# Rodney’s Take

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## The Daily Inflation Blues

Government officials, central bankers, and economists talk about inflation in averages and sectors. Food prices might be rising by a few percentage points, but motor vehicle prices, after shooting to the moon, might be stable. The government estimates how much the average city-dwelling worker spends in every category, and then tallies our overall spending. If new-vehicle costs are up 40% over just a few years, don’t worry. The government estimates you spent just 3.618% of your total outlays on new cars in the course of a year, so what’s the harm?

I’m poking fun at the U.S. Bureau of Labor Statistics (BLS) because this is a bit absurd, but I also sympathize with the BLS. How else should you report prices, if not by percentage of the average consumer’s spending? While this is obvious, it also has gaping blind spots and misses a huge factor: forecasts.

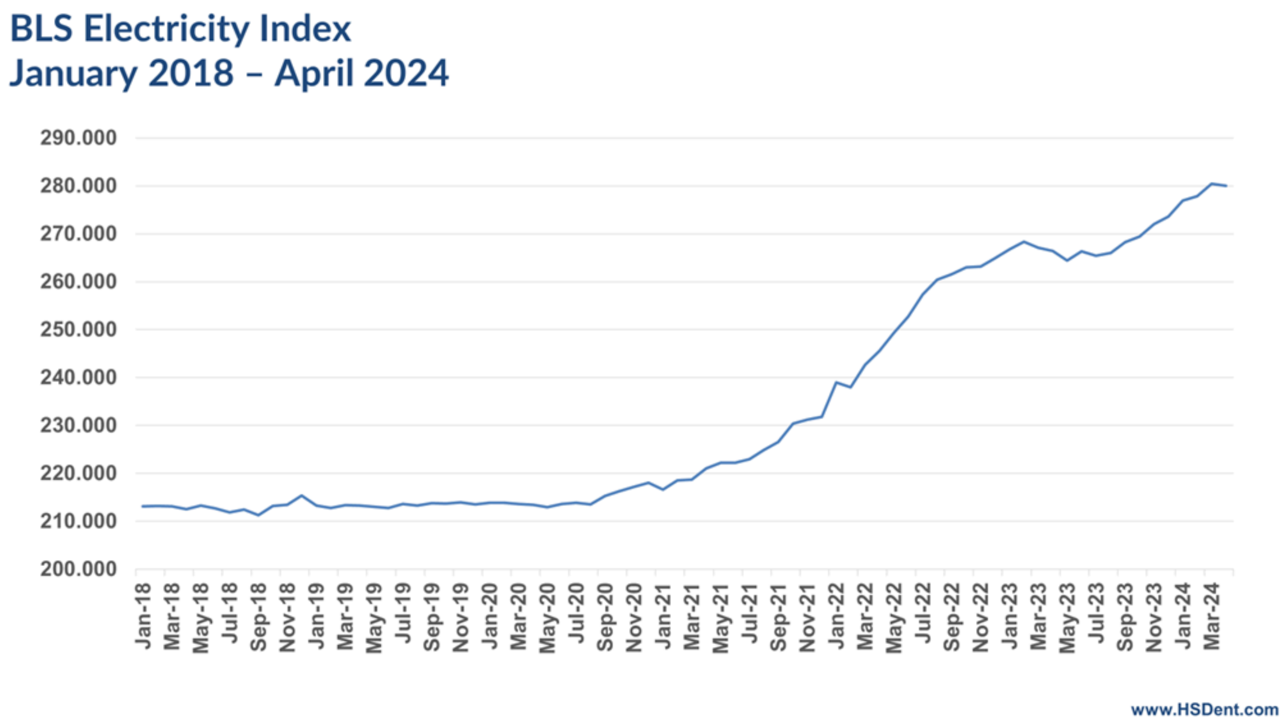
During and right after the pandemic, food costs shot to the moon. But we know the difference between constrained supply chains (temporary) and dramatically changed spending habits (semi-permanent). I’m not suggesting that the government make such judgments; that’s our job. As economists, forecasters, business owners, and consumers, we should be able to grasp how changing prices will affect our lives, finances, and livelihoods, even for things that usually take the spotlight, like electricity.

European power prices surged when Russia invaded Ukraine, because the continent relied on Russian natural gas delivered via pipelines. Natural gas (liquefied natural gas, LNG) shipping existed, but the industry was young. As the warring factions settled in, LNG exploded. The fuel was abundant. When shipping caught up to demand, the prices eased. That's not the problem in the U.S.

We produce a lot of energy, but the mix is changing and demand is rising dramatically. Using more-expensive fuels to supply more clients leads to one thing: inflation.

When the BLS reported on the Consumer Price Index last week, people let out a sigh of relief. Inflation was creeping down toward the Fed's 2% level. That was true overall, but electricity costs alone jumped 5.1% over last year. It's true that represents just 2.465% of the average consumer's spending, but we still get the joy of opening the bill every month to see how much more we have to pay.

To make it worse, we're transitioning to renewable (but not cheaper) electrical generation at the same time that transformative technologies like EVs and artificial intelligence have ramped up our appetite for electricity. This is part of the reason that power prices jumped from 2020 to 2024, on an index basis. From 2014 to 2018, the price of electricity inched higher by 0.47%, to 2.34%. From 2021 through April 2024, the cost expanded by 5.85%, to 29.26%.




Power plants are expensive, and the ones built to serve data centers have a paramount need for no interruptions. While they can draw power from many sources, there must be enough power at peak demand times or they can't be relied upon.  We're not looking at coal anymore, and natural gas plants are all but shunned.  That leaves nuclear power, which I've covered before.

This is not a conversation about what will happen (more demand and more supply) but about when it will happen and what it will cost.  The "when" question can be answered with a quick look at the Nvidia (Nasdaq: NVDA) stock price.  Data centers can't get enough of their semiconductor chips. The "cost" question is up in the air. The only small modular reactor that both had a permit and that government has greenlighted just got shelved due to soaring costs.  If demand will rise no matter what, then so will supply—and I'm guessing I know who will pay for it: me and you.

It might look like a small cost in your monthly budget, but it's a rising expense that you can't do much about.  I hope your NVDA gains are enough to cover the rising power expense that seemingly has no end.

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*Got a question or comment? You can contact us at* info@hsdent.com