FOOD INFLATION

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There's been a lot made about prices at the grocery store lately; in fact, food prices have become a political issue in this election cycle.

There's no question that food costs have risen over time—by an average of more than 3% a year since before the Great Depression. The amount of groceries you could buy for $20 in 1913 would cost you $663.08 today. More recently, according to the Bureau of Labor Statistics, food at home (meaning what you would buy at the grocery story) is 2.1% more expensive today than it was a year ago. Going back a bit further, we can see that the food price index was essentially unchanged for the five years before the pandemic hit. That price stability ended with a 4% rise in 2020, another 6% rise the following year, and a shocking 12% rise in 2022—before price increases moderated over the last two years.

There is evidence that prices could be lower if corporations permitted it. The Federal Trade Commission recently released a report showing that retail grocery firms—which have dramatically consolidated in recent years—are experiencing 7% annual profits, much higher than the previous record of 5.6% in 2015. The concern is that they may have consolidated to the point where they have pricing power to raise prices beyond their costs and add to inflation.

But to put this in perspective, a 7% profit margin pales in comparison to the 37% margin that Apple maintains on its iPhone brands. Food is still a low-margin business, and likely to remain that way.

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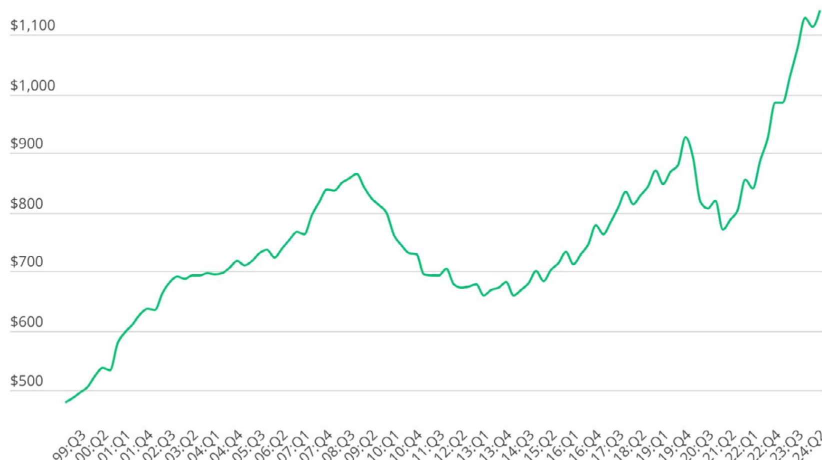
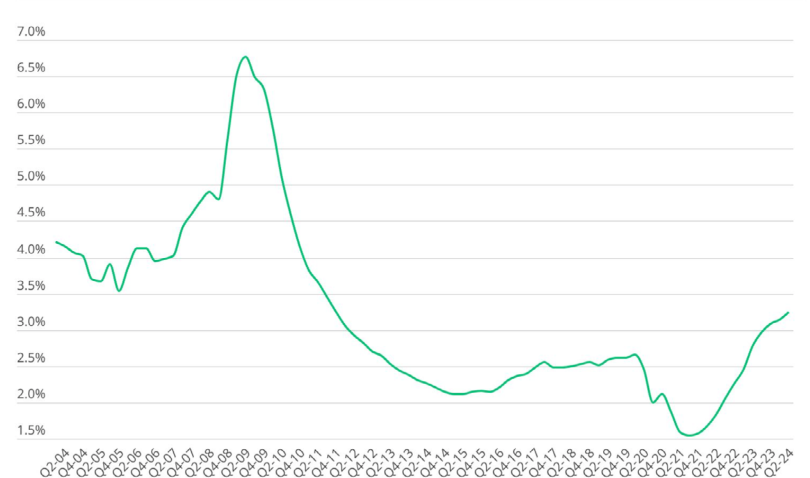
SAVINGS RATES AT A LOW

One alarming statistic that has gone somewhat unnoticed in the past year is the decline in the personal savings rate of U.S. households—that is, the amount that is saved and invested out of the total top-line income. In July, which is the most recent data we have, that rate had fallen to 2.9%, following a trend that began this year. 2.9% is at or near the lowest level of savings Americans have experienced since the early 1960s. To put that in perspective, the savings rate averaged 8.45% from 1959 to 2024.

Economists might see this as good news. It means that consumers are willing to dip deeper into their pockets to spend, and consumer spending is the biggest component of economic growth. It also reflects optimism in the future: people have jobs, wages are going up, and so it's natural to





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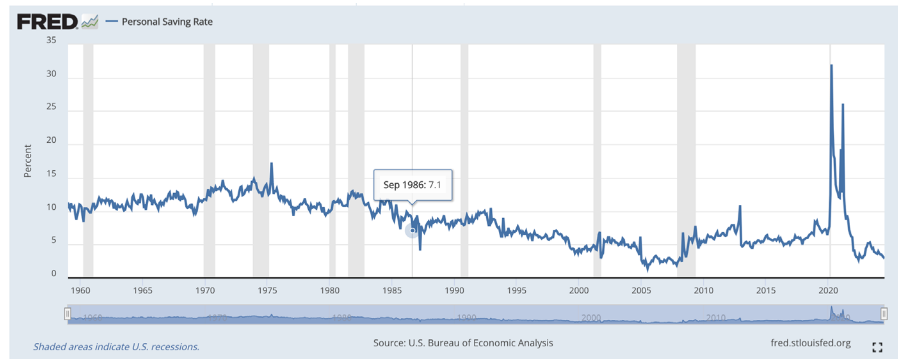
imagine that this will continue into the future.

But the other side of the argument is that people's personal balance sheets might be less resilient if/when we encounter a recession or sudden return of high inflation rates. Consumer debt, and particularly credit card debt, has been rising since 2013—basically during a balmy economic climate (with the notable exception of the Covid pandemic). Credit card balances, overall, have reached $1.14 trillion outstanding, up 5.8% from a year ago.

There is evidence that the buildup in debt is concentrated among a minority of Americans—which means that they are disproportionately exposed to economic shock. Lending Tree estimates that 47% of adult credit cardholders carry a balance on their cards, at an average rate of 22.76%. Just over 3% of those individuals are past due on their balances—and that number has been rising over the past two years.



The lesson here, perhaps, is not to let the good times lure us into believing that saving a healthy percentage of our income has become unnecessary. There is a recession in our future (we don't know when) and it will be a rude awakening for a percentage of the U.S. population.

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THE NOT-NEWLY HIRED

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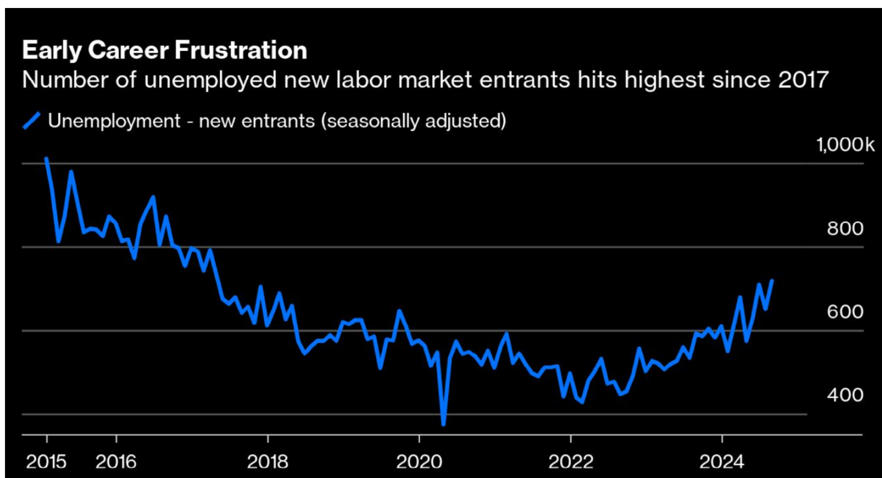
We're hearing a lot about the decline in new hires into the U.S. economy—statistics that sent the markets into two different one-day panics last month. But when you look at the big picture, the unemployment rate, since the start of the year, has moved only slightly from 3.7% (extremely low) to 4.2% (still on the lower end of the historical spectrum).

This matters because most observers believe that the relative decline in new hires will force the Federal Reserve Board to make a rate cut at its upcoming meeting. The betting is 25 basis points, with more to come if things don't improve. Others, however, point out that the current unemployment rate hardly signals an imminent recession, and stimulus is less important than bringing down the inflation rate.

Who's right? Looking past the aggregate numbers, the worrisome cohort is new entrants to the workforce—people graduating from high school and college, who are looking for jobs at a time when companies have put a pause on hiring. An article in Bloomberg cites Bureau of Labor Statistics research noting that 718,000 new entrants to the labor force were unemployed as of August, the most since April 2017. Add in parents who took time away to focus on kids, who want to reenter the workforce, and roughly half of the rise in the unemployment rate is people who expected to find jobs and are being turned away.



A rate cut won't meaningfully boost stock prices; the expectation is already built into current prices. But it might lubricate the economy enough so that new workforce entrants and re-entrants will be absorbed into salaried positions.

Sources:

https://www.advisorperspectives.com/articles/2024/09/07/fed-rate-cuts-needed-for-young-and-jobless

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