This Time It’s Different
7/18/22

How many times have we heard that? More often than not it isn’t true. The importance of oil as a share of U.S. GDP has declined sharply since 1970. In 1970, ’74,’80 and 1982, spikes in oil prices led directly to recessions. While recent spikes in oil prices have slowed GDP, they have not led to recessions (by themselves).

In 2011, 2012, and 2013, we experienced months with oil prices above $100. Oil prices over this three-year period averaged in the high $90’s. Yet, GDP was modestly positive averaging 1.8%.

Interestingly, in 2022 oil prices will likely average close to $100 and, according to Chairman Powell, GDP will approximate the levels reached in 2011-2013. Thus, we have a unique match between 2011-2013 and now as far as oil prices and GDP is concerned.

Where we part company and where things are radically different and the pain much greater is in the area of broad-based pernicious inflation in 2022. Even if the rate of inflation moderates in the next two years, the level of prices will remain high, putting enormous pressure on low-income households. The annual increase in the CPI in 2022 is likely to be 3 1/2 times as high as in the 2011-2013 period.

Consumer Price Index

2011-13	%	12 months JUNE 2022
All	2.1	9.1
Food	2.7	10.4
Shelter	2.2	5.6

The burden of these broad-based increases is likely to fall disproportionately on low-income households. They need a safety net, and they need it **now**. With the Federal Reserve continuing to raise interest rates, home ownership affordability is likely to fall, forcing more people into rentals. Since low-income households probably disproportionately are renters, this will place an added burden on them as rental prices rise.

Fortunately, there is an existing national program set up to help low-income households deflect some of the pain of rising costs. It is the Low Income Home Energy Assistance Program (LIHEAP). The Administration and Congress have been generous in funding the base program. However, it is in desperate need of temporary supplemental funding. The added funds would not be permanent but should stay until the Federal Reserve achieves their target level of inflation.

The Federal Reserve believes they can achieve that goal sometime in 2024. However, (by design) they will have to slow the economy and bring the unemployment rate up. A portion of the growth in the unemployment rate will fall on the low-income households. The States, the Federal Government, and Congress needs to act **now**.

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