



The economy will see uncomfortable - but not crisis-level - inflation.

BY HEATHER LONG

The great financial challenge of 2021 was reviving the economy. In 2022, the challenge will be to keep inflation from wrecking the rebound.

As prices continue to soar not just for cars but also for gas, utilities, food, housing and home goods, it's becoming increasingly clear that inflation will be higher for longer than anyone wants. Economists expect the rate of price increases to come down from the highs of 2021 — 6.8 percent for the 12 months ending in November, for example — but they don't envision it returning to the 2 percent range that's considered normal until late 2023 or beyond. That means we should brace for a year characterized by uncomfortable, but not crisis-inducing, inflation.

The playbook for dealing with uncomfortable inflation isn't obvious. In the late 1970s, when the nation suffered double-digit price increases, the Fed hiked interest rates to an unprecedented 20 percent, plunging the economy into a recession but eventually rectifying the situation. Today's Fed won't act so dramatically, but it is already signaling three rate hikes in 2022. Doing so without triggering a stock market panic or job losses will require careful maneuvering.

Republicans will continue to place the blame on Biden for spending too much on pandemic relief aid. That's a contributing factor, but the bulk of the problem involves a simple mismatch of supply and demand: Demand for cars, dishwashers, couches, kitchen sinks and other goods surged in 2021 as factories around the world struggled to reboot from the pandemic, and the kinks in supply chains will take a while to work out.

Americans are spooked about inflation, but most haven't curbed their spending yet. The big concern is that workers will demand higher and higher wages, and companies will keep raising prices, creating a spiral that is hard to stop. To forestall that outcome, policymakers have to convince consumers and business leaders that high inflation is not here to stay — a challenge that involves psychology as much as economics.

READ THE TEXT AND ANSWER THE QUESTIONS

- no.1** What were and will be the most challenging financial difficulties of 2021 and 2022?
- no.2** Which areas were most affected by constantly increasing prices?
- no.3** When is it expected for the price rates to come down from their highest 6.8%?
- no.4** What is considered the usual rate of prices increase and when is it expected to come back to normal?
- no.5** What happened with the economy in the 1970s?
- no.6** What are the main factors of causing inflation?
- no.7** What is the main concern regarding companies and employees?
- no.8** How can the concerns be avoided?

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