

# Business

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## Biden points to 'progress' as US prices hit record high last year

### Government data underscores the potent inflation wave

WASHINGTON: US consumer prices jumped last year at the fastest pace in four decades, the government confirmed Wednesday, underscoring the potent inflation wave that has sapped public support for President Joe Biden even as the economy recovers from the pandemic. The seven percent increase in the Labor Department's consumer price index (CPI) over the 12 months to December was the highest since June 1982, as prices rose for an array of goods, especially housing, cars and food.

Since taking office last January, Biden has presided over an economy that has expanded rapidly and seen millions of people who lost their jobs to the COVID-19 pandemic return to work. But a collision between rebounding demand, labor shortages and global supply chain snarls that made crucial components like computer chips scarce caused prices last year to climb upwards at an ever-faster rate. In a statement, Biden said the latest data contained signs of "progress" as inflation in some key sectors slowed.

"At the same time, this report underscores that we still have more work to do, with price increases still too high and squeezing family budgets," he said. But if relief is near, economists say it may not come particularly quickly. "The peak is close, but the speed of the coming downshift is uncertain," said Ian Shepherdson of Pantheon Macroeconomics. For the Republican opposition, the report underscored their belief that the Democratic president has mis-handled the recovery.

"This trend isn't 'transitory,' and it's all happening under Democrats' one-party control," tweeted Kevin McCarthy, the top Republican in the House of Representatives, of which his party is seen as

avored to win control in elections in November. The White House has attempted to lower prices by sorting out supply chains to relieve shortages and address alleged price fixing in industries like meat-packing, but the most potent actor against inflation is the independent Federal Reserve.

Central bankers already have indicated they are ready to raise interest rates from zero in the coming months, and many observers see the first increase as soon as March. Kathy Bostjancic of Oxford Economics said the Fed now sees getting inflation back towards its two-percent goal as its "top priority," and could raise rates as many as four times this year.

#### From cars to food

Prices for shelter, including rental properties, have been one of the main contributors to inflation, rising 4.1 percent in the year, while food rose 6.3 percent, the Labor Department said. However, in both cases, the December monthly increase was smaller than in the prior month. After slumping during the economic crisis in 2020, energy prices rebounded strongly last year with a 29.3 percent gain, the report said. But in December, energy costs contracted, falling 0.4 percent from November, indicating Americans may soon see relief at gas stations and on their heating bills.

There was no such respite for used car prices, another main driver of inflation in the year, which jumped 3.5 percent in December and 37.3 percent over the course of 2021, according to the data. Food and energy prices can be volatile, but with those items stripped out, consumer prices rose more than expected with a 0.6 percent gain compared to



MIAMI: A man walks through a shopping center in Miami, Florida on Wednesday. The seven percent increase in the Labor Department's consumer price index (CPI) over the 12 months to December was the highest since June 1982. —AFP

November. For the year, they were up 5.5 percent, the highest since February 1991.

#### Approaching peak?

There were indications in the data that the price surge may be ebbing. Overall CPI growth slowed to 0.5 percent in December, less than the 0.8 percent increase in the prior month. The Fed's final Beige Book survey of economic conditions for 2021 released Wednesday said that some businesses "noted that price increases had decelerated

ed a bit from the robust pace experienced in recent months."

Some of the major drivers of inflation will ease over the course of this year, Shepherdson predicted, including the shortage of real estate that has pushed home prices and rents upwards, and the scarcity of semiconductors that has crippled automobile assembly lines. While annualized consumer prices may eventually peak at a level higher than in December "the run of big increases is over, and it will start to fall in March," he said. —AFP

## Soaring US demand for used cars sends prices soaring

WASHINGTON: The used car market in the United States is seeing an unprecedented phenomenon: Owners selling vehicles for as much or more than they paid for them.

The strange twist comes as a global shortage of computer chips amid the COVID-19 pandemic has stalled auto manufacturing, fueling a price increase for used vehicles, which in turn helped drive record US inflation last year. It "100 percent is a new trend," which is unlikely to end soon, said Aurelien Guillaud, owner of Arlington Auto Group (AAG), a car dealership based in Arlington, Virginia, just outside the nation's capital.

Due to the shortage of new vehicles, there has been an influx of demand for used cars, he said. New government data Wednesday showed US consumer prices surged seven percent last year, the biggest increase in nearly four decades, fueled in large part by the dizzying 37.3 percent jump in prices of used cars and trucks.

Given the struggles to get semiconductors from factories in Asia amid the pandemic that has limited new car inventories, rental companies have been hanging on to their fleets, cutting off the usual steady supply of vehicles for the used car market and pushing up prices. And the strict lockdowns in China to contain the Omicron variant could exacerbate the supply issues.

"Compared to a year ago, now you buy that same car for \$20,000 instead of \$16,000," and sell it for \$24,000, said AAG manager Eddy Malikov.



ALHAMBRA, US: A sign advertises cash paid for used cars in Alhambra, California Wednesday. —AFP

The dealership lot has 40 vehicles ready to sell, fewer than its usual pre-pandemic inventory. Last year was strong for AAG, which sold 300 to 400 cars despite the price increases that turned a number of customers away.

#### Coming collapse?

Masaki Kondo, a journalist in Washington, bought his Chevrolet for \$60,000 in 2017. Four years later, he sold it back to his dealership in Gaithersburg, Maryland, just a half-hour drive outside the US capital, for \$62,000. "I kept my car in the garage... so the condition of the car was good. But still, I was shocked when industrial mass production goods were priced at more than that of four years ago," the Japanese expat told AFP.

Kondo's car dealer said they would easily sell the Chevrolet again for \$74,000. Americans' reluctance to use public transportation amid the pandemic also

is a factor driving high demand for cars.

"There's not much supply, but there's a huge demand," Guillaud said. He notes that in Europe commuters might opt to use a scooter or a motorcycle, but "over here, it's a car because of the distance that you have to drive."

Rising prices have been dramatic. Malikov recalled a customer who bought a car for \$21,000 in 2019, "and they ended up trading the car for \$21,000 two years later, with 10,000 more miles (16,100 more kilometers) basically, which was kind of ridiculous."

In other cases, owners sell their car for even more than they bought it for. In a recent study, analysts at KPMG warned that the used car boom will not last. "History tells us the current frenzy in the used car market will come to an end," the authors said, noting that chip shortages and supply chain problems eventually will be resolved. Then the "massive auto manufacturing machine will shift back into high gear and the dealer lots will again be full," after which the used car market will "collapse," they said, predicting a 30 percent drop in prices.

The analysts acknowledged however that it is difficult to know when this shift will happen and whether the decline could be "sudden or slow."

But there are signs major manufacturers are banking on the boom continuing for a while longer: General Motors on Tuesday announced plans to launch CarBravo, a new online market for GM brand used vehicles. The venture will compete with successful firms like Carvana and CarMax.

Guillaud said some people are trying to take advantage of the market, and points to online forums where sellers admit to reselling vehicles two weeks after they bought them.

But he warns that Virginia law prohibits individuals from buying and reselling more than five cars a year. —AFP

## 'Challenges with govt' delaying Tesla India launch

CALIFORNIA: Billionaire entrepreneur Elon Musk said yesterday electric car pioneer Tesla was "working through" a lot of challenges with the Indian government ahead of long-awaited plans to launch in the country. Tesla's hopes to sell its vehicles in one of the world's biggest markets have been stalled by efforts to negotiate lower import duties, which can be as high as 100 percent.

In response to a tweet asking him about a potential India launch date, Musk said his California-based company was "still working through a lot of challenges with the government", without giving further details. Musk had tweeted last July that Tesla wanted to enter India, home to 1.3 billion people, "but import duties are the highest in the world by far of any large country". He added that the firm was hoping for temporary tariff relief. India imposes a 100 percent tax on imported electric vehicles worth more than \$40,000, and 60 percent for those costing \$40,000 or less.

Tesla fears the steep duties will price them out of the cost-sensitive Indian market. New Delhi has introduced incentives for foreign carmakers to manufacture their vehicles locally but Musk has said he wants to gauge demand with imports first. Electric cars accounted for only 1.3 percent of all vehicles sold in the country in 2020-21, according to research by digital consultancy Techarc. The government's target is for 30 percent of private cars to be electric by 2030 as part of a wider push to decarbonise the transport sector. —AFP

## UK, EU hold fresh post-Brexit talks

LONDON: UK Foreign Secretary Liz Truss yesterday hosted her first face-to-face meeting with European Commission vice president Maros Sefcovic, aiming to break months of deadlock over post-Brexit trade in Northern Ireland. Truss, who was appointed to take over from Brexit minister David Frost after his resignation last month, welcomed Sefcovic at the government country residence Chevening in southeast England.

The two sides are set to focus on Northern Ireland, which has the UK's only land border with the European Union and has been a major stumbling block in the entire Brexit process since the 2016 referendum. The Northern Ireland Protocol was signed separately from the wider 2020 Brexit trade deal between the UK and the EU and aims to avoid a "hard" border on the island of Ireland.

But to keep the border open—a key plank of a 1998 peace agreement that ended decades of violence over British rule in Northern Ireland—the province is effectively still in the European single market. "Glad to meet my counterpart @trussliz to discuss the implementation of the Protocol on

IE/NI," Sefcovic tweeted as discussions started, sharing photos of the pair greeting each other and walking in Chevening's picturesque grounds.

"My objective: stability, predictability in NI," he added, noting they had an opportunity to build on "far-reaching proposals" set out last year by Brussels to ease the on-the-ground tensions.

#### 'Not very helpful'

Checks are required for goods heading east-west from mainland Great Britain (England, Scotland and Wales) to stop unchecked products heading into the single market via Northern Ireland. But London has indefinitely suspended implementing those checks, and wants the protocol renegotiated, including the removal of European judicial oversight on disputes.

Brussels has rejected the UK call for the European Court of Justice to be replaced with an international arbitration panel. Truss' predecessor in the negotiations Frost in December cautiously welcomed the Commission's proposal to reform EU medicine supply rules but poured cold water on hopes that an overall agreement to end the row had been found. A solution needed to be found "urgently early next year", he said, warning that the UK was "ready to use the Article 16 safeguard mechanism" if necessary, referring to the suspension clause in the agreement.



CHEVENING, UK: (Left to right) British Minister of State for Europe Christopher Heaton-Harris, Britain's Secretary of State for Northern Ireland Brandon Lewis, British Foreign Secretary Liz Truss, European Commission vice president Maros Sefcovic and EU ambassador to the UK Joao Vale de Almeida pose during a meeting at Chevening House in Sevenoaks, south of London yesterday. —AFP

In a recent newspaper article Truss said she was also prepared to trigger that clause, which the EU has warned could lead to a wider trade war.

Last weekend, EU ambassador to the UK Joao Vale de Almeida called her threat "not very helpful". The United States, which helped broker the

Good Friday Agreement, and Irish-American President Joe Biden are watching closely, warning the UK to stick to what it signed. Washington has warned that London can forget about a trade deal if its actions in Northern Ireland threaten the still-fragile peace. —AFP