



New York State Comptroller
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Economic and Policy Insights

Inflation in the New York City Metropolitan Area

April 2022

Last week, the U.S. Bureau of Labor Statistics (BLS) released new data indicating consumer prices grew by 8.5 percent nationally and 6.1 percent in the New York City Metropolitan Area (NYC metro area) in March 2022 compared to the same month a year ago.¹ For over a decade following the Great Recession of 2008, inflation remained low, generally under 2 percent; however, price increases began to accelerate in the spring of 2021 and are now growing at the highest annual rate in 30 years in the NYC metro area.²

During this high inflationary period, increases in the NYC metro area have been less than those nationally and in other large metropolitan areas; nevertheless, price increases appear poised to outstrip earnings growth. Specifically, consumer costs in the NYC metro area have grown most steeply for energy, transportation, recreation and food. While some price increases may moderate in months to come, short-term expectations of persistent inflation remain high.³ Consumer spending habits have already shifted, and persistent inflation on essential household items, such as housing and food, will limit purchasing power and squeeze household budgets absent stronger wage growth.

The Basket of Goods

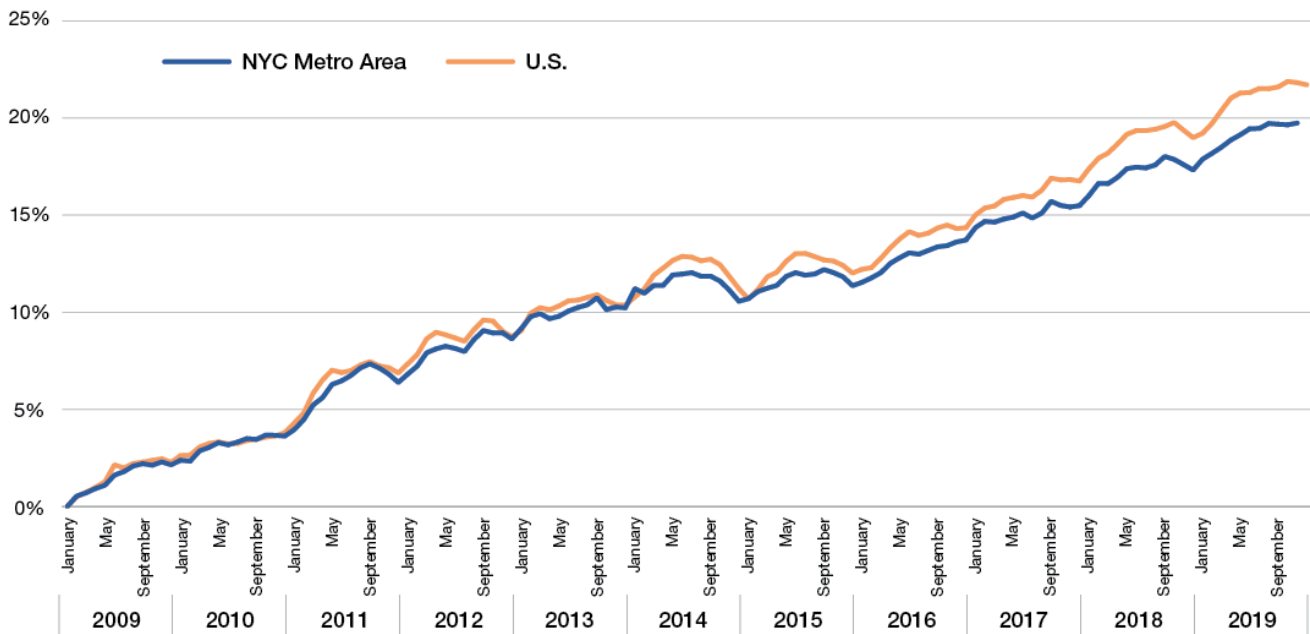
The most commonly used measure of household inflation is the Consumer Price Index (CPI), which has historically provided a reliable benchmark for price changes across a fixed basket of goods in the nation, regions and metropolitan areas.⁴ The basket contains goods and services classified into the general categories of food and beverages, housing, apparel, transportation, medical care, recreation, education and communication, and other goods and services. The basket is developed from detailed spending information provided by individuals and families on the BLS' Consumer Expenditure Survey. The survey provides a sense of local consumer spending habits, which look a bit different in each area.

As consumer spending habits differ by geography, so does the basket of goods. For example, housing comprises the largest share of consumer spending (39 percent in the NYC metro area), but the second largest expense varies. In the NYC metro area, it is food (13 percent); in the Los Angeles metro area, it is transportation (16 percent). These consumer spending habits are important for understanding how the CPI is calculated, since price changes are weighted by the importance of an item in the spending patterns of a particular regional population.⁵

NYC Metro Area Prices Rising More Slowly

Prior to the pandemic, the last major U.S. recession lasted from December 2007 to June 2009. In the period since, inflation remained low: annual price increases averaged 1.6 percent compared to the same month in the prior year from January 2009 to December 2019. As shown in Figure 1, during this period, consumer price increases in the NYC metro area generally tracked the nation, with prices rising slightly more nationally (22 percent) than in the NYC metro area (20 percent).

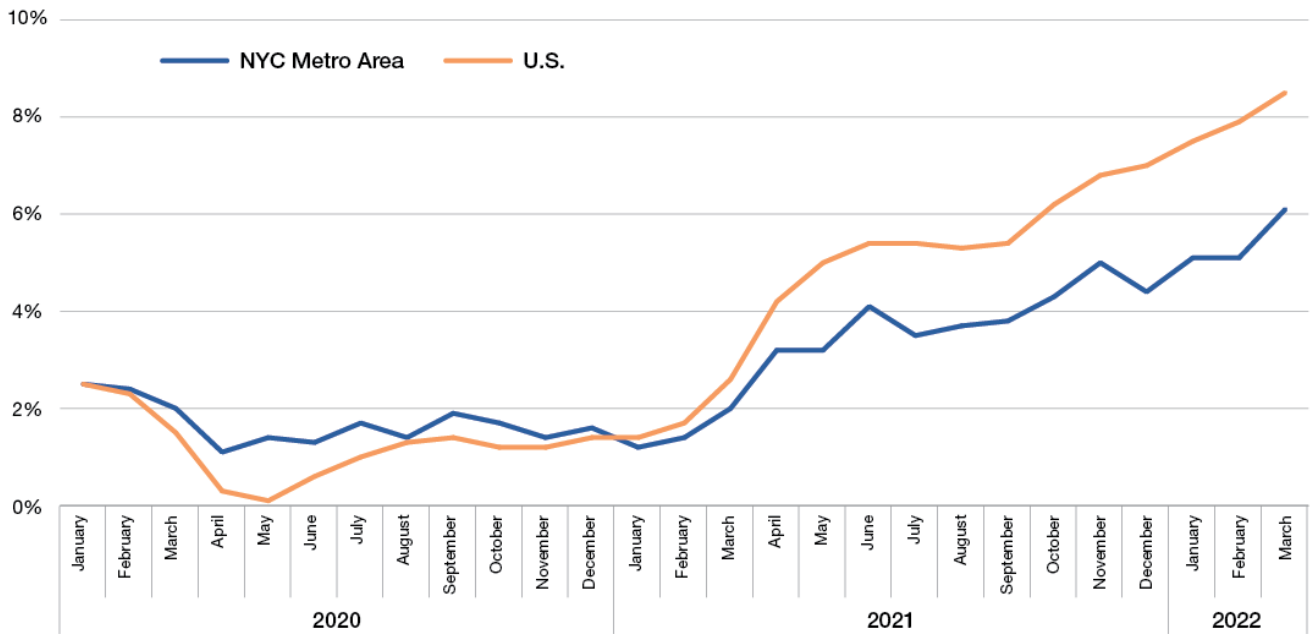
FIGURE 1
Cumulative Increase in Consumer Prices from January 2009 to December 2019, NYC Metro Area and U.S.



Sources: U.S. Bureau of Labor Statistics, Consumer Price Index; OSC analysis

At the onset of the pandemic, consumer price increases slowed more nationally than in the NYC metro area, and began to rise beyond 2 percent nationally in March 2021 and in the NYC metro area in April 2021. As shown in Figure 2, consumer prices from the same month in the prior year have accelerated since then, but less so in the NYC metro area than nationally. In March 2022, the most recent month for which data are available, prices grew 8.5 percent nationally compared to 6.1 percent in the NYC metro area.

FIGURE 2
Growth in Consumer Prices from the Same Month in the Prior Year, NYC Metro Area and U.S., January 2020 to March 2022



Sources: U.S. Bureau of Labor Statistics, Consumer Price Index; OSC analysis

Slower Growth in NYC Metro Area Prices To Date

Prior to the pandemic, annual growth rates in overall prices in the NYC metro area lagged behind many other large metropolitan areas. At the onset of the pandemic in March 2020, prices had been rising more in the NYC metro area than in other large urban areas and the nation. As shown in Figure 3, by March 2021, prices grew more sharply in almost all other large metro areas for which BLS issued reports. One reason is housing prices, the largest component of the basket, grew more rapidly in more sprawled metros between 2020 and 2021, as demand for more space took hold during the pandemic. For the most recent year, price increases in other large metro areas ranged from 7.3 percent in Boston to as high as 10.2 percent in Tampa in March 2022—compared to 6.1 percent in the NYC metro area.

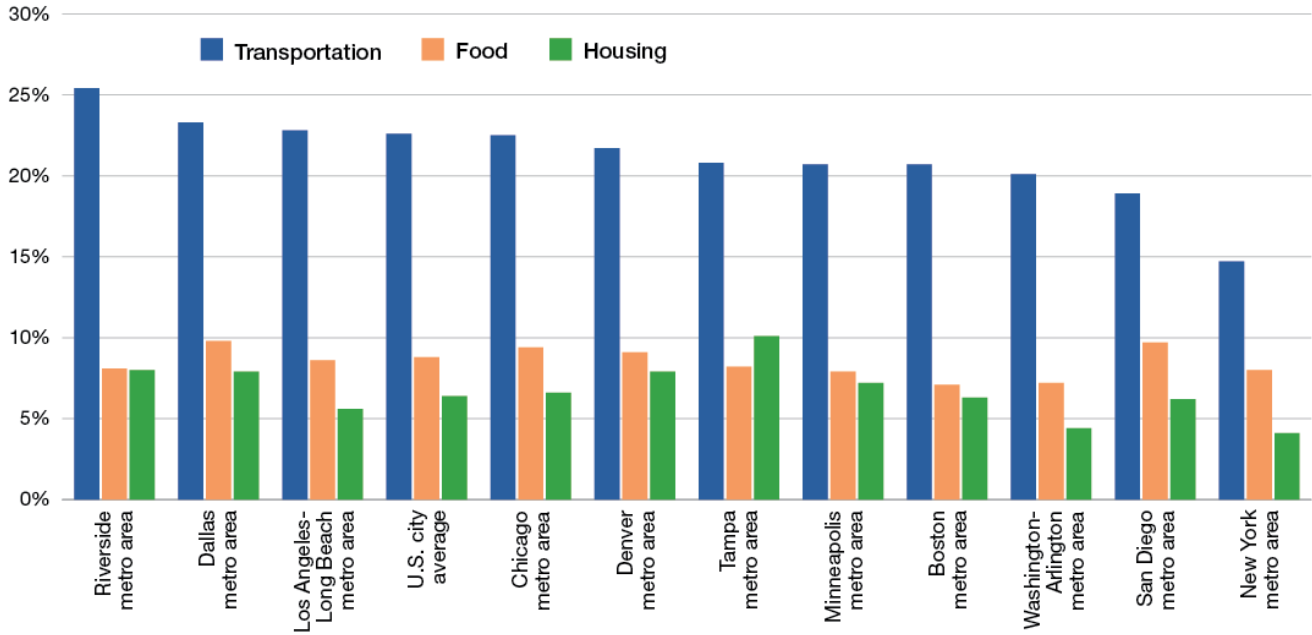
FIGURE 3
Annual Percent Changes in CPI, Select Metropolitan Areas and Nation,
March 2019 to March 2022

| Metropolitan Area | March 2018– March 2019 | March 2019– March 2020 | March 2020– March 2021 | March 2021– March 2022 |
|-------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Tampa | 1.7% | 2.1% | 4.9% | 10.2% |
| Riverside | 2.8% | 2.3% | 3.6% | 10.0% |
| Denver | 1.4% | 2.2% | 1.6% | 9.1% |
| Dallas | 2.7% | 1.0% | 3.4% | 9.0% |
| Nation | 1.9% | 1.5% | 2.6% | 8.5% |
| Los Angeles | 2.7% | 1.9% | 2.2% | 8.5% |
| Minneapolis | 2.3% | 1.2% | 3.0% | 8.2% |
| San Diego | 2.2% | 1.8% | 4.1% | 7.9% |
| Chicago | 1.5% | 1.1% | 2.6% | 7.8% |
| Washington | 1.6% | 0.4% | 2.6% | 7.3% |
| Boston | 2.1% | 1.8% | 1.3% | 7.3% |
| New York | 1.6% | 2.0% | 2.0% | 6.1% |

Sources: U.S. Bureau of Labor Statistics, Consumer Price Index; OSC analysis

Energy prices were the fastest growing item across all metro areas between March 2021 and March 2022. As shown in Figure 4, prices for food grew faster in the NYC metro area than in many metro areas; on the other hand, prices for housing grew more slowly. Transportation prices rose by double digits across all metro areas for which BLS issued reports; reliance on automobiles, which experienced sharp price increases in new and used markets from supply chain issues, likely fueled this growth. In contrast, there is widespread reliance in the NYC metro area on mass transit systems, which did not experience similar increases and likely moderated the growth in transportation prices relative to other metros.

FIGURE 4
Annual Percent Change in Select CPI Categories, March 2022



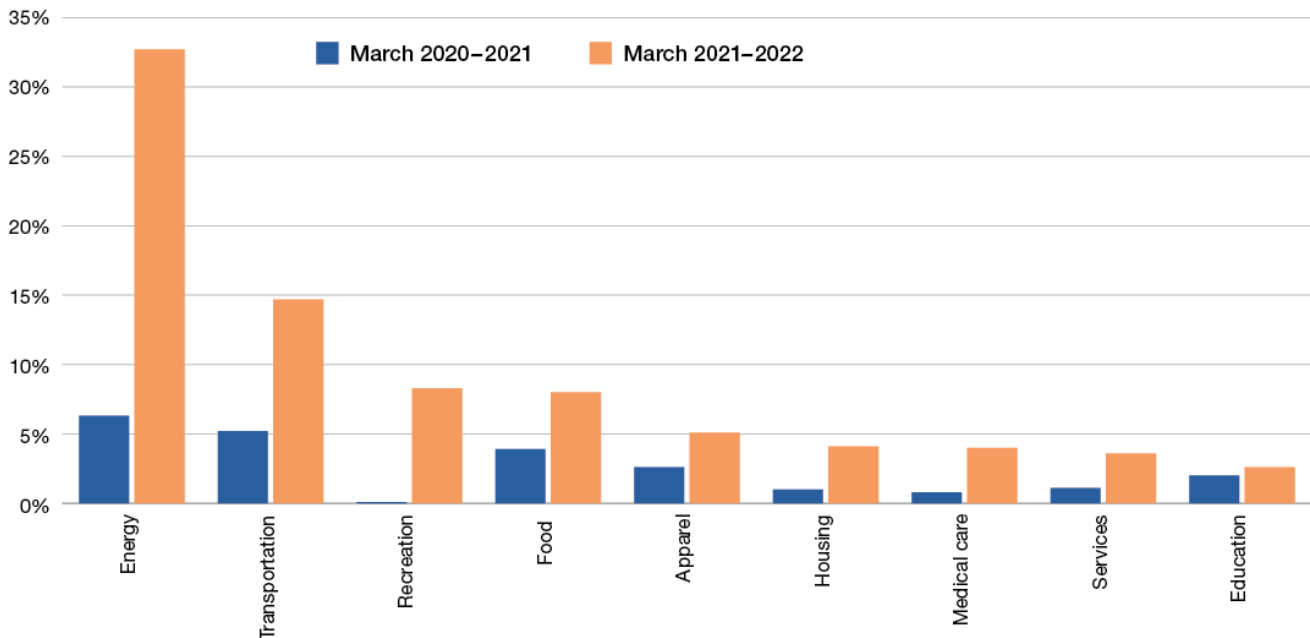
Sources: U.S. Bureau of Labor Statistics, Consumer Price Index; OSC analysis

Earnings Lag Price Growth

As shown in Figure 5, NYC metro area price increases in March 2022 were greatest for energy (32.7 percent over March 2021), followed by transportation (14.7 percent), recreation (8.3 percent) and food (8.0 percent). Prices for housing grew more slowly (4.1 percent); nevertheless, the increase was greater than in the year ending in March 2021 (1.0 percent), and growth has picked up in recent months.

More importantly, price increases in the last year may be outstripping earnings growth and squeezing household budgets. The most recent data through March 2022 are only available at the state level; while this is an imprecise comparison to the NYC metro area, it provides some insight given the disproportionate concentration of the state labor force in the downstate area. While prices grew 6.1 percent in March 2022 from the same month in the prior year, statewide hourly earnings grew merely 2.3 percent. The disparity suggests consumers may be losing their purchasing power.

FIGURE 5
Annual Percent Changes in Major CPI Categories in the NYC Metro Area, March 2021 to March 2022



Note: Prices for recreation grew by 0.1 percent between March 2020 and March 2021.

Sources: U.S. Bureau of Labor Statistics, Consumer Price Index; OSC analysis

Conclusion

Recent acceleration of inflation is attributed to a number of factors, including increased money supply from federal stimulus payments, supply chain disruptions and labor shortages. Consumer spending habits have already shifted in response to growing prices, as fewer households are making large purchases related to vacations, home repairs, home appliances, furniture, and vehicles.⁶ However, price increases on essential items, such as food and housing, will be difficult to avoid. As consumer expectations adapt to persistent inflation, workers are likely to demand greater wages; this may, in turn, lead to greater price increases.

There are some signals inflation, at least on some items such as used cars, may be moderating. As the pandemic has abated, fiscal stimulus has tapered off and local supply chains have restarted. The Federal Reserve Board has also tightened monetary policy and begun raising interest rates. These forces are expected to ease the rise of inflation. However, global supply chain challenges and the effects of geopolitical instability on commodity prices are likely to continue to pressure prices upward. A tight labor market and increases in the cost of transporting items are also likely to remain. Changes to demand based on behavioral responses to a changing public health, economic and geopolitical environment may also have unanticipated effects on future sources of inflationary pressure. Tracking the rise of prices, and the consumer response to these changes, is necessary to understand New York State's economic outlook and potential effects on its fiscal picture.

Endnotes

- 1 U.S. Bureau of Labor Statistics (BLS), Consumer Price Index (CPI), March 2022, available at <https://www.bls.gov/news.release/pdf/cpi.pdf> and https://www.bls.gov/regions/new-york-new-jersey/news-release/consumerpriceindex_newyorkarea.htm.
- 2 Annual rate refers to the change in prices in a given month compared to the same month in the prior year.
- 3 Federal Reserve Bank of New York, Survey of Consumer Expectations, Inflation Expectations, available at <https://www.newyorkfed.org/microeconomics/sce#/inflexp-1>.
- 4 The U.S. BLS reports consumer price increases for the nation (U.S. city average), four regions, and 23 metropolitan areas (Atlanta, Baltimore, Boston, Chicago, Dallas, Denver, Detroit, Houston, Los Angeles, Miami, Minneapolis, New York, Philadelphia, Phoenix, Riverside, San Diego, San Francisco, Seattle, St. Louis, Tampa, Urban Alaska, Urban Hawaii and Washington). Monthly data are provided for the four regions and the Chicago, New York and Los Angeles metropolitan areas; bimonthly data are provided for all other metropolitan areas.
- 5 Some basket items, including food and energy, can exhibit greater volatility in prices over time. Therefore, some analysts tend to prefer the Core CPI, which excludes these goods.
- 6 Federal Reserve Bank of New York, Survey of Consumer Expectations Household Spending Survey, January 2022.

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