



2022 Inflation Report

To help you further prepare for 2022 budgets, CPS is committed to providing you with guidance around price increases expected for the upcoming year. There are many factors to consider when budgeting for procurement needs including:

- Historical price increases
- Impacts to local, regional, national, and international markets
- Input from vendors

For a well-rounded approach, CPS considers all of the above factors. Additionally, 2022 will have additional complexity due to the uncertainty surrounding the COVID-19 recovery and its impact on our vendors and the economy. For some categories, an inflation estimate will not be provided due to ongoing volatility.

Your Client Account Manager (CAM) and the entire CPS team is always available to answer any questions or to provide guidance as your organization is preparing your 2022 budget.

Historical Inflation

United States core inflation (all items except food and energy) has averaged 2.1% annually over the last 10 years and 2.3% annually over the last 5 years¹. This means that, on average, a good purchased for \$1 in 2012 cost \$1.21 in 2021 ($\$1 + (2.1\% \times 10)$). Both average inflation rates have increased in 2021 by 0.3% from prior years as annual core inflation is 3.8% for the 12 months ended May 2021. This increase is primarily driven by increases in energy.

Food inflation is removed from the core inflation calculation because it tends to be far more volatile. The annual increase in the cost of food in the United States averaged 3.39% from 1914 to 2021². United States food inflation has averaged 1.8% annually over the last 10 years and 2.2% annually over the last 5 years³. This means that, on average, a good purchased for \$1 in 2010 cost \$1.18 in 2021 ($\$1 + (1.8\% \times 10)$). Food inflation was 3.8% in 2020 but has declined to 2.2% for the last 12 months ended in May 2021.

The Federal Open Market Committee (FOMC) targets annual inflation of 2%, and nearly all forecasts for future annual inflation in the United States are 2%⁴.

Headwinds

The largest factor currently driving inflation across procurement categories is the COVID-19 recovery. During the first half of 2021, we saw significant swings in the cost of a variety of products as the supply chain is impacted by labor shortages and other challenges as global economies reopen. At times this volatility is temporary, but for other products, the return to normal prices might take time. Overall, Federal Reserve Chair Jerome Powell and US Treasury Secretary Janet Yellen maintain that once

¹ <https://www.usinflationcalculator.com/inflation/united-states-core-inflation-rates/>

² <https://tradingeconomics.com/united-states/food-inflation>

³ <https://www.usinflationcalculator.com/inflation/food-inflation-in-the-united-states/>

⁴ <https://knoema.com/kyaewad/us-inflation-forecast-2021-2022-and-long-term-to-2030-data-and-charts>



vaccination rates increase and the labor market loosens, supply chain disruptions that have been causing a historic rise in prices will eventually ease, albeit timing for this is still uncertain.

Category Analysis

- Administration/Office Supplies

Lumber prices have soared in recent months which has driven up the cost of paper and paper supplies by 6-10%. In the last month, the cost of lumber has begun to decline as the production at mills has caught up to demand. While the prices might remain higher in the short term, they should continue to decrease as supply meets demand.

- Environmental Services

The majority of environmental service items are chemicals (housekeeping, jan/san, laundry, ware wash, etc.) or plastic (disposables, can liners, etc.). The costs of the chemical and plastic products are driven by the cost of the inputs particularly petroleum which has increased significantly with demand. Petroleum based products are expected to increase from 8-15%.

- Food and Beverage

As previously noted, food and beverage prices tend to be more volatile due to tariffs, supply chain issues, disease, and weather. There is expected to be additional uncertainty around food prices for the next 6-18 months as the US continues to feel the impacts from the COVID-19 recovery. This specifically includes labor shortages that make harvest and distribution particularly challenging. Unfortunately, it is difficult to predict which products will be impacted in 2022.

- PPE

PPE continues to stabilize as demand has dropped sharply. Products are readily available, and pricing has decreased accordingly.

- Plant Operations

Plant operations items encompass both physical goods and services. As previously noted, lumber prices, and input into many plant related items, have soared over the last year but have recently begun to decrease as our country's sawmills increased production. Labor shortages will also drive cost increases within the category. Because of the uncertainty in the labor market, CPS and its vendor partners are unable to provide an inflation estimate for 2022.

- Technology

Due to competition in the technology space and continued improvement in technology, prices for information technology, hardware, and software tend to experience declining inflation (deflation).

CPS Benefits

The CPS team proactively works to provide you with cost-saving solutions to improve your bottom line. As a Group Purchasing Organization (GPO), CPS has the purchasing power to deliver exceptional value and significant savings by negotiating discounts from manufacturers, distributors, and other vendors based on



collective volume. Because of this large volume, CPS is able to both mitigate some cost increases and identify alternative products and services to meet your procurement needs.

Please do not hesitate to reach out to your Client Account Manager (CAM) with any questions during your 2022 budget process or when any procurement needs arise.