



June 2024

# Inflation in the Midwest

May 2024

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All the data referenced in this report come from the U.S. Bureau of Labor Statistics' Consumer Price Index (CPI) database. This source produces estimates of price levels neither for Iowa exclusively nor for any metropolitan area within Iowa; therefore, this report references data from the Midwest region (Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin) to represent changes in consumer prices in Iowa.

## Key Findings

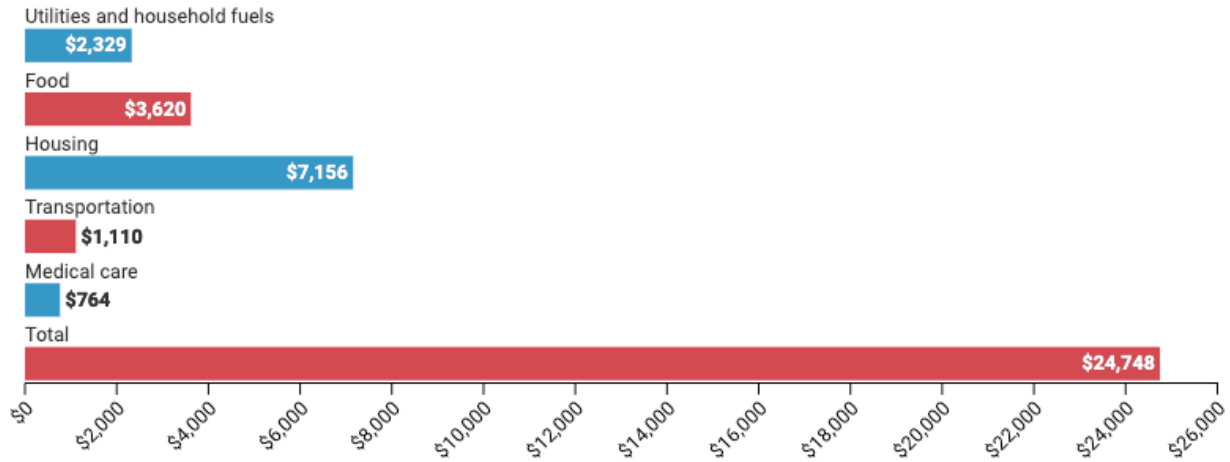
- **From April to May, prices across all consumer goods rose by 0.2% in the Midwest.** This was the lowest rate of inflation so far in 2024.
- **In the Midwest and nationally, inflation rose for the first three months of the year.** The May numbers confirm a break in the upward trend.
- Despite a drop in the annual rate of inflation, **the United States and the Midwest would need deflation through the end of the year to bring inflation down to the Fed's target rate of 2% for 2024.**
- **Inflation over the last year came in at 2.7% for the Midwest, down from 2.8% in April, versus 3.3% for the U.S., down from 3.4% in April.**
- **Since the pandemic, overall inflation in the Midwest is 21.4% versus 21.7% for the U.S.**
- **In May, the average midwestern household spent over \$1,000 more due to inflation relative to 2020.** The average household has spent \$26,830 more since 2020 because of higher inflation.<sup>i</sup>
- **In the Midwest region from May 2023 to May 2024, the price of services grew by 4.8% and the price of housing grew by 4.6% while the price of durables fell by 5%.**

## Prices up over 20% since the pandemic

In early 2021, inflation across the United States began to rise at rates far above the historic norm. In the Midwest, consumer prices have risen by 21.4% since March of 2020 when emergency fiscal and monetary measures went into effect to blunt the impact of economic shutdowns. As a result, the typical Iowa household must now spend \$1,050 per month more than it did in 2020 to maintain the same standard of living. That same household has spent an additional \$26,833 since 2020 to maintain the same standard of living. The cost increases have been led by a surge in housing, transportation, and food prices, which have risen by \$351, \$309, and \$152 per month, respectively. Figure 1 shows the cumulative increases in costs since 2020.

### Figure 1. Inflation's Impact on What Iowans Buy

How much more has the average Midwest household spent since 2020 because of inflation?

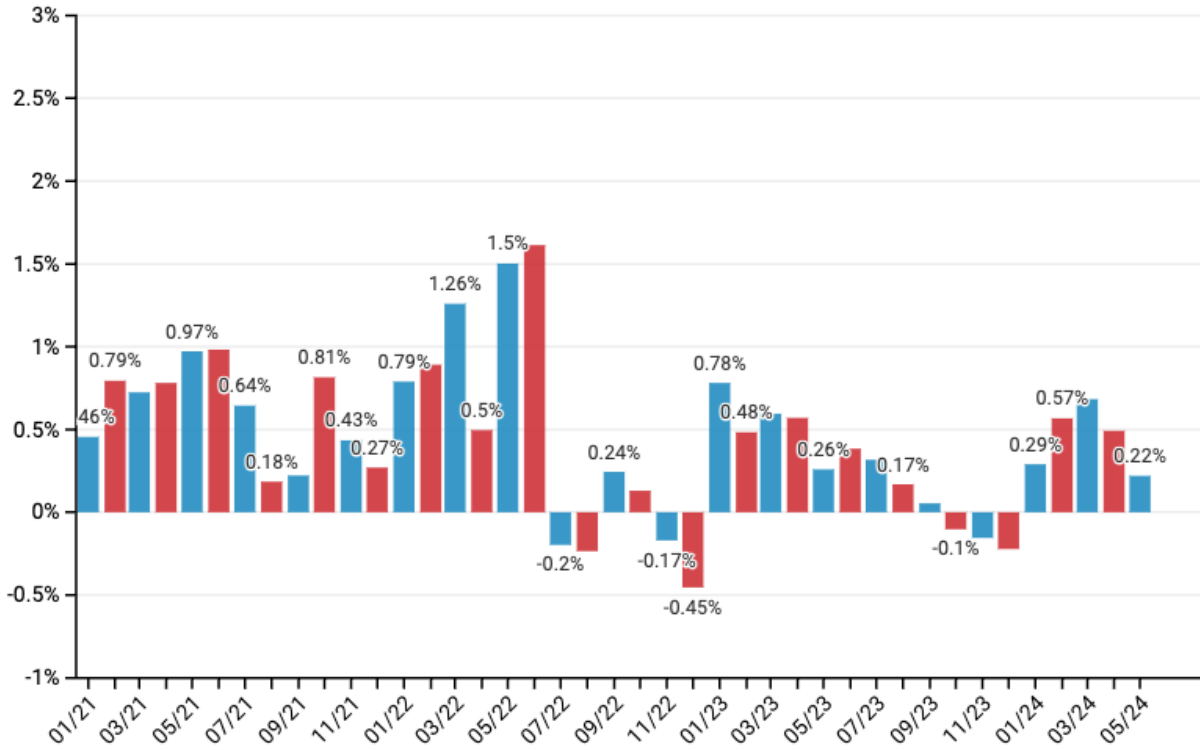


## Cooling inflation but not out of the woods

The national and Midwest May inflation print indicate that inflation is continuing to trend down. Looking at the downtrend in inflation in 2023, Common Sense Institute’s January 2024 inflation report suggested the trend of surging prices since the start of the pandemic may be reversing. It noted, however, that the January month-over-month number put a trend reversal into question, concluding, “The next few months’ data will help to clarify whether inflation will remain sticky, or the disinflation trend of 2023 will hold.” In March, month-over-month inflation hit 0.7% in the Midwest. United States inflation remained at a 2024 high of 0.6% in February and March. Those prints indeed put the trend reversal into question. The cooling of inflation in April and May both in the United States and in the Midwest region revive hope for a move back toward the Fed’s 2% inflation target. The S&P 500 surged nearly 1% in pre-market trading in response to the low inflation print.

After rising by over 20% since the start of the pandemic, the cost of living will likely never return to 2020 levels. However, the rate of increase in prices has cooled. In the Midwest, annual inflation has remained mostly flat in 2024. It started at 2.7% in January, remained at 2.78% from February through April, and fell back to 2.7% in May. These year-over-year inflation numbers reflect past changes. The month-over-month deflation Midwesterners enjoyed in the last quarter of 2023 helped to keep those numbers low. For the annual inflation rate to stay low, month-over-month inflation must remain low. Monthly inflation data therefore says more about the short term trend and what to expect moving forward.

**Figure2. Monthly Inflation in the Midwest Region since January 2021**



Source: BLS CPI-U Data

Monthly inflation in the Midwest rose from -0.2% in December 2023 to 0.7% in March 2024. The March rate annualized would bring inflation to 8.4%. Fortunately, monthly inflation fell to 0.5% in April and 0.2% in February. Still, monthly inflation must remain low to ensure annual inflation remains at or below its current levels. The annualized average monthly inflation rate in the Midwest for January through May is 5.5%. If monthly inflation simply held steady at 0.2% for the rest of the year, the annual inflation rate for 2024 would rise to 3.7%. The CPI would need to fall slightly from now until the end of the year for the Fed to reach its 2% target in 2024.

**Figure 3. Annual Rate of Inflation Since January 2020**



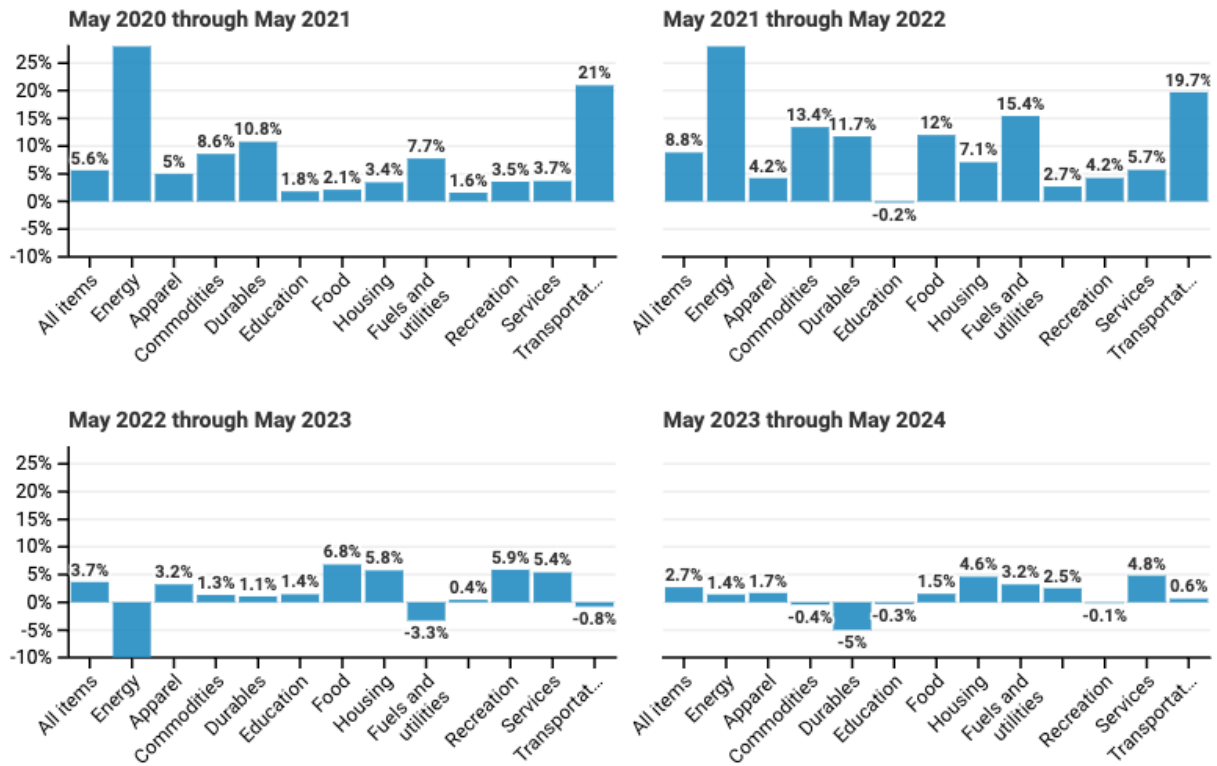
Source: BLS: CPI-U Data

## Inflation persists in housing and services

The cost of housing and services have led the increase in prices in the Midwest in 2024. From May 2023 to May 2024, the cost of housing rose 4.6% and the cost of services rose 4.8%. Meanwhile, the cost of durables fell 5%. Notably, food prices are rising at a slower pace, increasing only 1.5% over the past year in the Midwest compared with 6.8% a year ago and 12% the year before that. The cost of commodities fell in April and May in the Midwest. This is good news for consumers but may weigh negatively on Iowa’s economy. The following figure shows the year-over-year inflation rate in the Midwest by various consumer categories.

## Price Changes in the Midwest over Previous Years

Source: BLS CPI-U Data



<sup>i</sup> Impacts on household spending are generated by distributing the consumer expenditure estimates from [https://web.archive.org/web/20220121095708/https://www.bls.gov/regions/midwest/data/consumerexpenditures\\_selectedareas\\_table.htm](https://web.archive.org/web/20220121095708/https://www.bls.gov/regions/midwest/data/consumerexpenditures_selectedareas_table.htm) across individual months, weighting them according to their corresponding CPI levels, and adjusting them according to the latter's growth history.