Tacks in the Road

(Continued from page 5)

down by 2.7% over the period. In contrast, prices were up only 18% in total over the full 10 years from 2010 to 2020. Before the pandemic, we were living in what economists were euphemistically calling a "Goldilocks" economy, not too hot and not too cold, characterized by low inflation, low unemployment and low interest rates. The core inflation rate (CPI minus food and energy) was never above 3% from the mid-1990s until 2020. In spite of 9/11 and the financial crisis of 2008, the Goldilocks economy was supported by "right-to-work" laws; higher rates of labor market participation, education and high productivity; lower inflation expectations; low wage demands; tax cuts and regulatory reforms; automation; the "fracking" revolution and lower energy prices; and globalization, international competition and a strong dollar that allowed us to cash in on economies of scale, specialization, comparative advantage, and just-in-time global supply chains.

So, what happened? In a nutshell, the pandemic upset the apple cart. Shutdowns, layoffs, fear and panic had a profound and disruptive impact on global supply chains, consumer and business confidence and demands for goods and services. The pandemic exposed the risks of over-dependence on fragile, global supply chains for basic necessities, medical equipment and supplies of strategic materials. The immediate political response was an immediate imposition of trade restrictions that only made matters worse. Large amounts of fiscal stimulus were pumped into the global economy, while interest rates were held down to negative values. Once things began to open up and fear and panic began to subside, pent-up consumer demand outstripped the economy's ability to produce and deliver goods and services. Companies struggled to reopen mines and factories and secure supplies of raw materials, parts and labor. Transportation bottlenecks multiplied, and costs were raised by higher oil prices.

The global economy grew at a rate of 6% in 2021, raising inflationary pressures. Shortages of labor were exacerbated by declining participation rates, fear of the virus, early retirements and expanded unemployment benefits. Oil demand fell by almost seven million barrels per day at the start of the pandemic, oil prices actually turned negative at one point, companies laid off thousands of workers and all exploration and development activity dried up. When demand bounced back, inventories were already low, and the oil and natural gas price explosion that followed quickly fed into inflationary pressures in all sectors of the economy.

Then Russia invaded Ukraine. Sanctions were announced, and supply lines were further disrupted. Markets hate uncertainty, but events are slow to unwind and there are no quick fixes. The war, sanctions and explosive demand created a boom in commodity markets, with many items reaching new highs in the opening months of 2022. Russia and Ukraine are important exporters of wheat, corn, sunflower oil, crude oil, petroleum products, natural gas, nickel, pig iron, steel, aluminum and other metals which are now disrupted by war. Coincidently, new COVID outbreaks in China are causing total shutdowns of major cities and ports, further disrupting supply chains.

So, where do we go from here? Nothing is inevitable in economics, and as usual, there are opposing forces at work. On the one hand, rising prices are eating into consumer confidence and impacting discretionary spending across the board. Higher interest rates are starting to cool the housing market and business investment. On the other hand, labor markets are still tight. The US alone has about 12 million job openings for six million unemployed workers. The high number of vacancies could initially act as a cushion if the economy slows down, as employers would first stop filling vacancies before laying off workers, protecting income to some extent. While prices adjust frequently to market conditions, wages adjust less frequently and lag behind. Higher commodity prices for material inputs will eventually be passed on to consumers, and supply chain issues are likely to persist. Reversing 35 years of globalization and reshoring production of strategic materials and goods can't be accomplished overnight; reorganization of markets may take years.

High oil prices are the cure for high oil prices, and there is growing evidence that high prices are cutting into demand. US and OPEC production are on the rise; and we are drawing down our Strategic Petroleum Reserves. Nevertheless, a drastic turn in the war or a sudden end of the COVID lockdowns in China could spur prices to new levels. Natural gas markets, especially in Europe, may take more time to restructure. Housing demand is cooling off as rising mortgage rates and prices are getting ahead of consumers' ability to pay, but rents are likely to continue to rise. Food prices are being driven by drought, loss of exports of grains and cooking oil from Ukraine and Russia, higher prices for feed and fertilizer, a bird flu epidemic affecting chicken and eggs and higher costs for fuel and processing.

Higher consumer price inflation may be with us for the immediate future, and there's a possibility that it could become built into market expectations and give rise to a wage-price spiral that might only be broken by a recession. History tells us that both upward and downward wage and price spirals, driven as they are by people's expectations, tend to become self-fulfilling prophecy. How the conflicting forces pulling the US and global economies in several directions at once work out is far from certain, but the balance of risks seems to be on the downside. There's a lot of momentum and pent-up demand in the economy stemming from last year's fiscal and monetary policies, rising incomes, and comfortable levels of consumer debt that may carry the economy for a while, but inflation is quickly taking its toll, and it will persist. The course of the war and uncertain political developments at home and abroad are casting long, ominous shadows. It may take a while, but a turn for the worst seems likely.

If you would like to contact me on any issue, I can be reached at mayor@townofpks.com or 252 622 2338 (cell). Thank you.

Pine Knoll Shores

Vision and Mission Statement

Our *vision* is to provide a quality environment in which our citizens are safe and secure, where individual talents flourish, and everyone enjoys the natural resources of the area.

It is the *mission* of the Town of Pine Knoll Shores to provide for the safety and well-being of all residents and visitors in an efficient and well-organized manner; and develop and implement plans for the continuous improvement of the town, its services, and its beach; and encourage the participation of residents in service to the Town and community.