October 2024

Inflation in the Midwest

September 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

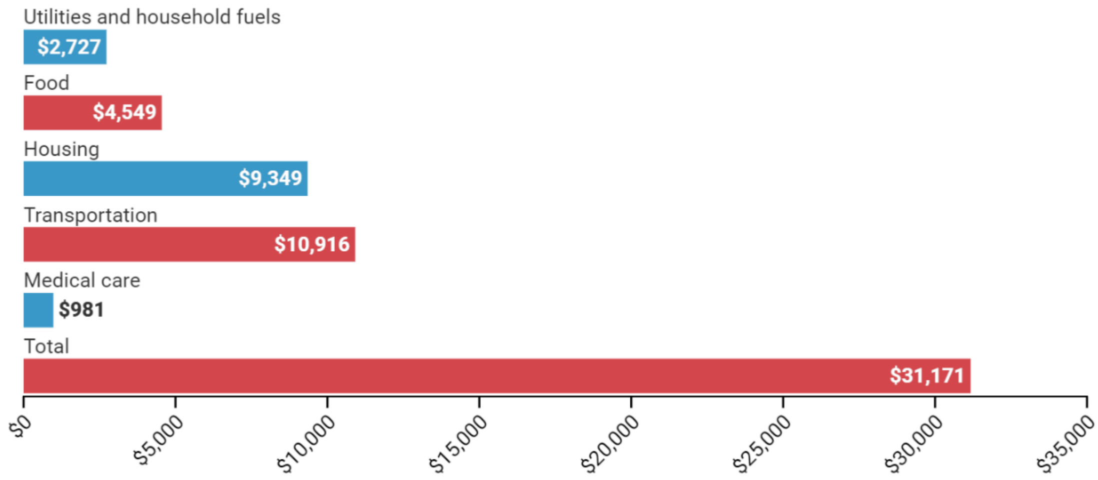
- Inflation over the last year was 2.5% for the Midwest, down from 2.6% in August. It was 2.4% for the U.S., down from 2.5% in August.
- **Because of inflation, the average Iowa household has spent over $31,000 more since 2020 to maintain the same standard of living.**
- In September, the average midwestern household spent about $1,100 more due to inflation relative to 2020.
- From August to September, prices across all consumer goods slightly fell by 0.004% in the Midwest. This is the Midwest's first deflationary month of the year.
- **Since the pandemic, overall inflation in the Midwest is 22.32%—which is higher than the United States' 22.16%**
- Transportation inflation has slowed significantly in the Midwest, currently sitting at a 1.65% year-over-year decrease versus a 2.55% increase a year ago and 12.24% increase two years ago.
- Prices for housing and services grew the most with a 4.8% and 4.9% year-over-year increase; energy prices fell the most with a 5.93% year-over-year decline.

Iowa households lost $31,000 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 22.32% 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 $31,170 since 2020 to maintain the same standard of living.[i] The cost increases have been led by a surge in housing, transportation, and food prices, which have risen by $383, $287, and $159 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

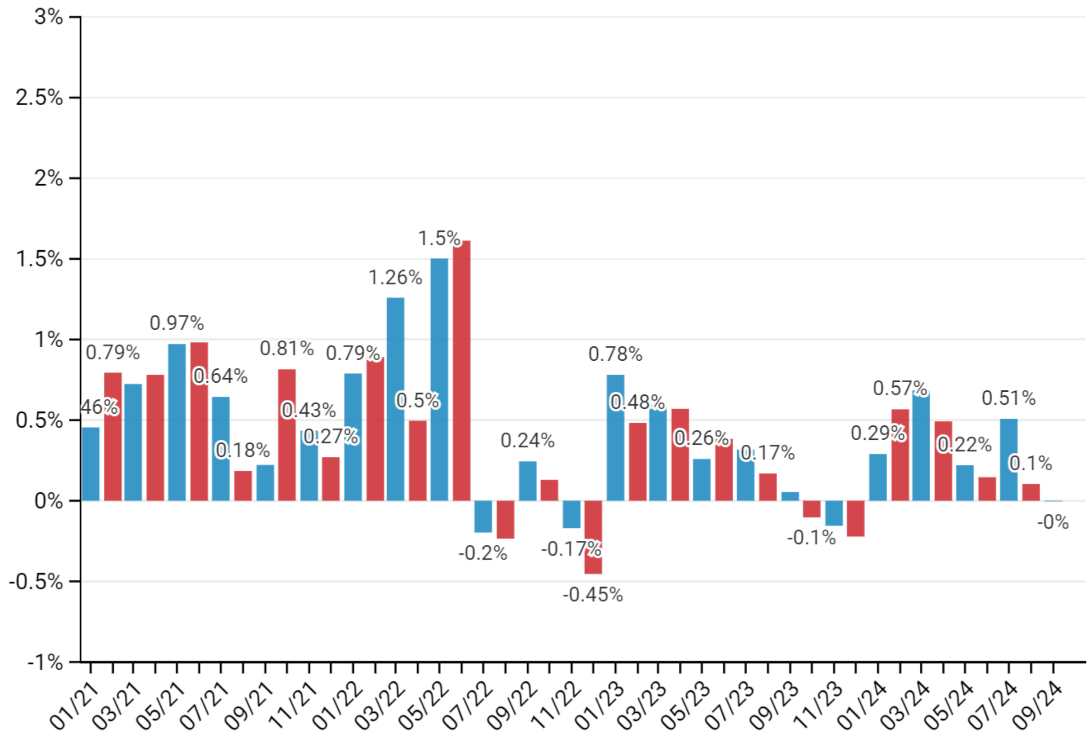
How much more has the average Midwest household spent since 2020 because of inflation?



Inflationary cooling is not slowing down

September's inflation print indicates that inflation is continuing to trend down. At the national level, inflation fell by 0.1% from 2.5% to 2.4%. In the Midwest, inflation also fell by 0.1% from 2.6% to 2.5%. Although this is the second month the United States has recorded a lower annualized inflation rate, the Midwest experienced its first deflationary month of 2024, indicating that the region is cooling down quicker than the broader United States. This month's low inflation print also reinforces the Federal Reserve's decision to cut rates by 50 basis points last month. Even though neither the Midwest nor the United States has reached the Fed's 2% annualized target, the combination of interest rate cuts, a more resilient than expected U.S. labor market, and cooling inflation is a promising sign for the U.S. economy, challenging data that suggested a slowing economy as recently as August.

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



Source: BLS CPI-U Data

Monthly inflation in the Midwest fell from 0.1% in August 2024 to -0.004% in September 2024—the first recorded deflationary month of this year. While deflationary months have been typical towards the end of the year, September has not yet recorded one since the pandemic. For comparison, monthly inflation was 0.24% in September 2022 and 0.05% in September 2023. If the remainder of 2024 experiences a deflationary trend similar to the tail end of 2023, then the Midwest could likely expect to near the Federal Reserve's 2% target rate by next year.

Figure 3. Annual Rate of Inflation Since January 2020

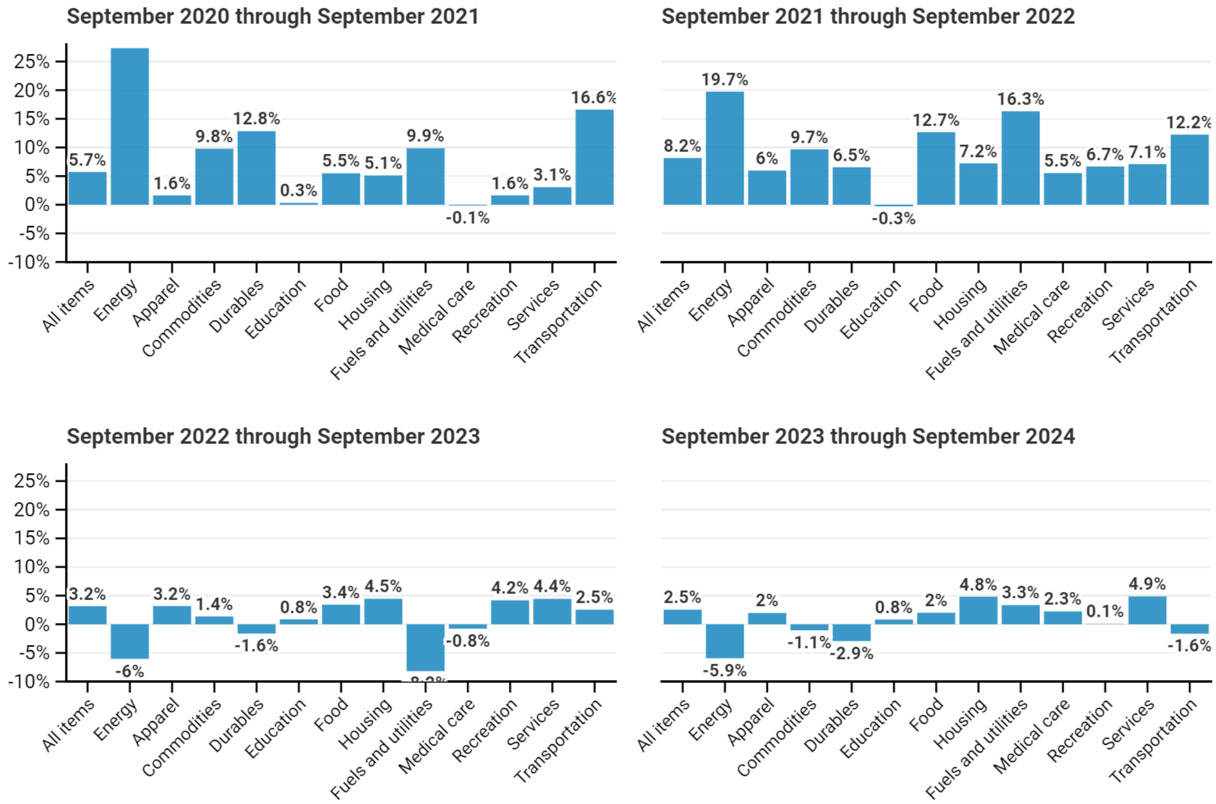
Source: BLS: CPI-U Data

Not all sectors are cooling at the same pace

The cost of housing, services, fuels and utilities, and medical care continue to be disproportionally impacted by inflation across the Midwest. Service and housing costs have increased by 4.9% and 4.8% between September 2023 and September 2024, with fuels and utilities and medical care close behind at 3.3% and 2.3% respectively. These figures are all higher than the annual inflation rates reported between September 2022 and September 2023. Common Sense Institute reported similar inflationary costs for these items in its July and August 2024 inflation reports, signaling prices in these industries are not cooling as quickly as in others. In the last month alone, medical care costs rose by 0.43% and housing rose by 0.07%. At the same time, monthly fuels and utilities fell by 0.54%. Transportation inflation has also slowed significantly in the Midwest, currently sitting at a 1.65% year-over-year decrease versus a 2.55% increase a year ago and 12.24% increase two years ago. Of all items, energy declined the most by 5.93%. This was slightly lower than last year's 6% decline. 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

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." At the Federal Reserve's September FOMC meeting, they announced a 0.50% reduction to the federal funds rate, pointing to falling inflation and a strong labor market as justification for the cut. However, monetary policy impacts the economy with a lag both on the way up and on the way down. During the pandemic, it took 12 months for inflation to begin rising after the Fed began cutting interest rates in response to the COVID-19 pandemic. It took another 17 months for inflation to reach its high point—29 months after the Fed first cut rates. Likewise, when the Fed began significantly raising the Federal Funds rate in March 2022, inflation continued to rise for several months before falling. Today's falling inflation is a reflection of tight monetary conditions in the past. If the Fed's rate cut last month and any future rate cuts spark inflation, that inflation will probably not appear in the economy until next year. While this month's continuation of the downtrend in inflation is good news for Iowa consumers for now, it likely says nothing about the impact the Fed's rate will have. Common Sense Institute will continue to monitor inflation data in the coming months for signs of the lag effect of monetary policy pushing up 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.