

Diversifying

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The Price is Not Right



Speakers

Kaytlinn Lamme, Delyanne Barros, Vanessa Yurkevich, Speaker 4, Demond Drummer, Ali

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Kaytlinn Lamme

The first thing I saw was it said rent \$1200. And I just thought, Oh crap. And I was literally trembling, went back inside and I just started crying.

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Delyanne Barros

Inflation is hitting the pockets of so many Americans. Take Kaytlinn Lamee. She's 20 years old and lives in Missoula, Montana, and she says her rent has gone up 304 dollars this year. When she found out about the increase, she called up her aunt.

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Kaytlinn Lamme

And I was bawling my eyes out, you know, and I called her and I said, I don't know how we're going to afford this. And she said, that's just how it is right now. Like, I know it sucks, but that's just how it is right now.

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Delyanne Barros

This is one of the things that's so difficult about the rising costs we're seeing. They can upend your life and there isn't much you can do about it.

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Kaytlinn Lamme

You know, that's our problem. It's like, where else would we go? Because this is the price of apartments right now, there's nothing cheaper.

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Delyanne Barros

Kaytlinn is doing everything she can to keep up. She got a new job as a housekeeper that pays a little better. Now she's working six days a week and taking on double shifts just to keep up with rent. But it's not just rent that's going up. Milk is about a dollar 50 more than it was about a month ago. Gas prices are up 48 percent since last year.

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Kaytlinn Lamme

Like with the gas prices and stuff, it has been harder. Like currently, I have two pairs of jeans and they're both two sizes too big, and I just have been postponing buying jeans because the ones that I like and the ones that fit me, they're \$50. Right now, that's how much it costs to get a tank of gas in my car. So I'd rather just spend that money on gas that I need to get to work or whatever, than on a pair of jeans.

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Delyanne Barros

We know Kaytlinn is not the only one cutting back, taking on extra work and stressing about costs. So many of you are having to do the same. So today we're digging into why prices are so high right now. We're also going to talk about what the government is doing about it and how their solution is affecting the working class and people of color. I'm Delyanne Barros. This is diversifying.

00:02:15

Vanessa Yurkevich

I really cover the intersection of the economy, business and politics. I try to put it all together and hope it makes sense for our viewers.

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Delyanne Barros

Vanessa Yurkevich is a CNN business and politics correspondent. She's been covering inflation for the past few months. So I asked her to help us break it all down. Vanessa, thank you so much for joining us on the show today. We are here to talk about 2022's biggest buzz word inflation. For those who don't know, what does it really mean because we hear about it all the time in the news, but what does it really break down to?

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Vanessa Yurkevich

In its simplest terms, what it means is when demand outpaces supply. So, for example, cars. Cars are really in demand right now, but there's not a lot of cars on the market. And so that pushes prices higher and that's happening across the board on so many different things. So a lot of demand, little supply equals high inflation.

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Delyanne Barros

And I'm so glad you brought up cars because right now your used car is more valuable than ever, which is usually something that drops in value very quickly. But not anymore. So if you have a used car sitting around, you're thinking about selling it, this would be the time to take advantage of that.

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Vanessa Yurkevich

Well, but if you sell it, you're going to have a tough time buying another car because there's no there's no cars on the market. But yeah, if you want to get rid of your used car, it's up about 35 percent in value in just the last year. That's huge.

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Delyanne Barros

Let's break it down a little bit more because usually when people are talking about inflation, they talk about this index, the CPI, right, the consumer price index. What's that?

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Vanessa Yurkevich

So Consumer Price Index comes out every month and it tracks sort of the biggest things that Americans spend money on. So cars is one, housing it's known as shelter in the CPI report, food is a huge one, and gas. So that's tracked every single month. And that is what shows us where we are on inflation. So we're at 8.5 percent inflation year over year. That's a big number. Normally we're in the twos, maybe threes. So we're tracking really, really high. And that CPI report breaks it down across all different things. So eight percent across all different goods. But then it also breaks it down piece by piece, furniture, cars, fuel, et cetera.

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Delyanne Barros

But this isn't the first time that inflation has skyrocketed in America, right? This has happened before.

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Vanessa Yurkevich

Yeah, I mean, one of the biggest inflationary sort of times in our life was in the 1970s, when inflation tracked up to about 15 percent. That's almost double what we're seeing now. I mean, these are the days probably before you and I were born. I think maybe our parents remember when you had to go to the gas station based on your license plate number being even or odd because there were fuel shortages and there wasn't enough gas for people in this country. And that pushed prices really, really high and prices were high across the board. So what we're seeing now is significant, but it's not as bad as what we were seeing in the 1970s.

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Delyanne Barros

I think that there is this dichotomy between like Gen Xers and millennials and Gen Zers because they have had such different experiences throughout the years.

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Vanessa Yurkevich

I mean, absolutely. But I think as you know, millennials, a lot of people are trying to buy their first homes right now. It's a very difficult market. There is still so much demand. I don't know if you saw over the summer, I would say all of these stories about people, you know, writing like sob stories to potential sellers saying, like, they'll name the

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Delyanne Barros

They called them love letters.

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Vanessa Yurkevich

Exactly. Love letters where people were saying, all named my firstborn child after you. If you sell me your home and I'll throw in \$100000 cash. I mean, that was how that was how desperate people were to get into homes. So I would say it's leveled off a little bit, but the problem is that there's just not as much supply and there's still that intense demand and home prices are up 20 percent year over year.

Delyanne Barros 00:06:17 What are some of the things that these potential homeowners should be aware of?

Vanessa Yurkevich 00:06:20 So if you're buying your first home, you need to be aware of a couple of things. The first thing is that mortgage rates are on the rise. So if you were thinking, OK, you're going to pay two percent, three percent on your mortgage, that's probably not what you're going to be paying today. And so you need to factor that into your budget to make sure that you can still afford the home that you want to buy. Another thing that people need to remember is when we talk about supply chains, everything has to get to this country or move in this country by plane, boat or truck. So if you think about what goes into a home. Lumber, lumber is more expensive, steel is more expensive. You need oil to heat your home. That's more expensive. So it's just looking at your budget and saying, Is this a time? Can I still do this or do I need to wait and see what happens with the market?

Delyanne Barros 00:07:07 I rent. I believe you do too, right Vanessa?

Vanessa Yurkevich 00:07:10 Mhmm, I do.

Delyanne Barros 00:07:10 What about us renters? What's the effect of inflation on us?

Vanessa Yurkevich 00:07:13 We're seeing record rental prices up 17 percent in the last year. That is a record. I did not realize it till I got my lease renewal and they said that they were raising my rent 7 percent. I mean, that's essentially almost tracking in line with inflation. And I was making a huge stink about it. But then I talked to my neighbor and they're raising their rent 15 percent. You know, it's it is upsetting, obviously, because where do you go? It's not like I can say, I'm not going to stay in my apartment because they're raising it seven percent and then find a cheaper apartment. I mean, that's just not happening. What it really is doing is creating a housing crisis of affordability for especially low income Americans, who most of the time are on fixed incomes, potentially are relying on other government programs that don't necessarily go up dramatically with the rise of inflation. And they are going to unfortunately be priced out and it's going to create a housing crisis for people who are really struggling right now.

Delyanne Barros 00:08:17 But housing isn't the only way inflation is hurting our pockets. The rise in gas prices is a major problem. The national average for a gallon of gas is over \$4. So why are we paying so much at the pump?

Vanessa Yurkevich 00:08:31 I think we just got to take it back. Two years ago, when we started in this pandemic, right, the country essentially shut down. We weren't driving every day. We had no need to really fill up as much. Oil prices were essentially in the negative. Gas prices were under \$2. And then all of a sudden, the country starts to reopen again and people get back out on the road and the oil market OPEC as they're known. It's the nations that produce the most oil in this world. They were like, Whoa, there's a lot of people out. They need a lot of gas. But you know what? We're not going to actually release more gas, more oil, so to speak. So there was so much demand for gasoline and there wasn't as much supply coming down the pipeline. Now fast forward to where we are now with the war in Ukraine. So Russia is a big producer of oil and natural gas, but as part of economic sanctions on the country for what they're doing, we have said that we're not buying or importing any Russian energy at all. So that leaves even less supply for everybody else. So not only were we seeing prices track higher, we've now eliminated essentially a big oil producer, and so that's creating less supply for growing demand.

Delyanne Barros 00:09:50 And this is obviously extended past gas, right? It's not just gas that's being affected. Household budgets are feeling the squeeze everywhere, including groceries. I know when I go to Trader Joe's, I used to be able to fill up four bags with one hundred and fifty dollars. And now I'm lucky if I get two three bags in a very specific example, let's say it's like a carton of eggs. It's increased for some people by like a dollar. Why is food so much more expensive now?

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Vanessa Yurkevich

Nearly everything that comes into the supermarket gets there by truck and diesel fuel in particular. Which trucks run on is very expensive right now. But you also have to dial it back again two years to what was happening during the pandemic. We shut down. And then when the country reopened, everyone said oh, I want to go out again. I want to shop again. And the supply chain was like, Well, wait a minute. We've kind of been on standby for a while and now we're going to start back up all of a sudden? Supply chains don't start back up with the flip of a switch, right? And that is essentially why we're seeing these prices across the board, like the food that you're talking about at the grocery store.

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Delyanne Barros

More with Vanessa when we come back. We'll talk about what the government is doing to bring costs down and why this is such a tough puzzle to solve. Welcome back to diversifying. So now that we've covered what inflation is. Let's talk about what the government is doing about it. Specifically, the Federal Reserve or the Fed, which is America's central banking system. The Fed's job is to promote stability in our financial system. They control the money supply and interest rates. So what are they doing to help stabilize inflation? Here's Vanessa again.

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Vanessa Yurkevich

The Federal Reserve is probably the only entity that can control, so to speak or do anything about inflation. They have a couple tools. Their sharpest tool is to raise interest rates. Over the past two years, interest rates have been at zero. So just last month, they decided that they're going to increase it by a half a percentage point, and they're going to probably do that a couple of times over the course of this year. That's essentially to stop people from spending. But in turn, what that effects is car loans. If you wanted to buy a car, your car loan is going to be more expensive. That affects your student loans, interest rates on student loans that also affects, as we just mentioned, mortgage rates. So in many ways it helps to cool down the economy. But it also stops people from potentially doing things that they wanted to do. Big life changes, buying a home or buying their first car. So it's sort of a double edged sword, right? People feel like, OK, great. Finally, someone's doing something about this, but at the same time, hold on. Am I missing out on what I've been planning for the past five years or whatever it is? But really, the Federal Reserve is the single entity that can try to help in this situation, and that is why they're being pretty aggressive about raising interest rates over the course of this year.

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Delyanne Barros

So the government is doing what they can to curb inflation. But there is a downside to that.

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Speaker 4

Raising the interest rate does what? It tightens our economy. It slows our economy down by making money less available. What does that do? It means that there is a lower demand for workers.

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Delyanne Barros

I want to pause for a sec and bring in another perspective here.

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Demond Drummer

My name is Demond Drummer. I'm the managing director for Equitable Economy Policy Link. We are a research and action institute that is focused on creating an equitable country.

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Delyanne Barros

Demond points out that cooling down the economy has consequences for things like unemployment, and that impact is felt disproportionately by the working class and people of color.

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Demond Drummer

The majority of those living in or near poverty that bottom third of earners, the 100 million, are people of color. And so, yes, the problem with the solution to inflation being discussed today, which is raising the interest rate, actually harms people of color the most. It means there's a lower demand for goods and services. What does that mean? It means that that lower demand for workers drives the price of labor down. So in other words, we're saying the way to fix these price increases is to make sure that folks have less money to spend. All it does, it takes money from the folks who just got a small boost in income, takes that money back and it puts downward pressure on everybody's wages. And so who absorbs that decrease in demand for workers? Who absorbs at increased unemployment? Who absorbs that? It's people of color. So we're trying to curb inflation by putting people of color out of work and reducing the salaries of our lowest earners.

Delyanne Barros

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OK, so let's unpack that. Remember, Vanessa explained that one of the ways the government can address inflation is to adjust interest rates. And Demond is saying that for some, including many people of color and the working class, that is doing more harm than good. Instead, he thinks we need to focus more on rethinking our economy so that we're less vulnerable to inflation, making things more equal across the board.

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Demond Drummer

So without substantive deep structural change like changes to our tax code, like changes to how much of an industry can a single company own, right, changes to what is the floor for a minimum viable living wage in America? The real solution is massive public investments to lean our country off of fossil fuels and have a truly energy independent set up here. The price of natural gas is not set in the U.S. it's a global market. And so if we really want to protect American households from these volatile energy shocks. We have to invest in clean renewable energy sources, modernize our grid, electrify our homes and make sure that we are producing our energy from clean, renewable sources. Working people are doing all we can, and at some point our government needs to step up and join with us in creating the lives that we want to build for our families and the society that we want for our neighbors and the people that we care about.

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Delyanne Barros

For Demond, systemic change is what would make a real difference in the lives of everyday Americans, especially the working class and people of color. But if certain groups are being hit hardest, who are the ones benefiting

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Vanessa Yurkevich

For the average American? If you know, if you have a fixed rate mortgage, you're you're really winning right now because you're not at the mercy of the rise in these interest rates. I think, you know, investors who have really somehow picked great investments, great stock portfolios, energy investment portfolios, are probably doing really well right now. And, you know, some corporations, it's hard to know without digging into their financial records. But we've heard on earnings calls these CEOs saying we're doing really well and you know, you think, OK, well, yeah, they're they're probably, you know, pricing things a little bit higher because of inflation. But like, how are they doing so well? Because we know that they're having supply chain issues. We know that they're having to pay their employees more. So there are questions to be asked, you know, why or why are these corporations posting such big profits? It could be because people are spending a lot more. I would say that, you know, it's sort of average Americans who have locked into great mortgages and really smart investors or lucky investors and then corporations who have somehow been able to navigate these past few years in the pandemic.

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Delyanne Barros

We discussed how increasing interest rates can help cool down the economy and bring back things to normal. But what does that actually look like in the day to day basis? Because if a supermarket is all of a sudden, you know, charging more for eggs or for, you know, groceries in general, what's the motivation there for them to all of a sudden lower their prices?

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Vanessa Yurkevich

Well, you hope they're good people at the end of the day, but they respond to the market, right? So, for example, if the eggs are probably more expensive that they're buying. Because it costs so much more to get the eggs to the grocery store so than they have to tack on an extra dollar or whatever it is for the average consumer. But when inflation cools off, it means that the ease at which things arrive at the grocery store is more simpler. Gas costs less. Hopefully, at that time, there's more workers to potentially work on the farm that are producing these eggs. And there is less demand in the sense that not like less people are going to the grocery store, but there's less demand as it relates to supply. So basically, the supply chain is all like kinked up right now. It's like a old school fashioned phone cord. It's all kinked up right now, and it's trying to like stretch itself out and just like cool down and stretch itself out. And once that happens, then the flow of goods is just easier. It's less expensive. It's more convenient for consumers. So then hopefully by the time it gets to the grocery store, it doesn't cost as much to land there.

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Delyanne Barros

So, Vanessa, a lot of people right now are feeling kind of desperate, even borderline hopeless with seeing all of these prices skyrocketing. What is something that you can tell them to make them feel a little bit better about the situation? Is there a light at the end of the tunnel here?

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Vanessa Yurkevich

Right now, I think the question in people's minds is how long will this last? We don't know. But we know that it can't go on forever. And I think what people are feeling is that they don't feel like they're in control, right? And that's frustrating to people. But it's important to know that this too shall pass. And there are steps being taken at the governmental level within the Federal Reserve to try to help everyday Americans like you, me and families across this country not have to pay so much for basic things. And we talked about this before, but particularly for low income families, this has been a pretty challenging time. But the federal government is stepping up in ways of food assistance programs, increasing benefits for people to make sure that Americans are taken care of. So I would say sit tight, be frustrated, be proactive, try to understand what's going on, but know that there is a light at the end of the tunnel.

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Delyanne Barros

Listen, I know that things are hard right now, and it's especially hard to hear that all you can really do is wait for it to get better. At least for me, it's encouraging to know that this isn't forever, but what can you be doing in the meantime? There are steps that you can take to hedge against inflation. One of those steps is negotiating your pay. If you haven't yet, go back and listen to last week's episode and demand that raise. Another option is investing your money, a topic we broke down for you in episode three, where I explained how the stock market works and how you can use it to build wealth, especially right now. There are a lot of things you can't control when it comes to inflation, but you have options. This is the time to be proactive about your money. If you want to get ahead. Next Monday, we're going to talk about how the housing market has changed the American dream. Is buying a home still a realistic goal?

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Ali

I wanted the forever home. I wanted the homemade live in for 30 years because that's what our parents did, and that's what generations before did. But life looks different than it did 50, 60 years ago. So why are we trying to fit the narrative of what life looked like then in that regard?

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Delyanne Barros

Before you go, we want to hear from you for an upcoming episode. We've all made mistakes with our money, and there is no shame in that. I know I have. When have you made a mistake with your money? What was that mistake and how did it make you feel? What did you learn from it? Leave me a voicemail at two zero two five three nine seven three seven zero. Diversifying is a production of CNN Audio. Megan Marcus is our executive producer and Haley Thomas is our senior producer. Our producers are Alex Stern, Kinsey Clarke and Madeline Thompson, our associate producer is Charis Satchell and our production assistant is Eden Getachew. Eduardo Ocampo is our intern mixing and sound design by Francisco Monroy artwork designed by Brett Ferdock, Original Music by Andrew Eapen. Our technical director is Dan Dzula, with support from Chip Grabow, Steve Kiehl, Anissa Wells, Abbie Fentress Swanson, Tameeka Ballance-Kolasny, Ashley Lusk, Lindsay Abrams, Rafeena Ahmad, Lisa Namerow and Courtney Coupe. I'm Delyanne Barros. Thanks for listening.