

## Rising Inflation and the Current Recovery

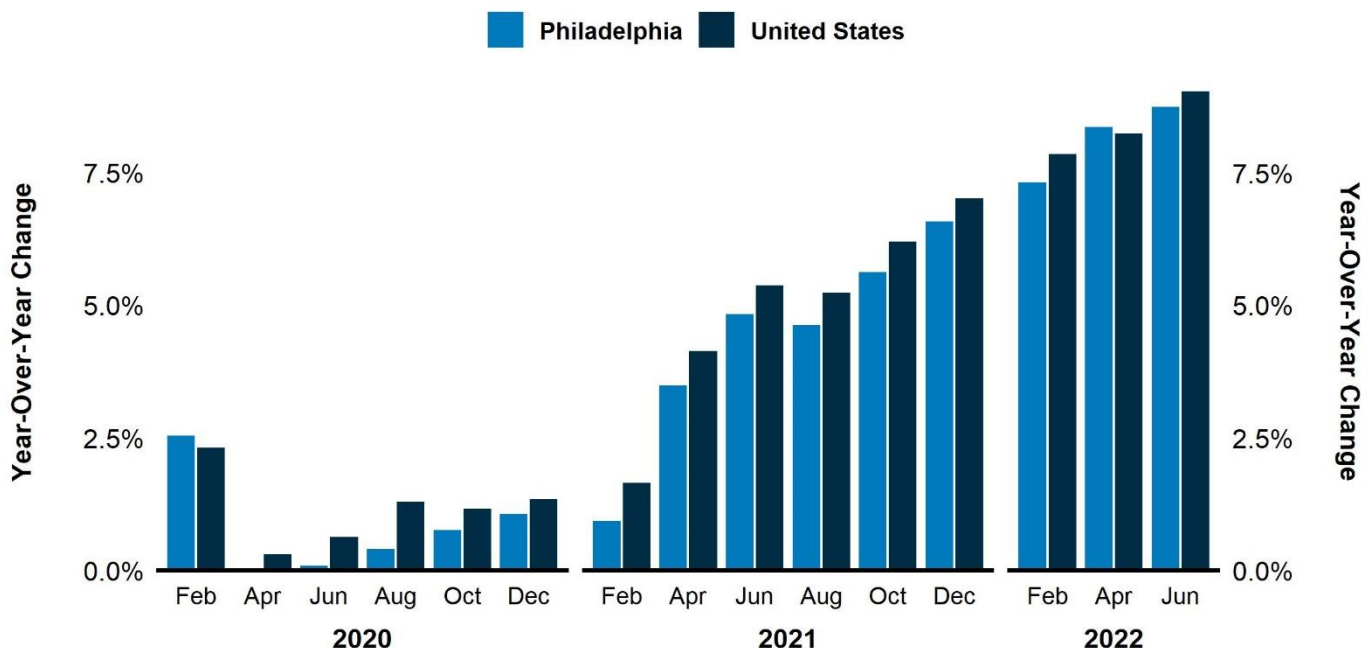
The U.S. Bureau of Labor Statistics released its Consumer Price Index Report on July 13<sup>th</sup>. Here's what it means for Philadelphia.

July 2022 | Sam Fraley

The latest inflation report from the U.S Bureau of Labor Statistics (BLS) showed rising prices across a range of everyday goods, reaching a 40-year high in year-over-year change. Philadelphia has been following the United States trend in experiencing its own increasing inflation, largely driven by increases in food, energy and gas prices.

Like the rest of the United States, Philadelphia has also experienced falling unemployment and growing wages despite rising inflation. This presents a unique challenge for policy makers, as the labor market has yet to respond negatively to inflation and the growing concerns of a potential recession.

**Figure 1: Inflation in Philadelphia and the United States**

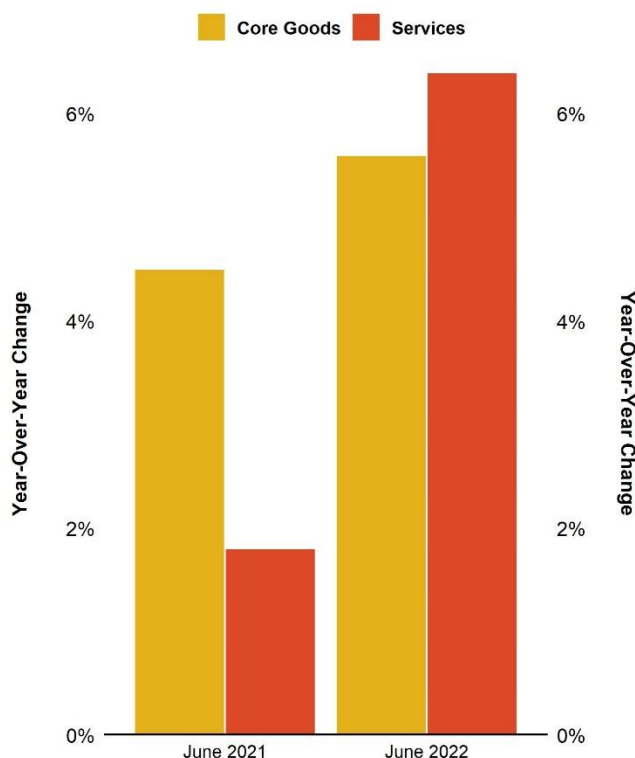


Source: Philadelphia Works analysis of the BLS CPI Database, June 2022

**Table 1: CPI Changes for Common Sectors**

	Food	Energy	Gas	Rent
<b>Philadelphia Monthly</b>	<b>1.8%</b>	<b>11.0%</b>	<b>19.22%</b>	<b>1.21%</b>
<i>U.S. Monthly</i>	<i>1.20%</i>	<i>4.75%</i>	<i>9.94%</i>	<i>0.77%</i>
<b>Philadelphia Year-over-Year</b>	<b>10.11%</b>	<b>35.92%</b>	<b>59.32%</b>	<b>5.09%</b>
<i>U.S. Year-over-Year</i>	<i>10.44%</i>	<i>21.89%</i>	<i>59.92%</i>	<i>5.78%</i>

Source: Philadelphia Works analysis of the BLS CPI Database, June 2022

**Figure 2: Core Goods vs Services Inflation**

Source: Philadelphia Works analysis of the BLS CPI Database, June 2022

## Philadelphia Inflation Compared to the United States

By comparing sector-specific inflation in Philadelphia to the United States, we can make three general conclusions:

1. **Besides energy, Philadelphia's year-over-year changes largely mirrored those of the U.S.** Philadelphia's year-over-year change in energy prices was almost 14 percentage points higher than that of the U.S (see Table 1).
2. **Philadelphia had faster monthly growth in prices in three of the four areas.** Monthly growth in prices for both energy and gas was almost twice that of the U.S (see Table 1).
3. **Services inflation has grown rapidly in Philadelphia.** At 6.4% year-over-year in June 2022, the growth of services inflation increased by almost five percentage points. Core Goods (all goods except food and energy) only increased by about one percentage point (see Figure 2).

## Inflation and the Labor Market

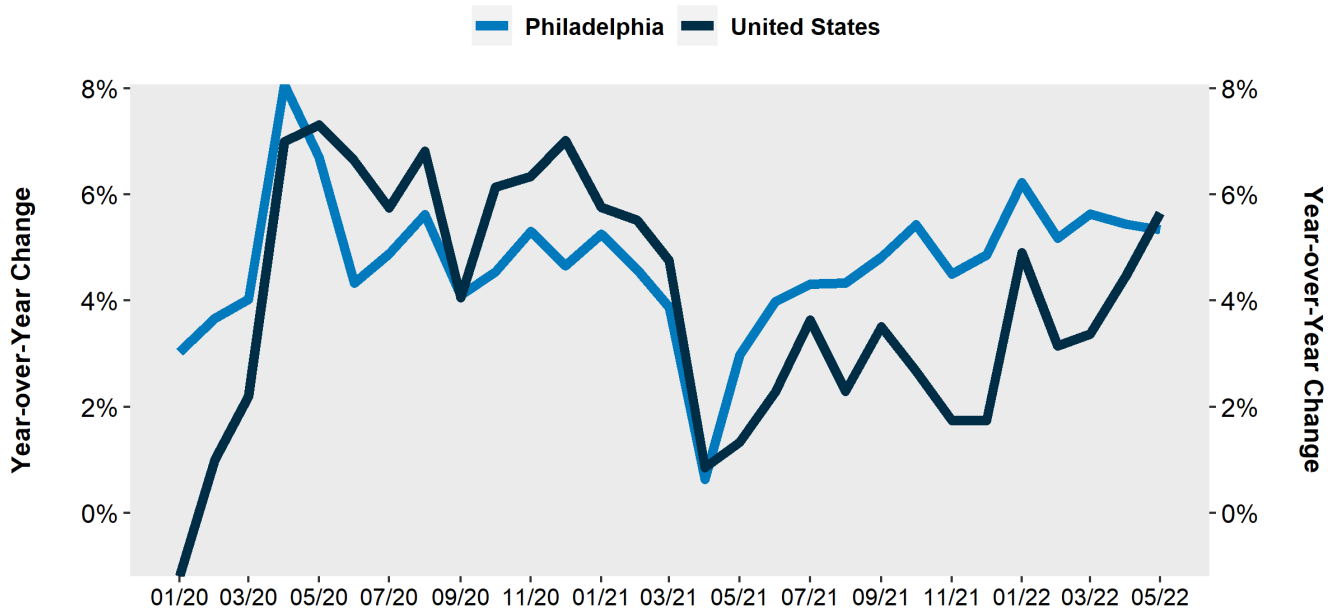
Inflation harms the purchasing power of consumers, eroding the real wages of workers. However, despite growing concerns about inflation, Philadelphia has continued to experience both **falling unemployment** and **growing wages** - two signs of a strong labor market (see Figures 3 and 4).

Year-over-year wage growth was up to 5.3% for Philadelphia in May, compared to 5.6% for the United States (see Figure 3). According to Philadelphia Works' analysis of the BLS data, the

national average hourly wage is \$33.63, compared to \$32.15 in Philadelphia (BLS). At the same time, Philadelphia unemployment has

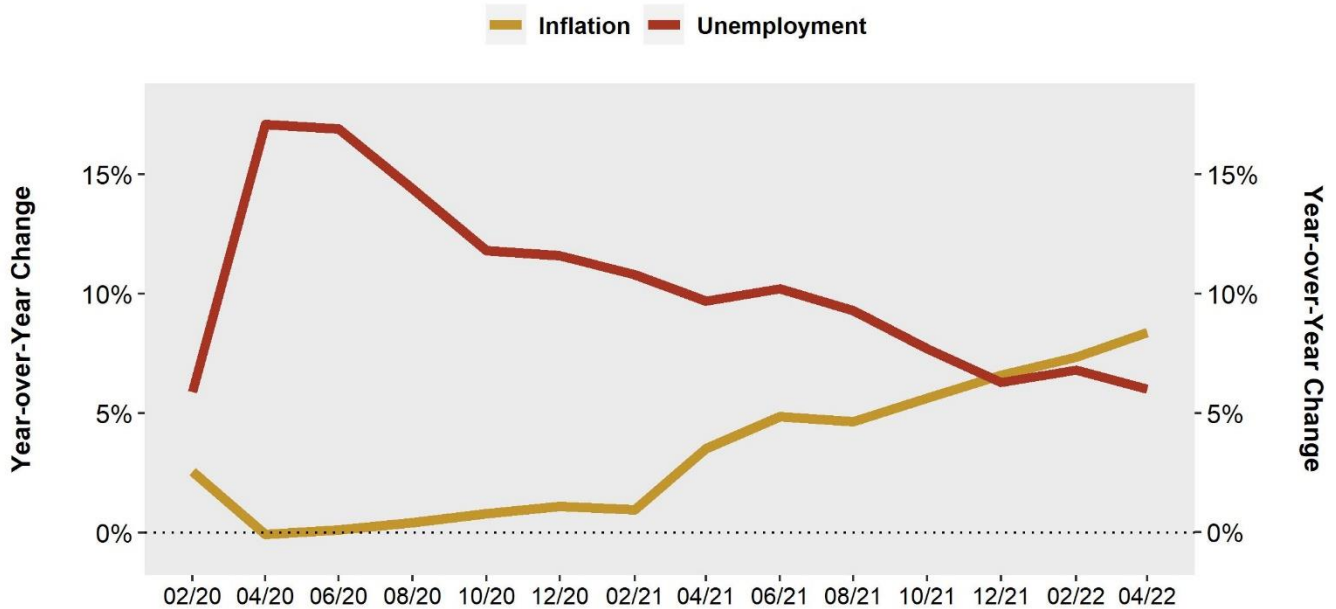
fallen sharply since its peak of 17% in April 2020. Two years later, in April 2022, Philadelphia's unemployment was down to 6% (see Figure 4).

**Figure 3: Year-over-Year Wage Change Has Rebounded in the United States, Philadelphia**



Source: Philadelphia Works analysis of the BLS LAUS & CPS Database, June 2022

**Figure 4: Year-Over-Year Inflation is Growing, Yet Unemployment is Falling in Philadelphia**



Source: Philadelphia Works analysis of the BLS LAUS Database, June 2022

Like the United States, Philadelphia has experienced growing inflation concerns in recent months despite strong indicators from the labor market. The rotation from Core Goods to Services inflation is something that should be noted, as wage inflation is often stickier and harder to combat once wages grow. While some relief may come from falling gas prices in mid-July, local policy makers

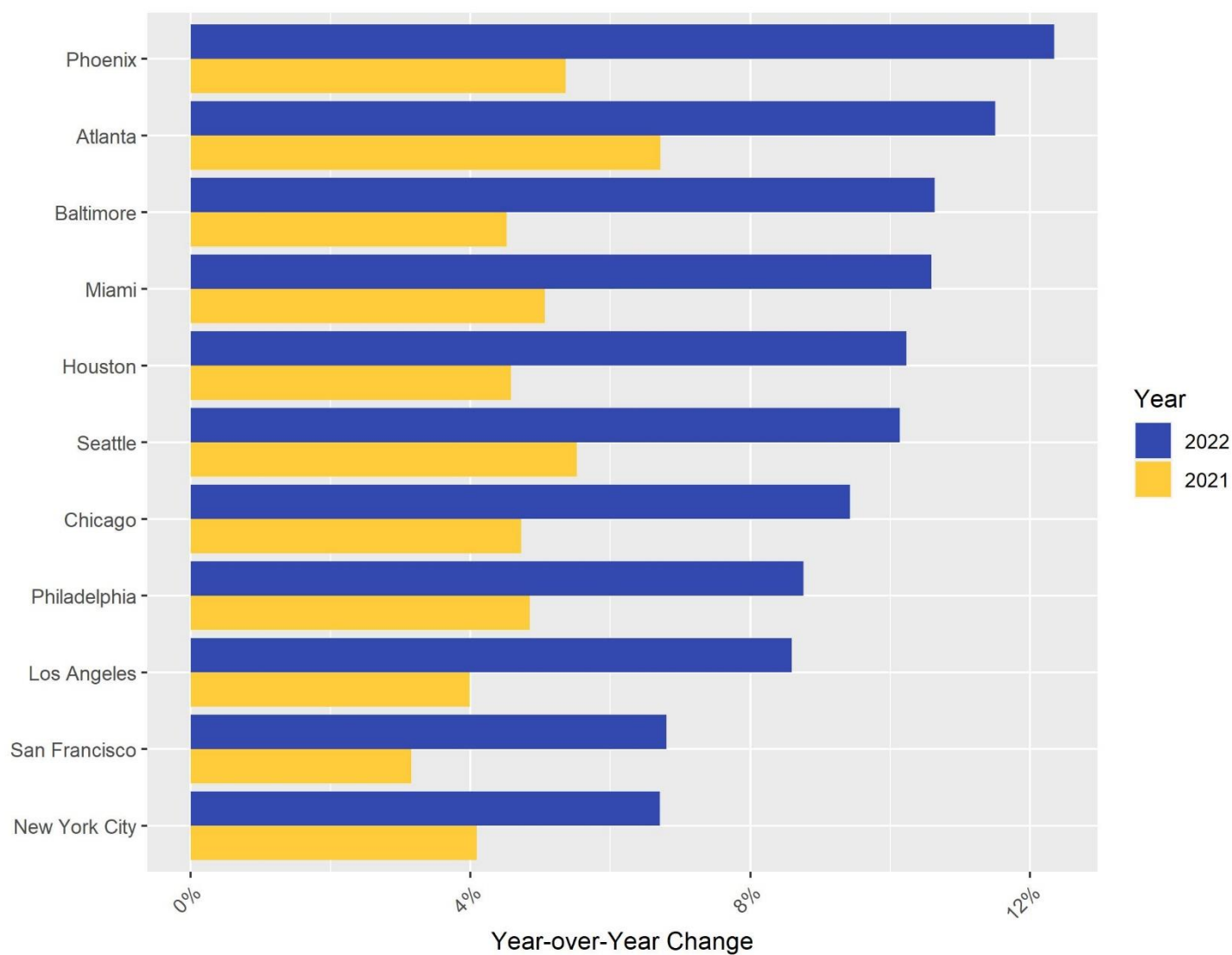
should pay attention as the Federal Reserve will likely decide to raise interest rates yet again at the end of July. Raising rates could slow economic growth, which could negatively affect the labor market. Individuals may be more hesitant to switch jobs, need to negotiate higher salaries, or deal with potential future layoffs if unemployment switches its current trend and starts to rise again.

**Table 2: History of Year-over-Year CPI Change, Philadelphia**

Month	Food	Gas	Household Energy	Medical Care	New Cars	Rent	Tuition & Child Care	Used Cars
<b>Feb-20</b>	2.84%	3.29%	-3.45%	2.87%	-1.12%	2.97%	1.67%	-0.56%
<b>Apr-20</b>	4.79%	-25.20%	-8.41%	2.30%	-2.23%	3.21%	1.67%	-0.57%
<b>Jun-20</b>	5.18%	-20.56%	-7.92%	3.22%	-2.79%	2.64%	1.22%	-2.42%
<b>Aug-20</b>	3.92%	-13.74%	-6.52%	3.41%	-1.68%	2.18%	0.34%	4.39%
<b>Oct-20</b>	3.35%	-8.22%	-7.44%	2.61%	-0.57%	2.20%	0.12%	11.97%
<b>Dec-20</b>	4.19%	-2.83%	-3.45%	0.80%	0.21%	1.66%	0.26%	10.05%
<b>Feb-21</b>	1.43%	9.57%	-0.34%	4.04%	2.75%	1.27%	-0.10%	8.81%
<b>Apr-21</b>	0.42%	36.38%	3.18%	4.42%	8.69%	1.10%	-0.23%	20.74%
<b>Jun-21</b>	0.93%	39.96%	5.53%	2.85%	18.71%	2.34%	1.36%	45.33%
<b>Aug-21</b>	1.66%	37.05%	6.05%	-0.01%	20.82%	2.56%	3.92%	32.26%
<b>Oct-21</b>	3.65%	41.02%	11.47%	0.80%	24.22%	2.27%	3.18%	27.20%
<b>Dec-21</b>	4.21%	37.36%	15.31%	3.29%	22.43%	3.62%	2.85%	38.09%
<b>Feb-22</b>	8.21%	31.60%	18.23%	-0.18%	22.16%	4.22%	2.41%	42.70%
<b>Apr-22</b>	9.46%	43.28%	24.68%	2.76%	18.82%	4.83%	2.54%	23.59%
<b>Jun-22</b>	10.11%	59.32%	35.92%	4.12%	10.21%	5.09%	0.98%	7.96%

Source: Philadelphia Works analysis of the BLS CPI Database, June 2022

**Figure 2: Year-over-Year CPI Change for June 2021 & June 2022, Major U.S. Cities**



Source: Philadelphia Works analysis of the BLS CPI Database, June 2022