



Inflation Hit Higher Peaks in the Rocky Mountain Region, But Is Following the National Descent

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The Rocky Mountain region experienced higher inflation compared to households in most other parts of the country. Unfortunately, this regional gap in price growth was at its largest when the inflation rate was at its highest last year. Since then, regional inflation has followed the decline of overall price growth, but household essentials like shelter, food and energy have kept regional price growth elevated.

Prices climbed faster in the Rocky Mountain region over the past three years compared the rest of the nation. At its peak in June 2022, consumer price inflation hit 9.1 percent across the U.S. and surged to 10.4 percent in early 2022 in the Rocky Mountain West. As U.S. inflation descended to 4 percent by May of this year, inflation in the mountain region also fell, but sustained a higher rate at just over 5 percent. In this Rocky Mountain Economist, we highlight the factors that drove, and have kept, Rocky Mountain inflation higher. Most recently, those factors are linked to household essentials like shelter, food at home, and home energy expenses. Although inflation in the mountain region has remained above the national average, inflationary pressures are waning. As tightening monetary policy continues to take hold, the pace of inflation within the Rocky Mountain West is poised to follow the slowing rate of national price growth.

Mountain Inflation Tracks U.S. Average from Above

While the pace of inflation has slowed generally, it has remained higher in the Rocky Mountain region. When inflation surged last year, it rose in the Rocky Mountain region to even greater heights than the rest of the nation. (Chart 1) Over the past three years, the Rocky Mountain region typically experienced inflation that ran roughly a full percentage point above what households in most other parts of the country faced. Unfortunately, this gap was at its largest when the inflation rate was at its highest in the first half of 2022. At the peak, mountain region inflation exceeded the national average by nearly 2 percentage points. Throughout 2023, mountain region inflation fell alongside the national decline in price growth and is now only moderately higher than the nation's average.

Prices of Household Essentials Pushed Inflation Higher

Inflationary pressures beleaguering households over the last year were primarily due to rising prices for essentials, namely food, energy, and shelter. (Chart 2) Looking at the end of last year, of the 6.5 percent inflation rate nationally and 7.4 percent regionally, rising prices of household essentials accounted for 4.6 percentage points nationally and 5.8 percentage points across the mountain region. Though other categories of inflation are exerting less price pressure this year, the rising prices of essentials continue to contribute to overall inflation.

Energy and food inflation within the mountain region generally track U.S. averages but shelter is a notable outlier. (Chart 2) Last year, shelter prices contributed on average 1.9 percentage points to U.S. inflation overall, but 3.6 percentage points for mountain states. While inflation in other essential consumption categories like food and energy has waned, shelter inflation remains sticky, contributing 2.8 percentage points to headline in the U.S as of May 2023 and 3.3 percentage points in the mountain region.

Rents Rose Even More Rapidly in the Mountain Region

Shelter inflation – the growth in prices for renting and buying housing – has outstripped the national average across Rocky Mountain states, even more so than was typical over the past decade. Throughout 2022, the cost of shelter was rising by 5.9 percent nationally but was nearly 5 percentage points higher in the mountain region. (Chart 3) Colorado, New Mexico, and Wyoming all experienced outsized increases in the cost of housing. The excess growth in housing prices has since diminished to approximately 1 percentage point as housing price inflation has slowed broadly during the first half of this year.

One place to see the higher shelter inflation in the region is among smaller Rocky Mountain cities. Migration from congested metros to more remote areas over the past couple of years shifted local demand for housing. Cities like Glenwood Springs and Grand Junction, CO, and Santa Fe, NM drew urban professionals seeking proximity to amenities, often without sacrificing the ability to work remotely. (Census and Sly and Greene) Supply constraints and limited existing housing stock meant that the inflows of people drove up prices. Given the relatively small size of these markets, prices moved up significantly. Glenwood Springs, for example, which provides access to many outdoor activities, experienced nearly 30 percent annual growth in housing prices during April 2022. As the migration flow subsided and interest rates rose, the pace of housing price growth in Glenwood Springs, Grand Junction, and Santa Fe all fell by 10-15 percentage points. (See Small Mountain Cities in Chart 4.)

Disparities in housing price inflation are also apparent among the larger cities in the region. Like many larger coastal cities, rent growth in Denver, CO, Albuquerque, NM, and Phoenix, AZ dipped or stagnated in 2020. Yet, those declines in rent growth were shallower in the region, and the rebound in rents was stronger than in many large coastal cities. (Chart 4) As a result, regional growth in rental rates was much higher in 2021 and 2022. Over the past several months, these gaps have dissipated, and growth in rents has slowed broadly in larger metro areas.

Food Inflation is Moderating, But Still Rising Faster in the Mountain Region

Food inflation also contributed substantially to the inflationary pressures felt by consumers over the past year. In particular, prices for food consumed at home were rising by as much as 13.5 percent nationally. Households in the mountain region are exposed to even higher price growth for food. Currently, food inflation is roughly 1 percentage point higher in the mountain region compared to the rest of the U.S. and peaked at nearly 1.5 percentage points above the national average in January of 2023. (Chart 5) This discrepancy in food price growth is largely due to the way structural features of the region exacerbate supply challenges. The low population density, large distances from food production hubs, and transportation infrastructure across the region make food distribution and shipping costs more expensive for the mountain region. As food production and distribution challenges emerged everywhere last year, they led to even faster cost and price growth in the Rocky Mountain region.

Even with the ongoing differences in the pace of growth between the mountain region and the rest of the U.S., food inflation is decelerating overall. Growth in the prices for groceries declined by roughly 6 percentage points over the last year, albeit to a still-excessive pace of 7.5 percent. (Chart 5) Sustained consumer demand set against tight labor supply for restaurant workers has maintained cost pressure at restaurants and other food-away-from home establishments.¹ Inflation for food away from home increased by 6 percentage points in the mountain region over the past year and remains elevated, roughly on par with the U.S. average.

Recent Energy Price Inflation in the Mountain Region Driven by Disruptions

Energy inflation in the mountain region usually tracks the national average, but some noticeable differences emerged recently, particularly in household energy expenses. Prices of electricity and other household energy prices rose across the U.S. in 2021 and 2022 at a rate of roughly 13 percent. (Chart 6) Though household energy prices also rose in the mountain region, the pace of that increase was somewhat lower than rest of the country, averaging roughly 7 percent over the same period. Then, coming into 2023, the relative pace of home energy price inflation reversed, with households in the mountain region experiencing larger increases in their utility bills. Away from home, the price of motor fuel slowed recently, after facing substantial increases in 2021 and 2022. While fuel prices have declined in recent months, now a negative contributor to headline inflation, household energy prices continue to rise, with differing conditions in the mountain region compared to the nation.

Taking a closer look at two of the main categories of household energy – electricity and natural gas – the regional divergence in price growth appears to be driven by regional differences in natural gas prices. Supply constraints and variation across distribution hubs can lead to disparities in regional pricing. Prices in the mountain region followed a different pattern than the nation over the last eight months, with regional prices rising even while they were falling nationally. (Chart 6) The recent regional divergence in natural gas prices, and hence home energy prices, is linked to supply constraints amidst a period of heightened demand (EIA 2023).ⁱⁱ We might expect a tempering of the excess inflation of home energy prices in Rocky Mountain states as regional energy disruptions resolve in coming months.

Discussion

Although price growth across a variety of consumption categories is decelerating in the mountain region and nationally, inflation remains above the Federal Reserve’s 2 percent target. The persistence in high inflation lately is skewed toward necessities such as food, energy, and shelter. The outsized contribution of these essentials to the inflationary pressures felt over the past few years highlights the major challenge households are facing in this economic environment. As price growth has shifted away from discretionary items, households faced greater difficulty paying for their typical household expenses. Yet, the trajectory of inflation continues to move downward, even among non-discretionary categories. As monetary policy continues to take effect, inflation pressures will likely continue to decline.

ⁱSee Cowley (2020) for more details on food price inflation and the role of supply chain challenges. Also see work by Scott, Cowley and Kreitman (2023) highlighting the influence that tight labor markets exert on food production costs and consumer food prices.

ⁱⁱSee Cowley, Rodziewicz and Cook (2022) for additional details on global factors contributing to high energy commodity prices in recent years.

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