Inflation will come down, in time

State, local efforts to reduce prices can actually make things worse

BY GREG GOLDFARB
CONTRIBUTING WRITER

As Virginians continue to bow to the pressure of record-high economic inflation, two Virginia economics scholars say that much-needed financial relief may not be right around the corner. But, it's coming.

Consumer prices will likely continue to be higher than usual for the rest of the year and maybe beyond, while federal monetary leaders find a pathway to lowering the price of everyday commercial products.

And even there may be hope on the horizon, for now, high prices are causing economic hardship in many households and businesses across the state.

"The worry is that inflation expectations have taken root, which could make combatting

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it much more difficult for the Federal Reserve Board," said Dr. David Lehr, MBA program director and economics department chair at Longwood University. "Generally, the Fed is trying to tamp down on overall demand through interest rate hikes, but trying to do so just enough to rein in inflation without going too far and causing a recession, like what happened in the early 1980s. Inflation will come back down to previous levels, but when and with how much pain is still unknown."

Over the past 100 years, the inflation rate in the U.S. has averaged 3.22% per year, but was as high as 18% in 1910, and has reached double digits again eight times since then, including hitting 18% in 1980.

More recently in the U.S., the Consumer Price Index rose 6.8% between November 2020 and November 2021, spurred mostly by price increases for gasoline, food and housing. Higher energy costs caused the inflation to jump further in 2022, reaching 9.1%, a high not seen since 1981. Opinion polls say it's the main topic on many people's minds.

The high inflation being experienced now is different from that of the past, not just because of the increased dependency countries from around the world have on each other to meet their needs, but because it is also being affected by increased consumer consumption.

"Inflation started to take hold in early 2021, primarily driven by an imbalance between overall supply and demand in our economy," Lehr said. "COVID-related issues curtailed supply while federal stimulus response to COVID, combined with pent up household savings, led to rising demand. Although gas prices have come down, it is too early to tell when overall inflation will reach more normal levels. The inflation experienced in the early 1980s was similar to what we are seeing today.

"It is not unusual to see inflation pressures mounting when unemployment is low," Lehr added. "Typically, there is a trade-off in the short run between good inflation numbers and good unemployment numbers."

Even though the national unemployment is a little over 3%, the country could fall into a recession, triggered by people holding onto their money during tight times, and also trying to make the most of it.

"Goldman Sacs economists give the odds of a recession at 50/50," Lehr said. "That is about where I'd put it; all depends on how good, or lucky, the Fed is at creating a soft landing, along with all the geopolitical/health global issues."

In the United States, the Fed regulates the federal funds rate, which is the interest rate at which depository institutions lend reserve balances to other depository institutions overnight on an uncollateralized basis, according to online data. Reserve balances are amounts held at the Federal Reserve to maintain depository institutions' reserve requirements.

The Federal Reserve recently raised interest rates by three-quarters of a percentage point, the most aggressive hike since 1994, according to online data. This rise puts the key benchmark federal funds rate at a range between 1.5% and 1.75%. The Fed also discourages consumers from making large purchases and wants people to pull back on spending. The goal is to lower demand over time, allowing prices to come down and stabilize. This power to set interest rates is one of the Fed's main tools to steer the nation's economy.

With so much economic control being exerted at the national level, there's not much action local governments can take to battle economic inflation.

"Local and state governments cannot do anything, except perhaps make it a bit worse," Lehr said. "A gas tax holiday, for example, is a terrible idea; refineries are limited and at capacity right now and a gas tax holiday will just drive up demand, leading to higher gas prices that will offset the tax cut. The Federal Reserve is the primary policy-maker we have to fight inflation. Fiscal policy can do little on the supply side. (We should be) doing what we can to have 'demand growth' match, but not exceed, 'supply growth' in our economy."

Matthew Todd "Matt" Holt, professor and head of the Department of Agricultural and Applied Economics, Virginia Polytechnic Institute and State University, relates the country's high inflation rate to international affairs.

"There is not one primary cause," he said. "It is linked to the war in Ukraine, which has caused massive disruptions in global food and energy supplies and markets. Russia is a major supplier of energy, especially to Western Europe. And while western sanctions against Russia are an appropriate response, the impact on global energy markets has been real and significant.

"Supply chain disruptions resulting from the COVID pandemic continue to be a factor, especially the tight zero-tolerance lockdown policies that China has continued to enforce," Holt said. "Supplies of both finished consumer goods and key manufacturing components continue to be impacted by supply chain snarls. There is also the impact of the stimulus packages the federal government offered in both 2020 and 2021. As important as the stimulus packages were at the time for stabilizing the economy during the pandemic, we are suffering some of the proverbial hangover now."

Economies do not remain the same indefinitely, as there are so many internal and external forces interacting with them. Financial markets seek stability to prosper, as communities need to know what to expect in the future, in order to better plan and prepare now.

"Nobody can know for sure what a 'new normal' might be regarding inflation," Holt said. "But, Federal Reserve Chairman Jerome Powell has made it clear that 'job one' for the Federal Reserve is fighting inflation; he wants it to be stabilized around 2%, or the expected growth rate in GDP. I believe him. I suspect the Fed is even willing to risk tipping the economy into a recession to combat the corrosive effects of inflation. The current inflation picture will likely not remain for long."

Economists are pleased that the national unemployment is low, said Holt, but it could portend some adverse results.

"It is rare to observe high inflation and low unemployment at the same time," he said. "And these are situations that tend not to last for long. And they tend to end with a recession. Low unemployment will not prevent a recession by itself. Higher wages and employment do help 'break the fall' of inflation, but even with recent wage growth in the 5% range, with inflation at or above 8%, people are still worse off in terms of purchasing power."

Times may be tough now, but based on historical precedents, all is not lost.

"We are never helpless," Holt said. "A combination of smart, timely policies and actions can always help mitigate, although not eliminate, major economic risks.

We have been in bad economic straits many times in the past and have come through them."

Budgeting helps counter inflation

BY GREG GOLDFARB
CONTRIBUTING WRITER

Life's not always easy, even in the best of times. And now, while caught in the throes of the highest price inflation since 1981, it's become even tougher for some.

Seemingly without warning, families across Virginia are asking themselves every day, how to make the best use of their money, during tight financial times.

Where to cut? What to eliminate? Might sound simple, but making the right decisions on stretching the family dollar isn't always easy to do. The key is being open-minded.

"It is very important to make choices that provide lots of flexibility," said Dr. David Lehr, economics professor and department chair at Longwood University. "Be nimble and resourceful. It is not necessarily pulling back and hunkering down, but being forward — looking and willing and able to change course should your home finances or business conditions change unexpectedly."

Traditionally, during good times and bad, public and private financial planners advise families to always keep a close

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eye on family finances and household budgets.

A shortlist of household cost-cutting actions can include eliminating unnecessary expenses, shopping for groceries differently, reducing home energy bills, being more fuel efficient, paying down on debt, increasing income and saving for the future,

It's important for households to be prepared well in advance for budget and economic uncertainties, rather than be caught financially off guard by changing monetary cycles that are beyond their control.

"In the short run, it is difficult for ordinary citizens to do much to fight inflation," said Matt Holt, economics professor and department head at Virginia Tech. "Historically, good inflation hedges have included owning land or real property, such as home ownership. Even so, buying a home simply as an inflation hedge is not a great idea. Citizens can also postpone big-ticket purchases, like buying a new car or truck.

"Households can trim discretionary purchases, magazine or streaming subscriptions and gym memberships," he continued. "Some evidence these things are occurring is provided by the recent decline in Netflix subscriptions. Making your own home improvements is another way of saving money; more carefully monitoring food purchases, generics versus name brands, and food waste, is also helpful; limiting credit card purchases and paying down outstanding consumer debt is always a good idea. Finally, it may be feasible for some people to take a second job to help stretch limited budgets."

Another way many people and families are saving money and living off the land at the same time is through gardening and backyard farming.

An upcoming groceries-related series called "Grow Your Own Groceries" features workshops set for August 2, 9 and 16 in Farmville. Produced and hosted by the Prince Edward County Extension Office, at 100 Dominion Drive, sessions run from 11 a.m. to noon. Attendees will learn how to plant microgreens, cook with sprouts, grow herbs and start windowsill gardens, using kitchen scraps.

In Virginia Beach, Karen Munden, senior extension agent, family and consumer services, Virginia Cooperative Extension, City of Virginia Beach, encourages families to take a closer look inside their refrigerators to find savings.

"(Families) need to meal plan, think about food that leftovers can be used in various ways," she said. "Take an inventory of the food in the cabinets and freezer; have the family get creative and only use food in the household. It could be a contest within the house."

Munden also encourages fewer home deliveries of food and less dining out, going online to better learn how to prepare food at home and cutting back on purchasing convenience foods, such as boneless and skinless chicken, which cost more per pound than other chicken.

Sliced fruit, such as apples, are better when purchased by the bag and later sliced and stored in zipped locked plastic bags, she said, adding that fresh lettuce can be treated the same way as apples.

Shoppers should also compare the size of consumer items to ensure a better value even if the price is a little more, said Munden, and use manufacturers' and store coupons.

"Families might want to purchase items in bulk, but make sure the family will use the items," she said. "Look for coupons and sales. Make sure to read the content of the item and make sure it is not full of water. The cleaning product should have more product and less water to be of value."

Parents with children in school face added financial pressures as they look towards the fall and back-to-school needs.

"Families should think about the whole school year, and not just from September to December, and estimate the supplies needed for the full academic year," said Munden. "Shop during the 'Virginia Tax Free' weekend in August and shop for clothing that can be worn year around, adding a couple layers for warmth during the winter months. Families may also consider purchasing clothes and shoes a little larger for children, so they can grow into them by the spring; and, consider purchasing secondhand options for clothes and shoes."

AAA bond ratings paint healthy financial picture for City of Suffolk

BY GREG GOLDFARB
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Look at it this way: a city government's bond rating is like a person's credit score – the better it is, the more you can do.

In the City of Suffolk's case, its credit is excellent, meaning that when city officials need to borrow money for community improvements and development, it's no problem.

"Having a strong bond rating allows the city to borrow money for capital improvements, at the lowest interest rates available in the financial market, which saves the city and its taxpayers millions of dollars in interest payments over time," said Tealen Hansen, Suffolk's finance director. "Some examples of capital improvements include, schools replacements, road improvements and renovations and maintenance of city buildings and facilities, all of which add to the quality of life of citizens in Suffolk."

For the fourth consecutive year, the City of Suffolk's three

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bond ratings agencies — Fitch Ratings, Moody's Investors Service and S&P Global Ratings — have affirmed the city's AAA bond rating, which means that the city has an excellent credit status and that its future financial outlook is stable. Fitch Ratings is the latest to confirm this with its announcement in late-July.

The superior rating also represents the overall credit-worthiness of Suffolk's government-issued bonds, according to William Franklin, media and community relations, City of Suffolk. It also provides assurance that the city has high quality of bonds, with the least amount of risk, and that both the principal and interest on the bonds will be paid on time and in full.

In finance, a bond is a type of security under which the issuer, or debtor, owes the holder, or creditor, a debt. The debtor is then obliged, depending on the terms, to repay the principal — that is the amount borrowed — of the bond at the maturity date, as well as interest over a specified amount of time, according to online data.

In its notification to city officials, Fitch said that the city's ability to raise revenues and solid expenditure flexibility support a superior level of inherent budget flexibility, and that Suffolk has healthy reserve balances that support a high level of financial resilience.

"The city maintains a conservative approach to budgeting revenue and expenditure growth," said Hansen. "Instead of projecting the best case scenario for revenue growth in developing the annual budget, which may or may not come to fruition, the city is more realistic in its revenue forecasts. This results in greater chances of meeting, or exceeding, revenue projections and improves chances for year-end surpluses, which are needed to maintain a healthy reserve balance in case of unplanned expenses, economic downturns, or emergencies.

"The city also strives to keep expenditure growth at a modest level within available resources," continued Hansen, "and does not budget for vacancy savings, which provides flexibility to cover unplanned expenses that occur during the year."

Moody's rating reflected the city's continued growth and diversification of the tax base, including healthy resident income levels, according to Franklin. It further noted that Suffolk's finances are strong and supported formal fiscal policies and conservative budget assumptions.

"The city continues to add new and expanding businesses and residential growth and development, which facilitates a healthy local economy, provides job and wage growth, and increasing levels of household income," said Hansen. "The city maintains strict adherence to its financial policies which promote fiscal stewardship."

Standard & Poor's recognized Suffolk's consistent and robust operations that bolster already very strong finances.

"The city strives to be consistent in the level and quality of services that it provides to its citizens year in and year out," Hansen said. "This means, providing the full spectrum of municipal services, such as weekly trash collection, water and sewer, adequate fire and police protection, sufficiently maintained roads and parks, adequate levels of health and social services, among others without major disruptions or fluctuations in service. The city's stable finances allow for this consistency in providing services to our community."

For the City to attain and retain its AAA bond status, its annual operating budget must be managed as efficiently as possible, allowing not only for recurring expenses, such as payroll and maintenance, but it must also predict the unpredictable.

"The city has established financial policies which govern how the amount of fund balance reserves are maintained to support city operations in the event of an economic downturn or emergency event, such as a bad hurricane," Hansen said. "The financial policies require the city to maintain a certain percentage of reserves in fund balance, as compared to budgeted expenditures. In the event of an event or economic disruption, the city has the ability to tap into reserve funds to ensure critical services continue without disruption and without taking on debt to finance ongoing operations."

The city of Suffolk's 2022 fiscal year operating budget is $698,200,696, compared to $767,571,838 for fiscal year 2023.