ECONOMIC UPDATE

June 17, 2022

Economic Issue in Focus: Federal Reserve Takes Most Aggressive Action Yet to Control Inflation by Raising Interest Rates

This week the Federal Reserve's Open Market Committee (FOMC) raised the federal funds interest rate by three-quarters of a percentage point, the largest interest rate increase since 1994. The increase represents the most aggressive action taken by the Federal Reserve since the pandemic to control inflation. Outside forces including Russia's invasion of Ukraine and COVID-19 shutdowns in China also continue to disrupt supply chains and weigh on prices. By raising interest rates, the Federal Reserve seeks to cool the economy and bring prices down while maintaining a strong labor market. Chair Powell suggested that the Federal Reserve could match this week's rate hike with another sizable hike at the next FOMC meeting.

When making the announcement, Federal Reserve Chair Powell noted that despite strong economic fundamentals, consumer confidence is low, and he attributed this to elevated gas prices and stock market volatility. Powell stressed, however, that "we're not seeing a broad slowdown" in the economy.

While an independent Fed is well positioned to address short-term inflation, Congress is best positioned to address America's dependence on oil and make the necessary investments to lower costs for U.S. households in the long-term. The Biden administration and Congressional Democrats have taken a series of actions to increase the oil supply and lower food and other household costs. Making continued investments in children and families, workers and small businesses would lower household costs and promote stronger and more broadly shared growth.

Key Economic Indicator To Track

- **Retail Sales Data Underscore a Return to More Normal Spending Patterns, as Consumer Spending Shifts from Goods to Services:** Retail sales data released on Wednesday by the Census Bureau show that overall retail sales fell by 0.3% in May. Auto sales played an oversized role as spending on cars fell by 3.5%. Excluding auto sales, retail sales increased by 0.1% in May. This data indicates that while consumer spending has been impacted by higher prices and rising interest rates, spending is also normalizing and returning to more regular pre-pandemic buying patterns, in which consumers spend a greater percentage of their purchases on services, including travel and entertainment, than on goods. The pandemic-induced imbalance between spending on goods over services has been a primary contributor to supply chain bottlenecks, which have pushed up prices on a range of goods worldwide. More balanced spending patterns in the United States indicate continued progress toward recovery and are essential to promoting more steady and stable growth.

JEC Spotlight: The Bipartisan Infrastructure Law Funds a Historic Effort To Remove Lead Pipes That Threaten Public Health and the Economy

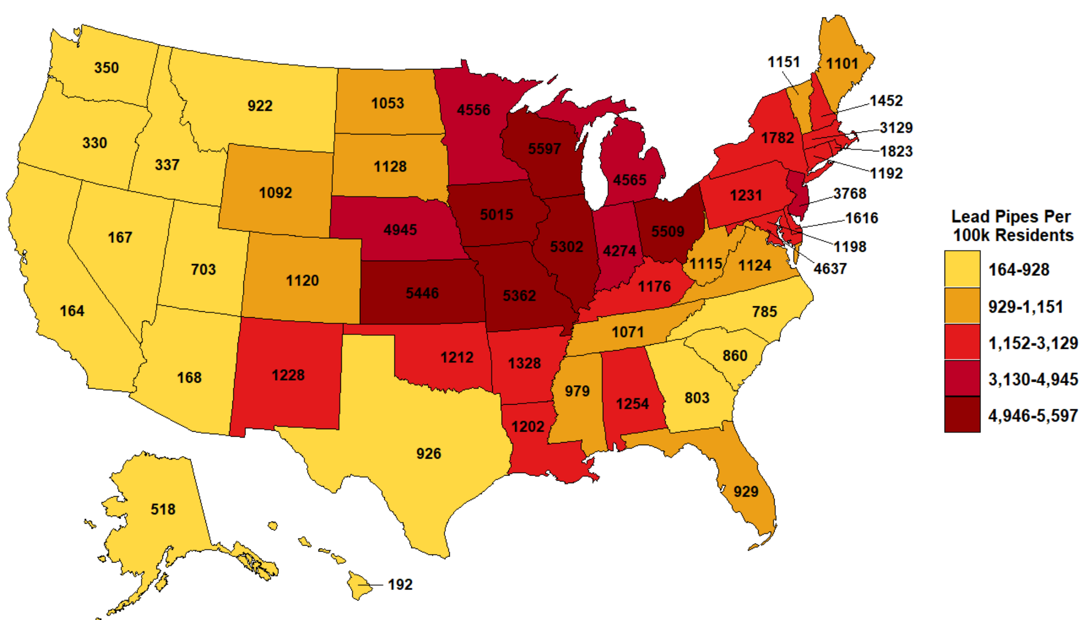
A newly released JEC issue brief highlights the public health and economic benefits of the $55 billion dollars included in the bipartisan Infrastructure Investment and Jobs Act (IIJA) to ensure universal access to clean water in the United States—the single largest investment in water quality in U.S. history. The first wave of funding has already been distributed to state and local governments this year.

The law sets aside $15 billion to remove lead pipes that deliver water to homes and other buildings throughout the country. Poor water quality, whether caused by lead pipes or other factors, is a significant public health risk that also imposes far-reaching economic costs on both individuals and broader society. Though the U.S. Congress amended the Safe Drinking Water Act in 1986 to ban new lead water pipes, it did not commit funds to remove the millions of lead service lines that were already in the ground until now.

Black Americans are often more likely to live in communities with lead pipes given well-documented patterns of residential segregation and a failure to fund lead-mitigation efforts in communities of color. The bipartisan infrastructure law's substantial funding to remove lead pipes from American homes will help address this long-running public health crisis that exacerbates racial and economic inequality.

A recent report by the Natural Resources Defense Council estimates the number of lead service lines in each state per 100,000 residents; though the report's authors suspect their analysis is an underestimate of the true scope of the problem because public water utilities were not required by the EPA to identify the number of lead service lines in use until 2021. Removal of these lines through the IIJA funding will reduce lead exposure nationally, creating lasting public health and economic benefits.

Remaining Lead Service Lines Per 100,000 Residents



Source: Natural Resources Defense Council
Note: AK, CA, CO, CT, IL, IN, MI, NJ, OR and WI provided their own data on lead pipes. Estimates for other states are based on data from a 2016 self-survey.

Selected JEC Resources

- *Democrats Are Working to Fight Inflation, Lower Costs and Address Supply Shortages*

- *Oil Companies Are Enjoying Market Influence and Record Profits, While U.S. Families Foot the Bill for High Gas and Energy Prices*
- *The Economic State of Asian Americans, Native Hawaiians and Pacific Islanders in the United States*
- *Native American Communities Continue to Face Barriers to Opportunity that Stifle Economic Mobility*
- *Congress and the Biden Administration Are Putting Policies in Place to Continue the Strong Wage Gains Workers Experienced in 2021*

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