

# Despite rate hikes globally, inflation unrelenting

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From Melbourne to Manchester to Miami, people are struggling under the weight of hefty price increases for the things they buy each day.

The worst spike in inflation that many advanced economies have seen in decades underscores the global forces driving prices higher, namely the disruptions set in motion by the coronavirus pandemic.

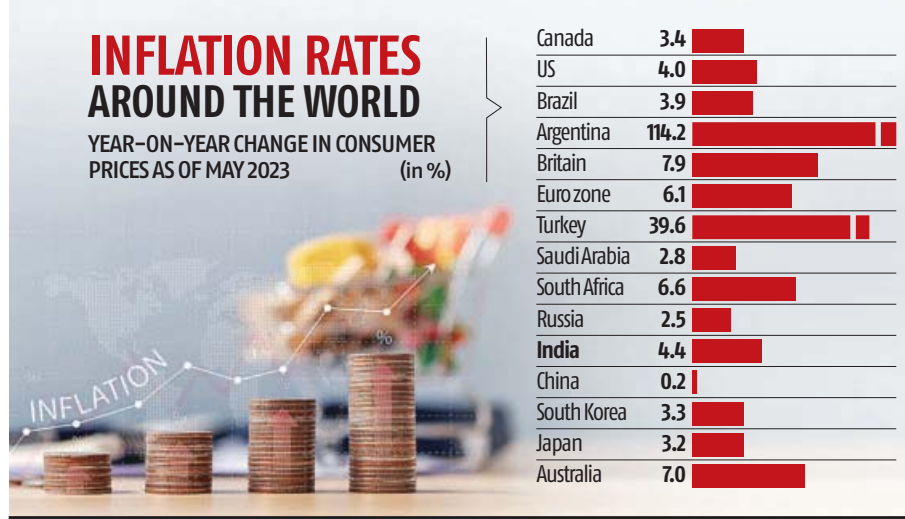
The stakes are high for policymakers around the world, who are facing similar problems. To try to get inflation under control, central bankers have rapidly lifted interest rates, trying to slow their economies in hopes of cooling prices.

If they fail to bring inflation under control, it could result in a destabilising period of spiraling prices. Higher and less predictable inflation would squeeze families and businesses and make it harder to plan for the future.

But if economic policymakers react too aggressively — and all at once — it could crimp global economic growth to a painful degree. That could raise the risk of a major recession that shuts businesses and puts people out of work. Given the potential cost, policymakers do not want to overdo it, harming their economies more than is necessary to bring down inflation.

Many central banks are approaching those trade-offs similarly: They are focused on fighting stubbornly high inflation. Officials fear that if they let inflation persist for too long, it could become entrenched and prove even more painful to stamp out.

The leaders of major central banks in North America, Europe and elsewhere have said



recently that they expect to continue raising rates, as inflation is moderating but remains well above their typical target rates — which are often around 2 per cent.

Officials at the US Federal Reserve have raised their policy rate to just above 5 per cent from near zero in March 2022, and they forecast raising it two more times in 2023, to just above 5.5 per cent. Policymakers at the European Central Bank, which sets policy for the 20 countries that use the euro, also expect to continue raising rates, which have reached the highest level since 2001. The Bank of England recently surprised investors by raising rates more than expected with its 13th consecutive

increase.

Inflation surged substantially in the United States in 2021 but has come down more quickly than in many parts of Europe. That's in part because Europe has more significant exposure to the effects of Russia's invasion of Ukraine, which has pushed up food and energy prices sharply.

But stripping out those volatile prices, so-called core inflation looks stubborn across many countries. That underscores the common problem facing policymakers: Slow-moving prices for services are climbing much more quickly than before the pandemic.

Prices for labor-intensive services like

## BIG TAKES

### UNITED STATES

**"Inflation pressures continue to run high, and the process of getting inflation back down to 2% has a long way to go"**

— JEROME H POWELL  
FEDERAL RESERVE CHAIR

### EURO ZONE

**"Inflation in the euro area is too high and is set to remain so for too long"**

— CHRISTINE LAGARDE  
PRESIDENT, EUROPEAN CENTRAL BANK

### BRITAIN

**"The economy is doing better than expected, but inflation is still too high and we've got to deal with it"**

— ANDREW BAILEY  
GOVERNOR, THE BANK OF ENGLAND

### AUSTRALIA

**"Inflation is still too high and will remain so for some time yet"**

— PHILIP LOWE  
GOVERNOR, THE RESERVE BANK OF AUSTRALIA

medical care and education tend to track wage gains and the strength of the overall economy.