marks the first time since July 2022 that Midwest inflation was higher than the national average. It would require persistent low month-over-month inflation or deflation for the U.S. or the Midwest to reach the Fed's 2% annualized target. For example, at a constant 0.1% month-over-month increase, it would take the Midwest nine months to return to 2% annualized inflation. This month's inflation print benefits from the deflation seen at the tail end of 2023. Given that the early months of 2024 consisted of higher inflationary prints, future months would need to experience even higher deflation to maintain consistently low year-over-year inflation. In other words, higher inflation is likely over the coming months before reaching the Fed's 2% mark. Regardless, this recent print gives the Fed cover to cut rates. The Common Sense Institute's [July 2024 Jobs and Inflation report](#) last month reported that the pending inflation print would bear significant weight on the Fed's decision to cut rates this September.ⁱⁱ This month's low inflation print, especially at the national level, gives the Fed even more reason to continue with its plan to cut this month. Investors are currently showing 100% confidence the Fed will cut interest rates at its next meeting on September 18.ⁱⁱⁱ

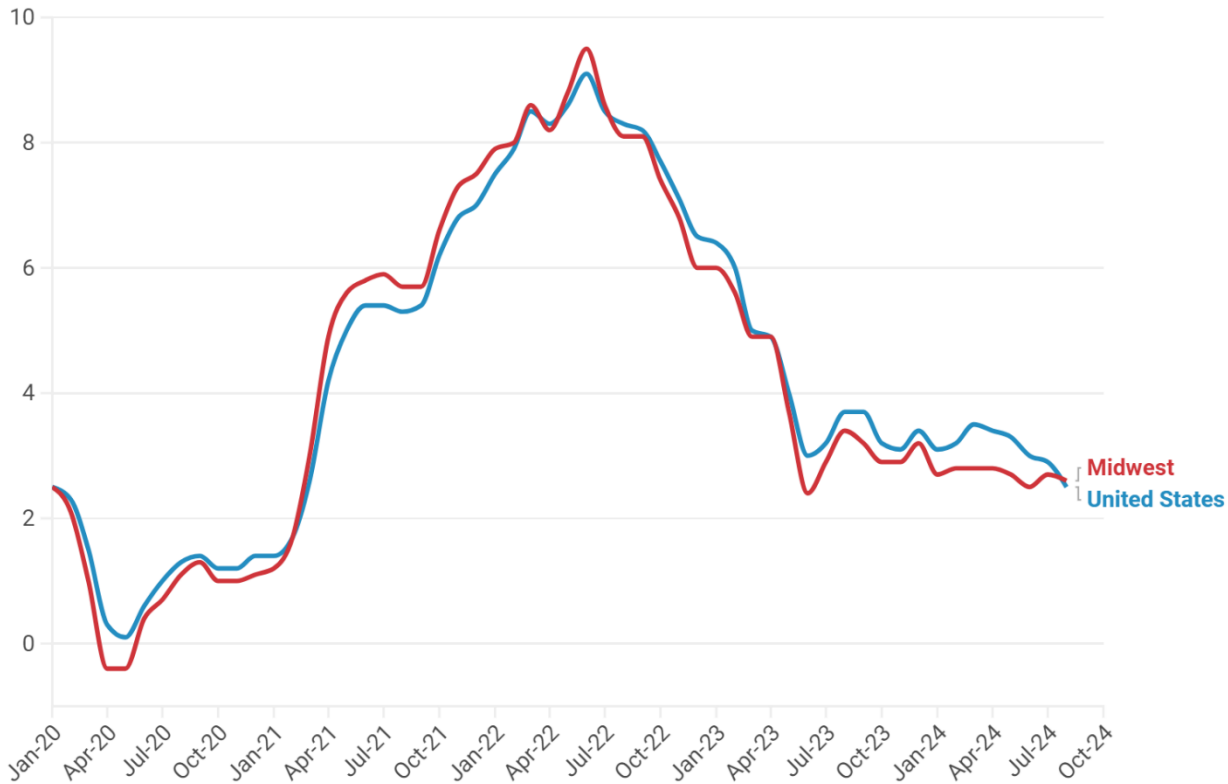
Figure 2. Monthly Inflation in the Midwest Region since January 2021



Source: BLS CPI-U Data

Monthly inflation in the Midwest fell from 0.51% in July 2024 to 0.1% in August 2024—the lowest so far this year. This July rate annualized would bring inflation to 1.21%, a step in the right direction towards lowering rising prices. Still, monthly inflation must remain low to ensure annual inflation remains at or below its current levels. The annualized average monthly inflation rate in the Midwest for January through August is 4.66%. If monthly inflation simply held steady at 0.2% for the rest of the year, the annual inflation rate for 2024 would still be 3.5%. Monthly inflation would need to experience deflation every month from now until the end of the year for the Fed to reach its 2% target in 2024. This is unlikely to happen. However, if Iowa is able to reduce its monthly inflation fluctuations and maintain this level near 0.1%, then the future—in terms of inflation—looks bright.

Figure 3. Annual Rate of Inflation Since January 2020



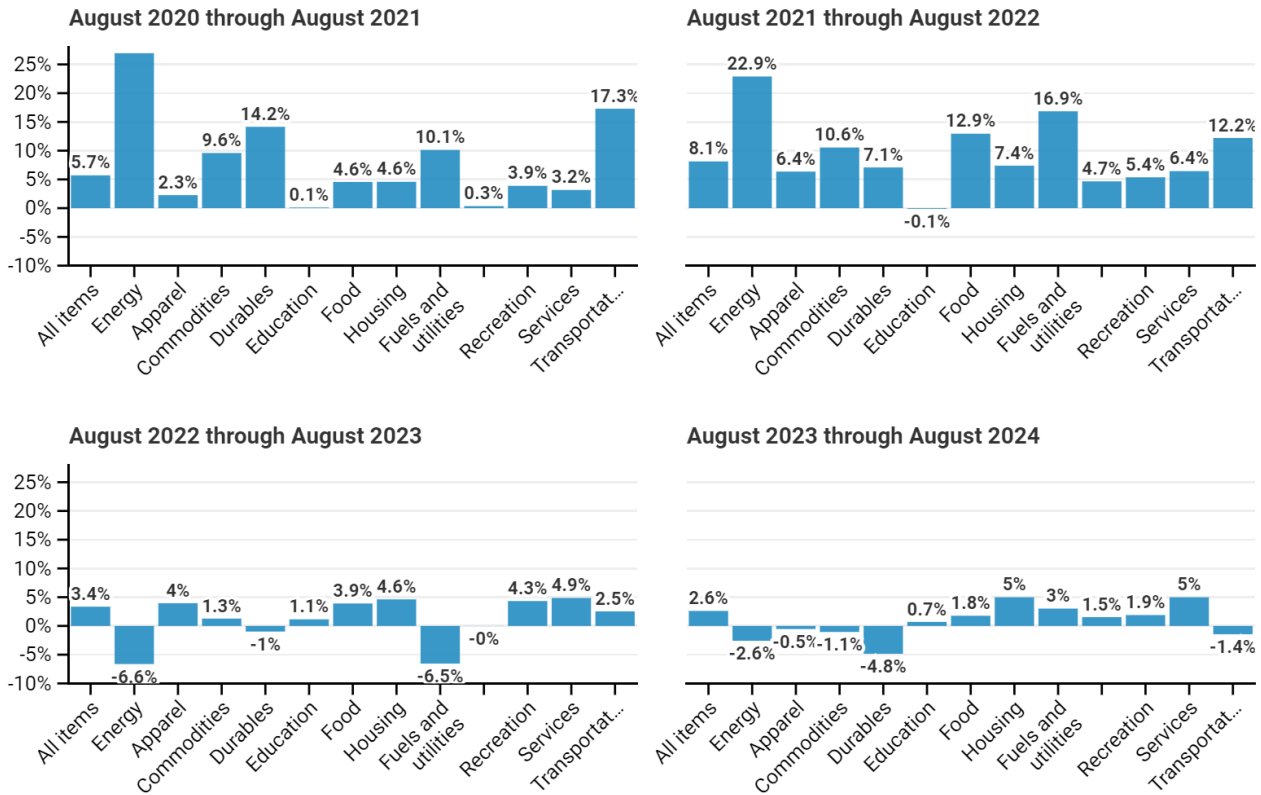
Source: BLS: CPI-U Data

Inflation persists in housing and services while falling in food, commodities, and durables

The cost of housing and services, as well as fuel and utilities, has led the increase in prices in the Midwest in 2024. From August 2023 to August 2024, the cost of both housing and services rose 5%, while fuels and utilities rose 3%. Common Sense Institute reported a similar price increase for housing and services in its July 2024 Jobs and Inflation Report, signaling prices in these industries are not cooling as quickly as in others. However, this month’s data shows these sectors accelerating in their progress. Compared to last month, housing and services have improved, falling 0.88% and 0.84% from their July annualized rate. The annualized and month-over-month rates for fuels and utilities have also declined 2.94% and 0.22%, respectively, from July’s numbers—a positive sign that this sector’s price increases are cooling. Meanwhile, the cost of durables fell 4.8%, 0.8% lower than in July. The rise in food prices has also slowed, rising at 1.8%—much lower than last month’s 2.2% and last year’s 3.9%. The cost of commodities again fell in August by 1.1%, which is good news for consumers but may weigh negatively on Iowa’s economy. The following figure shows the year-over-year inflation rate in the Midwest by various consumer categories.

Price Changes in the Midwest over Previous Years

Source: BLS CPI-U Data



Bottom Line

Prices will likely never return to pre-pandemic levels. To even reach the Fed’s target of 2% annual growth in CPI, the U.S. and the Midwest would need deflation through the rest of the year. Therefore, unless the Fed allows significant and persistent deflation to take hold, Iowans must accept permanently higher prices. However, the latest inflation print signals that inflation is cooling and trending toward the Fed’s 2% target. At the August month-over-month inflation rate for the Midwest, Iowa’s inflation rate would be below 2% in May of next year. It appears the Fed’s monetary tightening since 2022 has finally gotten inflation under control, assuming current trends continue. This month’s inflation prints in the Midwest and nationally provide the central bank sufficient cover to lower interest rates this month as planned in their bid to achieve a “soft landing” for the economy. The monthly jobs numbers will provide better insight into the success of their landing. Common Sense Institute’s monthly [jobs reports](#) analyze the state-level employment data to provide insight into the health of Iowa’s economy.

ⁱ Impacts on household spending are generated by distributing the consumer expenditure estimates from https://web.archive.org/web/20220121095708/https://www.bls.gov/regions/midwest/data/consumerexpenditures_selectedareas_table.htm across individual months, weighting them according to their corresponding CPI levels, and adjusting them according to the latter’s growth history.

ⁱⁱ Common Sense Institute, “Iowa Inflation, Employment, and Economic Update – July 2024.” <https://www.common senseinstituteus.org/iowa/research/jobs-and-our-economy/iowa-inflation-employment-and-economic-update---july-2024>

ⁱⁱⁱ CME Group, “FedWatch.” <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>