How Much is Inflation Costing You?

It Depends on Where You Live

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Americans this past year have faced the highest—and fastest climbing—inflation rates in four decades. Rapidly rising prices are harming American families, eroding the value of their paychecks, and increasing the financial strain of buying everyday goods like groceries and gasoline. Inflation is also eroding the value of savings, making it harder for Americans to build wealth.

While prices are rising across the entire country, Americans' recent experiences with inflation vary depending on where they live. For example, Americans in the Northeast are experiencing relatively slower price growth compared to the rest of the country, while Americans in the Mountain West face the highest overall inflation rates. Trends in the cost of housing, transportation, food, and energy also vary across the country.

INFLATION TRENDS

Inflation reached an annual rate of 7.5 percent in January 2022. In other words, the average family paid 7.5 percent more in January 2022 for the same goods and services they purchased in January 2021, based on normal spending habits. This was the highest inflation rate since February 1982 when the United States was taking drastic economic measures to battle the Great Inflation.[1]

Inflation today, in addition to being high, has also been rapidly growing: it averaged 3.4 percent in the first half of 2021 but 6.0 percent in the second half. This rapid pace of price acceleration is in stark contrast to the 10 years prior to 2020, when annual inflation rates held relatively steady and averaged about 1.8 percent.[2]

Unfortunately, Americans are unlikely to get relief from high inflation in the near term. Shipping costs continued to accelerate in January for all modes of transportation[3]—trains, trucks, airplanes, and ships—and producer prices increased at their fastest pace in eight months.[4] The cost of labor is also persistently rising as businesses continue to face labor shortages;[5] employment in January 2022 is 2.9 million workers short of its pre-pandemic levels[6] and 5.4 million below pre-COVID projections.[7] Rising shipping and labor costs in turn drive up the price of consumer goods.

At the same time, consumer demand is elevated, fueled by roughly $2.5 trillion of excess savings that Americans have accumulated from the federal responses to COVID.[8] This elevated demand is driving up prices by putting increased pressure on shipping and production while costs are high and global commodities, such as metals and semiconductor chips, are in short supply.[9] High U.S. demand fueled by excess savings also helps explain why the United States is experiencing one of the highest post-COVID inflation rates in the world.[10]

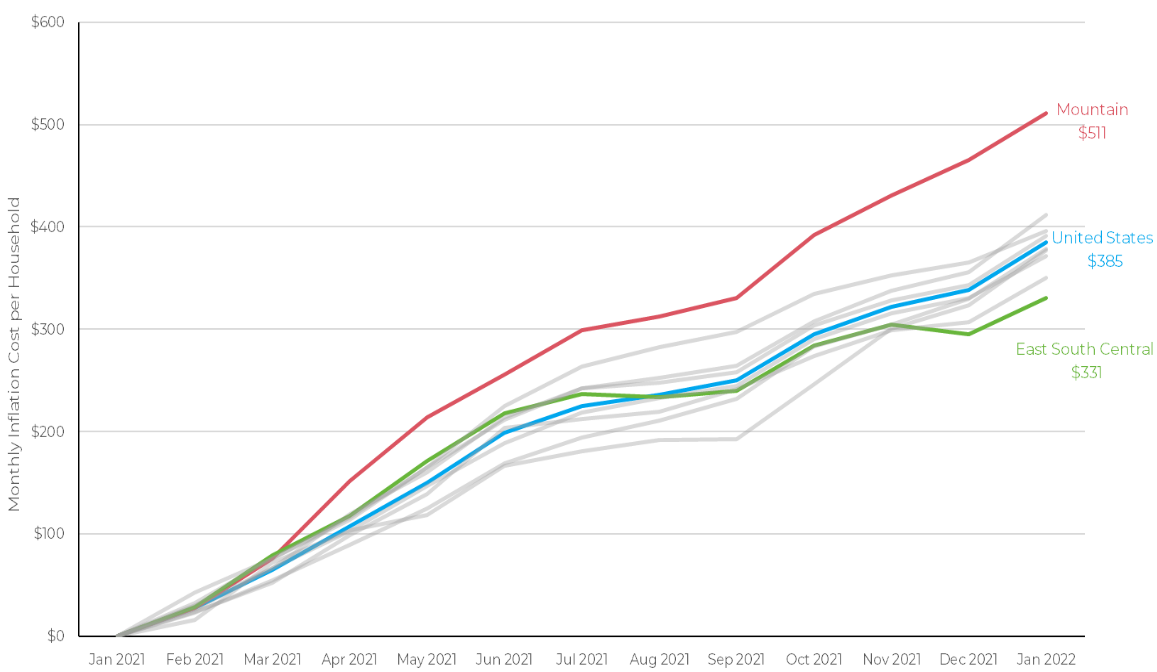
REGIONAL VARIATION

High inflation is a staple of life in the United States today, but inflation rates are not uniform across the country. Regional variation in inflation is driven by a myriad of factors: varying consumer preferences and demand levels, COVID-inspired migrations from urban to suburban areas—which drives up demand in some regions and lowers demand in others—and transportation costs determined by geography and distance from suppliers.

To visualize how rising prices are affecting Americans today, Figure 1 displays the average monthly cost of inflation by region. The added monthly cost to households is found by multiplying monthly inflation rates, each relative to January 2021, by average monthly household spending, which differs by region. The result shows how much rising prices throughout 2021 have increased household costs each month.

As inflation increases, so does the monthly cost to American families—added costs that Americans will continue to face moving forward, regardless of whether inflation reverts back to normal levels, now that price levels have permanently shifted upward.

Figure 1: Average Monthly Cost of Inflation per Household by Census Division, Relative to January 2021

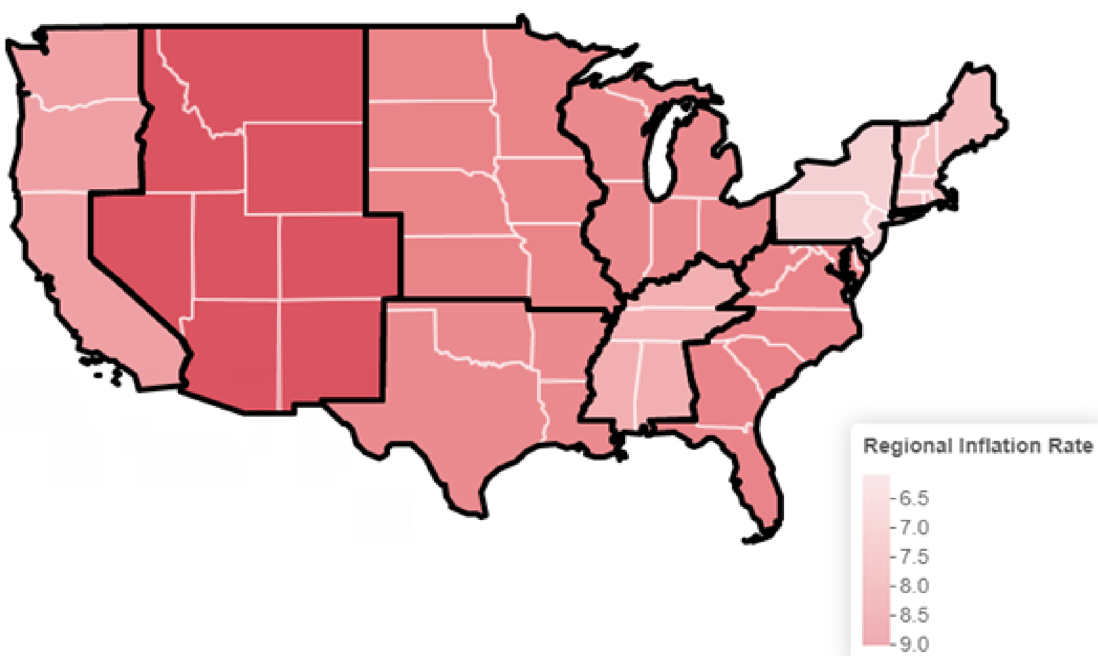


JEC Calculations. Consumer Price Indices (CPI) are retrieved for every month of 2021 across all nine Census divisions, and the percent change in CPI each month relative to January 2021 is applied to average monthly household spending data across the four Census regions. Households in different divisions within the same region are assumed to have the same average monthly household spending. Household spending data is based on a two-year average from 2019 to 2020, meaning that this analysis likely underestimates total spending in 2021 and the monthly cost of inflation by Census division. CPI and consumer spending data are both retrieved from the Bureau of Labor Statistics.[11]

Last year, the average inflation cost per household rose from roughly $100 in April 2021, when the annual inflation rate first started accelerating, to over $380 in January 2022 when it hit 7.5 percent. Americans in the Mountain region—Utah, Colorado, Arizona, New Mexico, Montana, Idaho, and Wyoming—are experiencing the highest inflation rates with over $500 in added household costs in January. Alternatively, those in the East South Central region—Kentucky, Tennessee, Mississippi, and Alabama—are experiencing the lowest monthly inflation costs due to relatively lower inflation rates and average spending levels. Households in the remaining regions face monthly inflation costs ranging from $350 to $400 as of January 2022.

To better get a sense of how inflation differs across the country, the following interactive map breaks down annual inflation rates in January 2022 by region. The Mountain West is experiencing the highest inflation with an annual rate of 9.0 percent, largely driven by rising home and rent prices; shelter costs in the mountain region are rising nearly twice as fast as the national average. States in the Midwest and South are facing the next highest inflation rates at around 7.9 percent, and states in the Northeast are experiencing relatively lower inflation at 6.1 percent to 6.6 percent. While the Northeast may be facing the lowest inflation relative to the rest of the country, inflation in that region is still historically high, with prices rising more than three times faster than the Federal Reserve's 2.0 percent target.

Figure 2: Annual Inflation Rates and Monthly Household Inflation Costs by Census Division, January 2022



*Alaska and Hawaii are included in the Pacific Region

To understand what is driving these regional differences, Figure 2 also shows how inflation varies within four of the largest spending categories: housing, food, energy, and transportation.

Housing inflation measures how fast prices are rising for home buyers and renters (i.e. shelter inflation), as well as the costs of furnishing homes and paying household utility bills. Shelter prices are rising the fastest for Americans in the Mountain West (8 percent), South Atlantic (5 percent), and East North Central (5 percent), likely reflecting increased demand for housing in those areas. The cost of household fuel and utilities, however, is rising faster in New England (19 percent) and the Middle Atlantic (16 percent), whereas shelter inflation in those areas are relatively low—increasing around 3 percent annually.

Food inflation reflects price increases at the grocery store and at restaurants, something that affects every American, but matters especially for lower-income households who dedicate a larger share of their tighter budgets to food. Grocery store prices are rising fastest in the Pacific (9 percent) and the Midwest (around 8 percent), while they are rising slowest in New England (2 percent). Alternatively, New England is facing one of the fastest inflation rates for food consumed away from home (7 percent), along with the Mountain West (7 percent) and the East North Central (8 percent).

The third category, energy, is one of the main drivers of inflation across the country.[11] It measures price increases among commodities like gas, electricity, and natural gas. Within the energy category, gas prices were up between 37 percent and 47 percent across all regions, with the highest gas price increase in New England and the lowest in the Middle Atlantic. Electricity costs also rose fastest in New England (17 percent), but they were relatively flat in the East South Central (1 percent) and Midwest (3 to 5 percent). Alternatively, natural gas prices were up most in the Midwest (26 to 43 percent).

Finally, transportation inflation reflects rising prices of new and used cars and trucks, auto parts, and gas, which is included in this category as well as in energy. Rising transportation prices have been a substantial barrier to the economic recovery, pushing up costs across the supply chain[12] and even dragging down economic growth.[13] Within transportation, the price of used cars and trucks is up around 40 percent uniformly across the nation, ranging from 39 percent in the Pacific to 43 percent in New England. Prices of new vehicles are rising significantly slower than used vehicles, with new vehicle prices increasing fastest in the Midwest (13 to 14 percent) and only half as fast in the East South Central (7 percent).

CONCLUSION

High inflation has been an unfortunate reality of the 2021 economic recovery, with rapidly accelerating prices outpacing wages for American families. Yet, Americans are experiencing inflation differently in different regions of the country. For instance, home prices are rising fastest in Mountain West states like Utah and South Atlantic states like Florida, while food prices are rising fastest in the Pacific and Midwest. But regardless of where you live, life was more expensive in 2021, and American families are unlikely to experience relief soon.

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ENDNOTES

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