



January 2025

Inflation in the Midwest

December 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

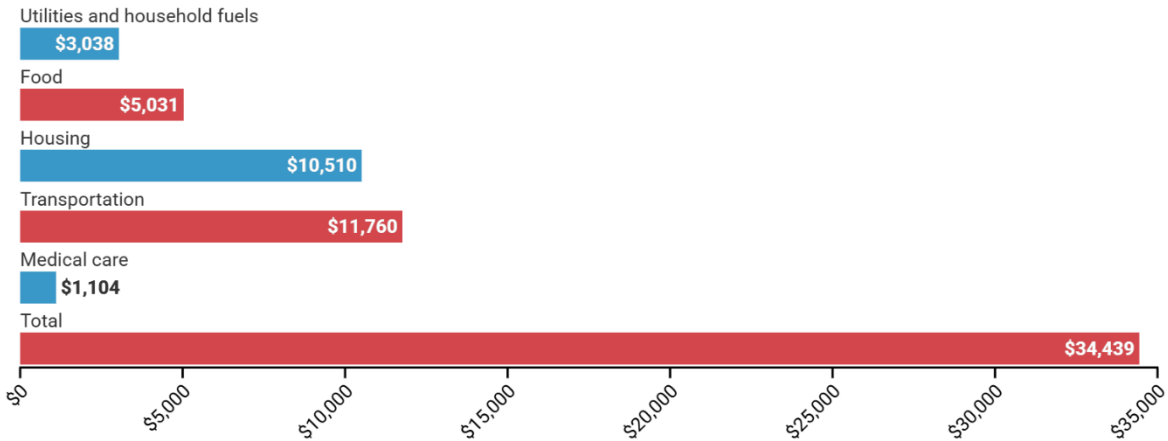
- Inflation over the last year grew to 3% (+0.4%) in the Midwest. It was 2.9% (+0.2%) for the U.S.
- **Because of inflation, the average Iowa household has spent over \$34,000 more since 2020 to maintain the same standard of living.**
- In December, the average midwestern household spent about \$1,094 more due to inflation relative to 2020.
- From November to December, prices across all consumer goods grew by 0.27% in the Midwest. This halts the Midwest's 3-month deflationary streak and marks a positive month-over-month December print not seen since 2021.
- **Since the pandemic, overall inflation in the Midwest is 22.32%—higher than the United States' 22.27%.**
- Prices for housing and services grew the most at 4.9% and 4.4% year-over-year increase; only 2 of 12 items showed a year-over-year decline.

Iowa households lost \$34,000 to inflation since 2020

The typical Iowa household must now spend \$1,094 per month more than it did in 2020 to maintain the same standard of living. That same household has spent an additional \$34,439 in total since 2020 to maintain the same standard of living.ⁱ This amounts to a 22.3% rise in consumer prices. The cost increases have been led by a surge in housing, transportation, and food prices, which have risen by \$394, \$281, and \$160 per month, respectively. In December, food was the only major item to slightly fall in price, while utilities and household fuels were the hottest. Figure 1 shows the increase in costs for Iowans in five key consumer categories and the cumulative increases in costs since 2020.

Inflation's Impact on What Iowans Buy

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

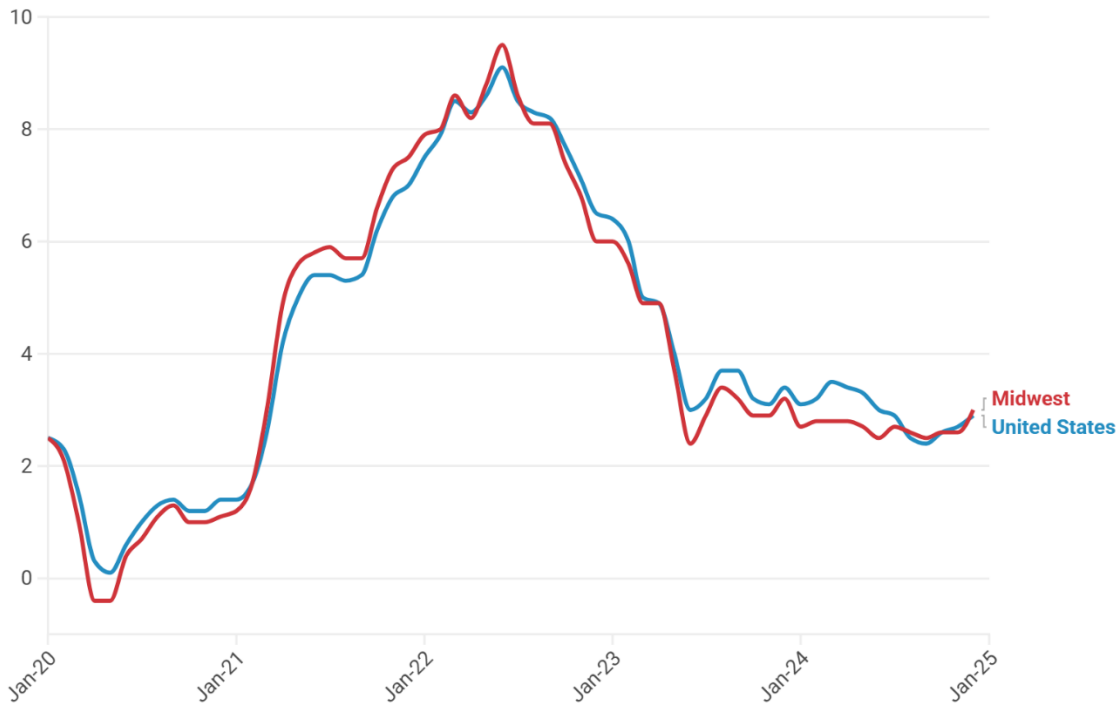


Inflation hotter than expected

Inflation for December came in hotter for the Midwest than nationally. Nationally, year-over-year inflation grew to 2.9% (+0.2%), while in the Midwest inflation grew to 3% (+0.4%). Despite improvements in prior months, month-over-month inflation in the Midwest experienced an unexpected reversal and did not continue its deflationary streak to end the year. This inflation print also marks the third time Midwest 12-month inflation exceeded the broader United States.

Investors remain confident that the Federal Reserve will not continue with another rate cut at the end of January.ⁱⁱ The mix of continual job growth across the nation plus relatively steady inflation has, at least temporarily, convinced investors that the U.S. economy is exceeding economic expectations. However, the same positive outlook cannot be convincingly tacked onto the Midwest economy. December's spike in inflation alongside Iowa's recent employment sliding should heed a cautionary warning for Iowans.

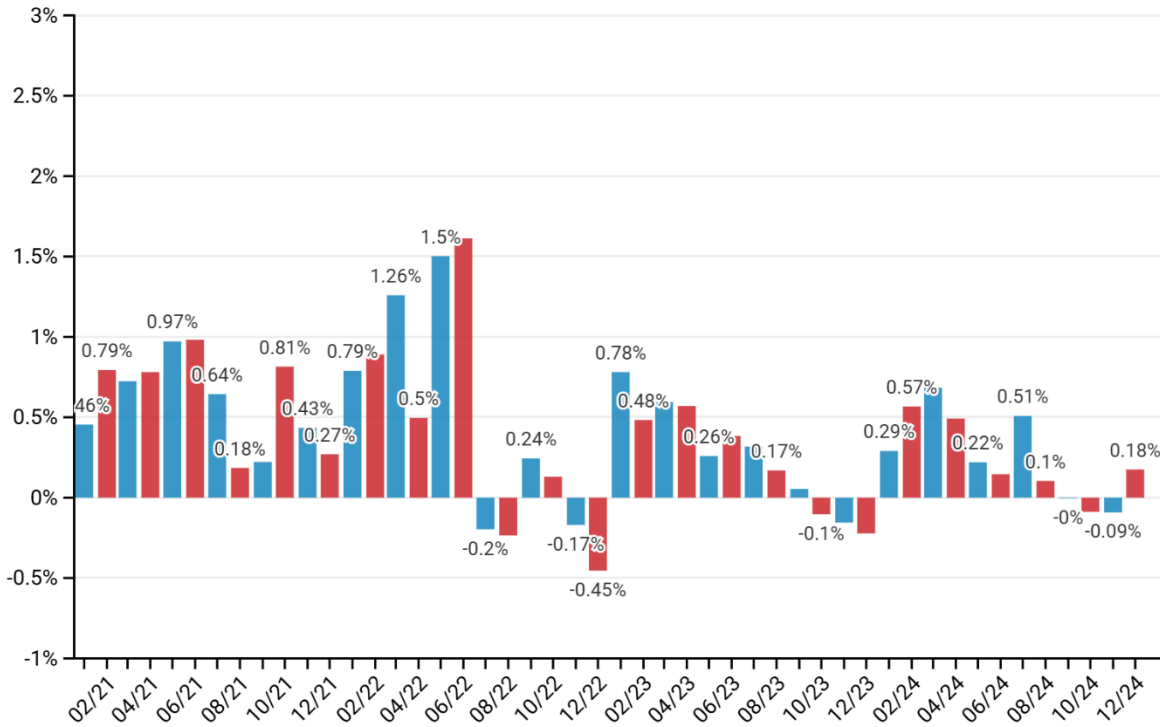
Annual Rate of Inflation Since January 2020



Source: BLS: CPI-U Data

Monthly inflation in the Midwest grew from -0.092% in November 2024 to 0.175% in December 2024 (+0.27%). This halts the three-month streak of deflationary month-over-month inflation prints since September. This is also the first December to experience an increase in annual inflation since prices surged across the nation in late 2021. Since deflation has seemed to slow compared to the same month in prior years, year-over-year inflation will likely not hit the Federal Reserve’s 2% target inflation rate as soon as previously expected. Prices will need to reverse back downward if lowans hope to see any meaningful slowdown in price growth.

Monthly Inflation in the Midwest Region since January 2021



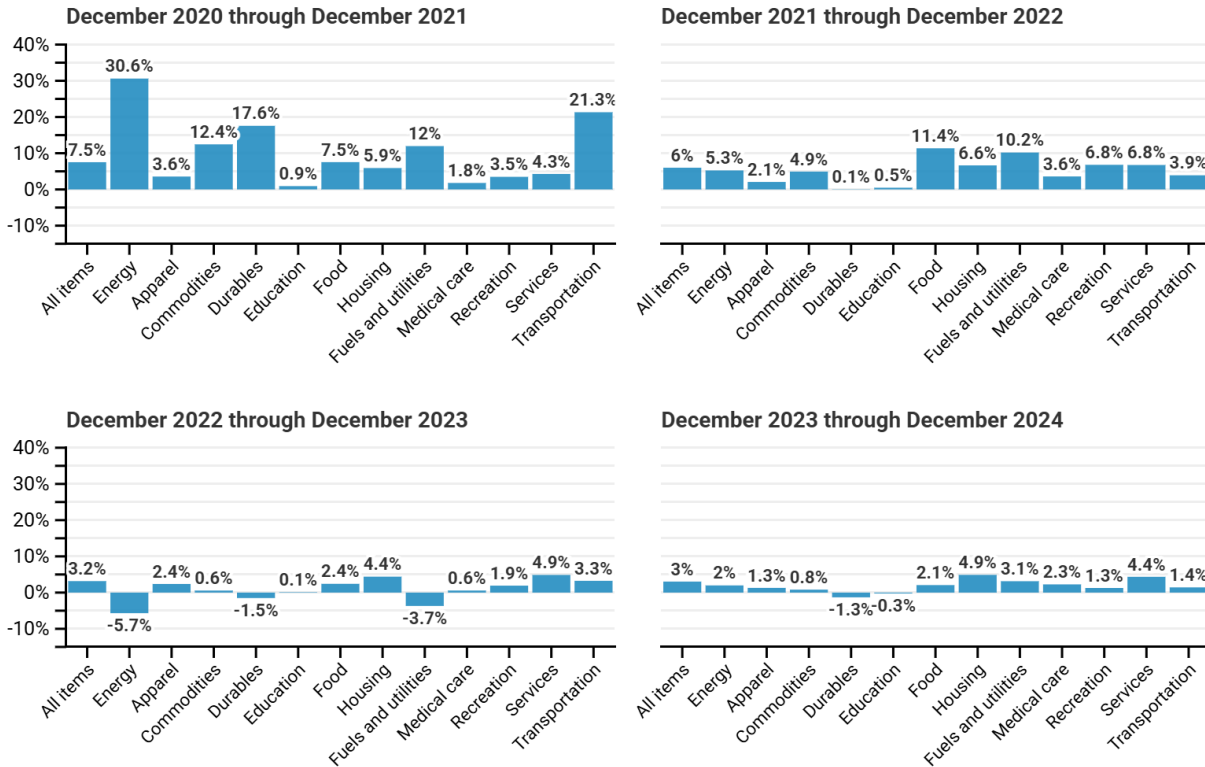
Source: BLS CPI-U Data

Most key items grew in cost in December

All but two key items grew in cost in December’s inflation print. Notably, the costs of housing and services continue to be disproportionately impacted across the Midwest. They have increased by 4.9% and 4.4% between December 2023 and December 2024, slightly higher than last month’s print. Twelve-month inflation for fuels and utilities (3.1%), medical care (2.3%), food (2.1%), and energy (2%) also grew over 2%. Only durables (-1.3%) and education (-0.3%) costs fell. All other items not mentioned range between 0.8% and 1.4%. Thankfully, while this print shows higher price growth in 2023/24 than in 2022/23, it is substantially lower than the two previous post-pandemic years.

Price Changes in the Midwest over Previous Years

Source: BLS CPI-U Data



Bottom Line

In an [August report](#), CSI noted that “the Fed may be willing to cut rates without a return to 2% inflation if unemployment rises” and “[s]uch action could trigger another bout of inflation.”ⁱⁱⁱ The next month, having claimed victory over inflation, the Federal Reserve cut interest rates by a dramatic 50 basis points last September despite no apparent weakness in the labor market.^{iv} In its [September](#) inflation report, CSI warned, “[M]onetary policy impacts the economy with a lag both on the way up and on the way down.”^v United States inflation bottomed above the Fed’s 2% target at 2.4% in September. It is now nearing 3% nationally and has already surged back to 3% from a low of 2.5% in the Midwest. Although this month’s print does not directly indicate further inflationary growth in the coming months, there is enough reason to maintain caution going forward. As the Fed likely decides to skip a January rate cut, Midwest prices will not automatically reverse their current trend. Common Sense Institute will continue to monitor inflation data in the coming months to determine the current direction of prices and whether the Fed’s halt in rate cuts can push down consumer prices.

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 CME Group, “FedWatch,” accessed January 15, 2025 at 7:53am CST, <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>.

ⁱⁱⁱ Ben Murrey and Andrzej Wieciorkowski, *Iowa Inflation, Employment, and Economic Update – July 2024*, (Common Sense Institute, 2024), <https://www.commonsenseinstituteus.org/iowa/research/jobs-and-our-economy/iowa-inflation-employment-and-economic-update---july-2024>.

^{iv} Christopher Rugaber, “Federal Reserve signals end to inflation fight with a sizeable half-point rate cut,” *AP News*, September 18, 2024, <https://apnews.com/article/interest-rates-inflation-prices-federal-reserve-economy-0283bc6f92e9f9920094b78d821df227>.

^v Andrzej Wieciorkowski, *Inflation in the Midwest – September 2024*, (Common Sense Institute, 2024), <https://www.commonsenseinstituteus.org/iowa/research/jobs-and-our-economy/inflation-in-the-midwest-september-2024>.