



Business English News 49 – Inflation & Interest Rates

Government spending throughout 2021 was a **boon** to the business sector. Jobs returned, production rose, and many countries ended the year **on a positive note**. But growth – and years of low **interest rates** – has **raised the specter of inflation**, or rising prices. Now **all eyes are on** central banks, especially in the United States, to see how they'll respond. As the NY Times reports:

Federal Reserve policymakers have moved into inflation-**fighting mode** saying they would **cut back** more quickly on their **pandemic-era stimulus** at a moment of rising prices and strong economic growth. This move will **cap a challenging year** with a **policy shift** that could **usher in** higher interest rates in 2022.

Of course, nobody complained about increased **consumer confidence** in the second half of last year. However, **robust** economic activity and the **steady flow** of dollars are **fueling** the **demand-pull factors** that lead to price increases. And these pull factors are being **compounded** by **push factors**, as CNN explains:

Several factors are keeping prices **elevated**. One is the supply chain **chaos** that **came to a head** last summer. Even though some **bottlenecks** have **eased**, the issues are not fully **resolved**. And higher transport costs will likely be **passed on to** consumers. Another big **contributor** is the high cost of **commodity** prices, leading to **surging** energy and food costs. Prices in both sectors have **soared** this year and added **a good chunk** to the inflation we have already seen.

Just how high is inflation? At the start of the year, the rate in the U.S. was getting **uncomfortably close** to 7%. And many **anticipate** that it will continue to rise. In some countries, like Turkey, economists **predict** rates of up to 40% at some point in the year. This is well beyond what is **generally regarded** as an acceptable rate of inflation of 2%. But governments and economists aren't **unanimous** about the best approach to the issue, as reported in The Conversation:

This has been causing a lot of **debate** among central bankers about the best **course of action**. Some say this **burst** of inflation is **transitory** and will pass without the need for any **intervention**. Others worry that it is the start of a longer period of **runaway prices**. They argue that we should be raising interest rates and cutting back on "**money printing**" – also referred to as **quantitative easing** or QE, which most major economies have been doing in recent years.

The relationship between **easy money** and inflation may seem simple **at first pass**: when interest rates are low, people borrow more and spend more. When interest rates increase, people **tend to save**, which **cools** the economy and reduces inflation. It's not always that simple, however. And according to Market Watch, rate **hikes** in this particular situation could be **misguided**:

It may be **heresy** to those who think the Fed is **all-powerful**, but the honest answer is that raising interest rates wouldn't **put out the fire**. **Short of throwing** millions of **people out of work** in a **recession**, higher rates wouldn't **bring** supply and demand back **into balance**, a necessary condition for **price stability**. The Fed have **misdiagnosed** the problem and are demanding the wrong kind of **medicine**. The problem isn't too much **demand**; it's too little **supply**.

Like it or not, there's general agreement that banks are going to use the tools they've got in an effort to **combat** rising prices. There's talk of a March **announcement**, and in all likelihood we'll see two or three more hikes throughout the year. But don't expect a quick end to the issue. As the Star reports:

Price increases will continue in 2022, **driven** by real estate, food, and passenger vehicles. However, while prices are set to continue **climbing**, so are **wages**. The **upswing** in inflation has not been **matched** by wage growth so far, but with the current **hot labor market**, workers have **bargaining power** and may see their wages rise in 2022 as a result.

The possibility of higher wages should be good news for consumers **facing** rising credit card rates and **mortgage** costs. Still, a lot of **uncertainty** and **volatility** remain. And governments are determined to do whatever they can to bring greater stability to the system. On the whole, there's **cautious optimism** about the state of the economy through 2022, as CNN explains:

Given the strength of the **recovery**, the economy should be able to **absorb** rate hikes without negative **repercussions**. Investors tend to agree, with markets **signaling** confidence that the Fed will **defly** exit **emergency mode** without harmful **side effects**. But there is a chance the Fed **overdoes it** by raising rates faster than the economy, or financial markets, can **stomach**. And that could severely slow down or even end the recovery.

Vocabulary

Boon: something useful or beneficial that comes at a good time; "The government's easier environmental regulations are likely to be a boon to the oil and gas industry."

On a positive note: with good news; "Sorry about this increase to everyone's workload, but on a positive note, we'll all be taking next Friday off."

Interest rates: the amount, expressed as a percent, that a borrower is charged extra on the money borrowed; central banks set the base interest rates which determine rates that banks charge.

To raise the specter of something: to make people aware of something terrible that might happen; "This decrease in sales numbers is raising the specter of increased competition in our industry."

Inflation: an overall increase in the price of goods; "When inflation hits 5%, consumers are going to start feeling the pain in their household spending."

All eyes are on: everybody is watching closely; "All eyes are on the election in Germany to see if there will be a significant shift in power and economic policy."

Federal Reserve: the central banking system of the United States.

Policymakers: people, especially in government, who make decisions about new rules and policies; "We're really hoping we can convince policymakers in our state to recognize the problems and introduce some new tax breaks."

Fighting mode: actively fighting against something; "We've been trying to make the workers happy, but it looks like the union is going into fighting mode anyway."

To cut back: to reduce or decrease; "If we hope to protect profits next year, we're going to have to find ways to cut back on operating costs."

Pandemic-era: happening in the time of the COVID-19 virus; "Some of the pandemic-era limits on gathering are being lifted, which is great news for theaters and restaurants."

Stimulus: something that makes something develop or improve; in the economy, a stimulus is a government's actions to help businesses during a difficult time; "The government's stimulus package in 2021 sent money directly to Americans and expanded unemployment programs."

To cap: to set an upper limit; "Worried about rising prices, the Hungarian government has decided to cap prices on six key food items to their October, 2021 levels."

Challenging year: a year with many difficulties; "2021 was a challenging year for many businesses, but there is hope that 2022 will be a return to normal growth."

Policy shift: a change in a government's plans or actions; "Forestry companies are worried that the planned policy shift might result in new taxes on lumber products."

To usher in: to signal the beginning of a process or time period begin; "The new mayor has promised to usher in a new period of urban renewal and civic pride."

Consumer confidence: a measure of how positive people feel about the overall economy; "With so much uncertainty and rising food prices, consumer confidence is very low."

Robust: strong and healthy; "With fewer people spending money on travel, demand for household goods and renovation services has been robust."

Steady flow: an even and continuous supply or movement of something; "Much of Europe relies on a steady flow of oil and gas supplies from Russia."

To fuel: to make something change or become worse; "Concerns about climate change are fueling stronger demands for clean energy such as solar and wind."

Demand-pull factors: influences that increase inflation related to there being more desire for products than supply of those products, or the increase in available money.

Compounded: made difficult or worse by the combined effect of more than one thing; "Our challenges in recruiting new staff are being compounded by the fact that we can't pay the same wages as our competitors."

Push factors: influences that increase inflation related to the rising costs of production or decreased supply of goods.

Elevated: raised; "The demands of the COVID-19 pandemic have meant elevated health care costs not only for COVID related care but all health services."

Chaos: total disorganization and confusion; "Problems with corrupt leaders and unhappy employees has pushed the once-respected company into total chaos."

To come to a head: to become a lot worse, to the point of crisis; "The ongoing problems between Ilene and Dave finally came to a head in the staff meeting when they started yelling at each other."

Bottleneck: a place in a process where there are problems or delays, which problems and delays in the entire process; "The shortage of computer chips has created a major bottleneck for car producers."

To ease: to reduce pressure; "The Dutch government has decided to ease many pandemic restrictions despite the recent increase in cases."

Resolved: solved or dealt with adequately; "Thanks to your hard work Marion, I think we can finally say that the wifi problem is now resolved!"

To pass on: to transfer, or to give someone something that someone else gave you; "I don't think we have any choice but to pass our rising costs on to our customers through higher prices."

Contributor: one cause of an event or activity; "Many people are concerned when they discover that Bitcoin mining is a major contributor to carbon emissions."

Commodity: something that can be bought or sold, especially basic food products, minerals, or gas; "Natural resource commodities, including wood, oil, and metals, are crucial to the health of the Canadian economy."

Surging: increasing suddenly and a lot; "Digital security companies are thriving as piracy, hacking, and other illegal activity are surging."

To soar: to quickly increase to a high degree; "I'm troubled by the fact that the number of complaints to HR have soared since we brought in the new Production Manager."

A good chunk: a large amount or proportion of something; "In an attempt to raise cash, we've sold off a good chunk of our real estate holdings."

Uncomfortably close: very near to a dangerous situation or limit; "I'm very concerned that some of our machines are coming uncomfortably close to breaking."

To anticipate: to think something will happen in the future; "Many economists anticipate that consumer spending will come back to normal levels soon."

To predict: to say what you think will happen in the future; "If I had to predict, I'd say that bad weather will likely delay the project in the spring."

Generally regarded: widely believed to be; "While the stock market has been up and down, real estate is still generally regarded as a very wise investment."

Unanimous: a "unanimous" decision or opinion is one that everyone agrees on; "Well, it looks like the team is unanimous in preferring option A, so let's go with that!"

Debate: a discussion about different opinions; "I don't mind healthy debate in staff meetings, but when people are angry and argumentative, I need to shut it down."

Course of action: way of dealing with something, especially a problem; "If the company removes me from my position, I'll talk to my lawyers about my best course of action."

Burst: a sudden and short period of activity; "After a very slow winter, we're seeing a big burst of activity in the housing market this spring."

Transitory: temporary, or happening for a limited time; "Analysts see the current supply chain problems as transitory, and things should be back to normal soon."

Intervention: involvement in a situation to make it better or prevent harm; "Politicians disagree on whether government intervention in the economy is a good or bad idea."

Runaway prices: prices that are rising quickly and out of control; "With only a small increase in the inflation rate, I'm not worried about runaway prices just yet."

Money printing: policies that increase the supply of or access to money in the economy for businesses; "The days of low interest rates and money printing appear to be over, as the supply of money is pushing up prices."

Quantitative easing (Q.E.): the introduction of new money into the supply by a central bank.

Easy money: money available easily or at low interest rates; "Homebuyers have enjoyed the easy money of recent years, but mortgage rates are about to go up."

At first pass: the first time you look at something; "I thought the report was excellent at first pass, but after reading it more carefully I think there are many improvements to be made."

To tend to: to usually do something; "Jason tends to get really irritable around project deadlines, so don't take it personally."

To cool: to reduce economic activity; "A shortage of raw materials is cooling production activity."

Hike: a sudden increase; "Maybe we can stop people from leaving the company through a nice wage hike?"

Misguided: not wise or not advisable; "People are tired and burnt out right now, so trying to make big changes to our IT systems and processes would be misguided."

Heresy: going against what most people believe is true or good, for actions and beliefs; "This might be heresy in this company, but I think we are too focused on the US market."

All-powerful: having total control over something; "We've gone from a CEO who thinks he's all-powerful to a very open and transparent CEO who takes input from everyone."

To put out the fire: to end an emergency or solve a crisis; "Let's bring in Ronald to put out the big staffing fire at our Hong Kong office."

Short of: without going so far as; "Short of selling our operation to the competition, I'm really not sure how we're going to pull out of this position."

To throw people out of work: to cause people to lose their jobs; "The pandemic reduced air travel significantly, throwing thousands of airline employees out of work."

Recession: a period of many economic problems and high unemployment; "Bad house loans were one major cause of the 2007-2009 recession."

To bring into balance: to make a good or correct balance between different parts of something; "Our costs are so high, we need leadership to make some bold moves to bring spending back into balance."

Price stability: steadiness in prices in an economy; "Central banks are hoping that their measures to fight inflation will bring greater price stability later in 2022."

To misdiagnose: to identify a problem or its source incorrectly; "I'm sorry John, but you've totally misdiagnosed our problem. It's not costs that are killing us, it's an outdated brand and poor sales."

Medicine: something that helps or heals a situation; "Some good sales this month will be just the medicine we need after those lousy results last quarter."

Demand: how much of a commodity people want.

Supply: how much of a commodity is available for people to purchase.

"Like it or not:" used to introduce something unpleasant that you can't change; "I know you prefer working from home Sam, but like it or not we're all expected to be back in the office three days a week."

To combat: to fight or work against something or someone; "A more generous compensation package would help combat poor staff retention rates."

Announcement: an official statement of a new decision, action, or policy; "Shareholders are waiting for the Board's big announcement of the next CEO."

To drive: to force something to happen or someone to do something; "Our aggressive pricing strategy is driving the competition to look for new ways of beating us."

To climb: to increase; "With the price of oil climbing, we're going to be paying a lot more for transportation."

Wages: the amount of money paid to workers; "Research shows that job-seekers aren't only looking for good wages, but also for a great culture, good benefits, and flexibility."

Upswing: an increase or improvement; "We've seen a huge upswing in employee satisfaction since we rolled out our wellness program."

To match: to equal in amount or level; "We need to make sure that increases in our project budget match the increases in scope of work."

Hot labor market: a situation where demand for new workers exceeds supply; "With such a hot labor market, companies are exploring new ways of attracting talent."

Bargaining power: the ability to get what you want in a negotiation; "With a shortage of good applicants, you've got good bargaining power when it comes to negotiating your salary."

To face: to have to deal with a problem or situation; "We've faced some major delays on this construction project that are really making the client frustrated."

Mortgage: a bank loan to buy a house; "A mortgage on a house is the biggest financial commitment most people will make in their lifetime."

Uncertainty: a situation where there are many things you can't be sure about or predict; "With so much uncertainty around cryptocurrency, I'm not investing yet."

Volatility: tending to change quickly or suddenly; "Political volatility is worrying foreign companies, and a few have threatened to pull out already."

Cautious optimism: hopeful about the future, but still understanding that there are possible problems; "Well, I think things will improve, but there are a few unknowns still, so my position is one of cautious optimism."

Recovery: the process of becoming healthy again; "We took a huge hit when our new product line failed, but our recovery has been fast and we've got a bright future."

To absorb: to deal with the negative effects of change; "We're a small company and really can't absorb a hit to our revenues like the larger companies can."

Repercussion: bad effects from something; "The problems with leadership haven't affected staff, they've also had major repercussions to our public reputation."

To signal: to show that something has happened or will happen; "The regional director has signaled pretty strongly that they're going to invest even more in Texas."

Deftly: carefully and expertly; "A skilled presenter can handle criticism deftly, without getting frustrated or defensive."

Emergency mode: taking measures or actions to deal with a crisis; "Okay folks, the problem is done, so let's move out of emergency mode and get back to normal."

Side effects: added results of something that you don't want; "One of the side effects of Amazon's new office in our town is an increase in our property values."

To overdo it: to do too much; "Sure, a bit of humor in a presentation is a good thing Harry, but don't overdo it or people won't take you seriously."

To stomach: to be able and willing to accept something unpleasant; "Well, it sounds like the union isn't going to stomach our proposed cuts."

Language Review

A. Collocations

Match words from each column to make collocations found in the article.

1. To raise the	a. prices	
2. Federal	b. optimism	
3. Cautious	c. fire	
4. Bargaining	d. pass	
5. To bring into	e. power	
6. To put out the	f. specter	
7. At first	g. balance	
8. Runaway	h. reserve	

B. Vocabulary Quiz

- Which of the following does NOT indicate an *increase*?
 - Hike
 - Climb
 - Face
 - Surge
- What are the two causes of inflation? Select all that apply:
 - Demand-pull
 - Runaway prices
 - Bargaining power
 - Push factors
- _____ is an informal way of saying _____.
 - Bottleneck / recession
 - Stomach / side effect
 - Money printing / quantitative easing
 - Cool / bring into balance

4. If something lasts only a short time, we can say it is _____.
- a. Elevated
 - b. Compounded
 - c. Misguided
 - d. Transitory
5. If you do too much of something, we say that you _____ it.
- a. Overdo
 - b. Combat
 - c. Drive
 - d. Upswing
6. What tool do governments use to stop prices from rising too much or too quickly?
- a. inflationary measures
 - b. interest rate hikes
 - c. financial stimulus
 - d. quantitative easing
7. If everyone agrees on a decision, we say that it is a _____ decision.
- a. Matched
 - b. Generally regarded
 - c. All-powerful
 - d. Unanimous
8. When workers have good bargaining power and many companies are hiring, we can say the labor market is _____.
- a. Cool
 - b. Hot
 - c. Cautious
 - d. Stable

Answers

A. Collocations

1/f, 2/h, 3/b, 4/e, 5/g, 6/c, 7/d, 8/a

B. Vocabulary Quiz

1/c, 2/a, d, 3/c, 4/d 5/a, 6/b, 7/d, 8/b