American Laundry News

Current Inflation and Laundry Operations (Conclusion)

Expert says being aware of inflation environment is first step to dealing with it in future

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CHICAGO — The effects of the pandemic continue to be felt across the globe, and one result of COVID-19 has been an increase in inflation.i

Inflation in the laundry industry is most prominently felt in labor costs, both labor rates and labor availability, says David Potack, president of Unitex, a uniform and linen provider in Elmsford, New York.

“Elevated fuel and textile costs are leading the margin compression significantly though there is some belief that these two areas are cyclical to an extent while the labor rate issue is non-cyclical and viewed as resetting labor cost at a higher rate for the long foreseeable future,” he says.

“Every aspect of the healthcare laundry operation has been impacted by the effects of the pandemic and the elevated costs that inflation brings,” adds Timothy Lacek, senior director or support services and procurement for Hospital Central Services Cooperative Inc. (HCSC), a provider of healthcare linen services in Allentown, Pennsylvania.

“Double-digit cost increases have been the new norm, from our textiles and supplies to energy, equipment and labor.”

Will the current high inflation rate continue? Why has it risen so much—and what can laundry operations do about it?

CURRENT INFLATION DURATION, LONG-TERM EFFECTS (CONT.)

“Being aware of the inflation environment is the first step to dealing with it,” says William Luther, Ph.D., an assistant professor of economics at Florida Atlantic University, director of the American Institute for Economic Research’s Sound Money Project and an adjunct scholar with the Cato Institute’s Center for Monetary and Financial Alternatives. “There are a number of things that could go awry, and businesses might want to keep their eyes peeled for signs that's happening."

One negative scenario he says could materialize is a permanent increase in inflation expectations.

"The reason the Federal Reserve has its 2% average inflation target is because it wants to anchor inflation expectations into the future," explains Luther. "If people believe that inflation is going to be 2% and the Fed delivers 2% inflation, then we don't have to worry about the economy overproducing or underproducing. We don't get these booms and recessions that we would like to avoid.

"If we have a real disturbance that we had with COVID-19, then goods really do become more scarce and inflation will rise above the Fed's 2% target. But as long as the Fed takes steps to bring that inflation back down relatively promptly, those inflation expectations can persist."

The problem, as Luther mentioned earlier, is that the Federal Reserve is not acting very quickly.

"It looks very much like inflation is not merely because of those supply disruptions, but it's also because of the increased nominal spending as I mentioned earlier," he says. "So, we risk getting into a situation where consumers expect prices are going to continue to rise at some rate greater than 2%, and potential employees begin to expect that inflation is going to persist at something more than 2%.

"Businesses expect that inflation is going to persist in something more than 2%, so everyone starts building in these higher expectations of inflation into their long-run contracts, and that puts the Fed in a very difficult position.

"At that point, they have to choose whether or not they're going to stick to their guns and deliver the 2% inflation that they have committed to in order to keep inflation expectations anchored over the longer term. But in order to do that, they would cause a recession because actual expectations at the moment are higher than that.

"Or the Fed can meet those expectations where they are and deliver a rate of inflation greater than 2% well into the future, well past 2024, in which case we have a higher rate of inflation that persists and we have to deal with the costs from that inflation well into the future."

Businesses need to know whether or not they'll need to scale back their production in the case of a recession or raise their prices more rapidly in terms of if the Fed were to acquiesce to a higher rate of inflation than the market expects, Luther points out.

So, why isn't the Federal Reserve acting more quickly?

"I would even go further and say not only are they not acting quickly enough, but they're also, at least based on their projections, not intending to do what they said they would do," Luther says.

“If they’re truly engaged in average inflation targeting, then a period of inflation above target should ultimately be followed by a period where inflation is below target. What they’re projecting is a rather long march back to 2% and then just maintaining that 2% into the future.”

Luther says there’s an open debate about the course of action being taken by the Federal Reserve.

“The most charitable explanation is that the Fed is not actually engaged in average inflation targeting, but it’s actually engaged in what you might call flexible average inflation targeting. The idea there is that if the inflation is higher due to supply disturbances, we don’t make up for those.

“And so in that case, goods really were more expensive over the last year and so prices rose to reflect that and will remain elevated for some period of time to reflect that increased scarcity, and eventually they’ll come back down. But there’s no reason to then subject the economy to below 2% rate of inflation because those shocks were real.”

However, Luther shares that there are some “less charitable” explanations for the Fed’s lack of actions that deserve further consideration.

“When the Fed engineers a higher rate of inflation, it’s able to transfer more resources to the treasury, so that relaxes the government’s budget constraint. And of course, when inflation is higher than expected, it tends to benefit borrowers at the expense of lenders, and the government is a pretty big borrower.

“So, I think there’s some potential that there is political pressure on the Fed not to cut inflation too quickly.”

Another explanation Luther shares is that the Fed might be concerned that if it cuts inflation too quickly, it might overcorrect and push the economy into a recession by excessive tightening.

“It could be taking a slower, more gradual approach to bringing that inflation down because it sees the cost of overreacting as being larger than the cost of under-reacting,” he says. I think that’s a plausible explanation for the slow response as well.”

Whatever the Federal Reserve’s response, COVID-19 created a scenario for higher-than-expected inflation, and every business, laundry operations included, must take steps to counter the effects.

“I think a lot of folks, myself included, were not expecting inflation to be as high as it has been over the last year,” says Luther. “We were contracted into wages or wage increases that resulted in a real pay cut.

“So, I think that employees who are in those kinds of contracts are going to be looking to renegotiate those contracts in the very near term if they haven’t started doing already. Employers need to be prepared to make those negotiations or else risk losing their more productive employees."

To help lessen the impact of the current inflation over the long term, Potack says to maintain immediate gains through automation, overall business evaluation, facility evaluation and personnel evaluation.

"Maintain the discipline of best management practices to be the most efficient and effective laundry operator possible," says Potack.

"We are all hopeful to begin realizing some relief in these areas as we progress through 2022," Lacek adds.