ECONOMIC UPDATE

December 10, 2021

Economic Issue in Focus: Monthly Inflation Has Decelerated and the Long-Term Inflation Outlook Remains Stable

Today's inflation data demonstrate what U.S. workers and households are feeling: Decades of declining public investment and private sector cost-cutting, combined with extreme fluctuations in supply and demand from the pandemic, have caused prices to rise. Even as the monthly pace of inflation slowed—overall CPI increased 0.8% in November, down from 0.9% in October—overall CPI inflation increased by 6.8% over the past 12 months.

Current inflation is driven by pandemic-induced supply and demand fluctuations combined with decades of disinvestment in supply chains. This is due largely to record-low public investment in infrastructure and big corporations prioritizing low cost over preparedness to ensure big payouts for their executives and shareholders, instead of investing in workers, resiliency and innovation. Immediate-term efforts by the Biden Administration to address supply chain backlogs and lower prices—for example, by smoothing operations at ports and opening strategic oil reserves—have shown early signs of impact.

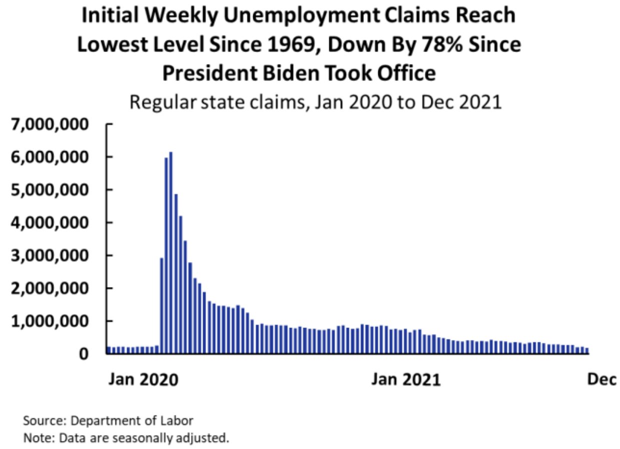
The Joint Economic Committee released a new fact sheet explaining the relationship between worldwide supply chains disruption and global price increases, showing how the Build Back Better Act and the bipartisan Infrastructure Investment and Jobs Act will invest in America's manufacturing base and infrastructure while reducing long-term inflationary pressures.

Headlines have note that 6.8% is the highest annual rate since 1982; however, annual measures of inflation and year-over-year comparisons continue to be skewed by last year's severe economic shock. At this time last year, the virus was spreading uncontrolled, and the economy was reeling from the impact of the pandemic. Annual measures reflect prices recovering from depressed levels during the pandemic, which will continue into the spring—far longer than anyone would like—but there are few indications that the economy is broadly overheating.

The Fed's long-term outlook on inflation remains stable. Should trends deviate, the Fed has the tools to maintain price stability and is best positioned to respond to short-term inflation. Across the sectors that are contributing to higher inflation, we are starting to see early signs of improvement in some of the primary drivers, such as energy, while others remain elevated due to ongoing supply chain backlogs. Energy prices increased 3.5% in November, slowing from a 4.8% increase in October, which is consistent with falling wholesale energy costs over the last two months.

Key Economic Indicators to Track

- **Unemployment Insurance Claims:** New data released by the Department of Labor show that **new unemployment claims fell to the lowest level in 52 years**, dropping to 184,000 for the week ending December 4. Claims are down 78% since President Biden took office and 97% lower than at the height of the pandemic. The four-week moving average, which smooths week-to-week volatility in the data, fell to a new pandemic-era low of 218,750, down 74% since Biden took office.



- **Job Openings and Labor Turnover Summary:** Data released by the Bureau of Labor Statistics (BLS) showed that the quits rate—the rate of employees voluntarily leaving their jobs—decreased to 2.8 percent in October from its historic high of 3 percent in September. This shows that workers remain confident to leave their jobs for better paying and higher-quality job opportunities. Employers continue to lay off workers at a record low pace of 0.9% which indicates employers are hiring and retaining existing employees, providing further evidence of a strengthening labor market as unemployment dropped to 4.2% in November.

- **Child Tax Credit:** The Treasury Department is scheduled to distribute advance CTC payments for December on December 15. These payments, which have given tax cuts to over 36 million families, will expire at the end of the year unless Congress acts to extend them, as is included in the Build Back Better Act.

JEC Spotlight: Estimates of Economic Damage Arising From Climate Change Have Risen Sharply, Highlighting the Need for Immediate Action

A recent JEC issue brief makes the case that failing to take action to combat climate will cause significant economic damage. According to numerous estimates, climate change will slow productivity growth across the entire economy. Even modest warming will shrink the economy by hundreds of billions of dollars with higher temperatures raising costs at an increasing rate. Economists estimate 2 degrees of warming would lower GDP by 0.5% per year, and 4 degrees would cut GDP by 2.0% annually.

The most sophisticated economic methods show still greater costs of carbon emissions to the US economy. These costs are not isolated to a single sector or region and will affect families, businesses, local governments and the financial system. New government provisions are required to help ensure that the United States can continue to preserve its economic well-being, generate more clean energy and make progress towards eliminating carbon emissions.

Selected JEC Resources

- *The Build Back Better Act Will Create Jobs, Reduce Costs for Working Families, Spur Innovation in Clean Energy and Asks the Wealthy and Corporations to Pay Their Fair Share*
- *Estimates of Advance Child Tax Credit Distribution by Congressional District (November 2021)*
- *Health Insurance Tax Subsidies in the Build Back Better Act Will Provide Affordable Health Insurance for Millions of Americans*
- *National and State Level Data on the Economic Situation of Hispanic Americans*
- *Expanding the Housing Choice Voucher Program to Improve Housing Affordability and Economic Security for the Lowest-Income Families*
- *Strong Care Infrastructure Is Critical to Increasing Labor Force Participation and Driving Future Economic Growth*
- *Hispanic Workers Kept the U.S. Economy Moving During the Coronavirus Pandemic but Face Lower Wages and Poor Working Conditions*

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Contact: nita_somasundaram@jec.senate.gov