Current Inflation and Laundry Operations (Part 1)

Expert explains cause, effect of current high inflation environment

Matt Poe
February 17, 2022

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 HIGH INFLATION CAUSE AND EFFECT

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, says the current inflation derives from two distinct “shocks” to the economy.

The first was the COVID-19 contraction. This is what economists call a real supply disruption.

“In some markets, we stopped producing entirely for a couple months, and in other markets, the risk of infection caused a slowdown in production, but in general that disruption meant that fewer goods were available,” shares Luther.

“It turns out if you aren’t cutting down trees for a couple months, then roughly a year later, it’s tough to find lumber in the Home Depot. That’s the basic idea behind the supply disruption.”

He goes on to say that because goods were more scarce because of the production disturbances, prices rose.

“The good news about the supply disturbances is that they don’t typically last very long,” Luther points out. “As production began to increase, a lot of those areas that had seen elevated prices have started to see prices come back down.

The second “shock” to the economy, he says, was an increase in nominal spending, which occurred because of all of the measures that were taken to alleviate some of the pain with the recession.

“The government mailed direct checks to households,” says Luther. “It’s made what it called loans, but in many cases were actually grants to businesses to prevent those businesses from going bankrupt. It was engaged in some big expenditures and as a consequence that put more money in people’s pockets and they began spending that money.

“So what we have, taken together with these two shocks, we have more money chasing after fewer goods. And so, the prices of goods and services are higher as a result.”

According to Luther, the current inflation is affecting businesses on two sides because they produce goods and services and they also purchase inputs to engage in that production and hire workers.

“They have to purchase supplies, and the price of those of those supplies are going up and the wages they have to pay to workers in order to induce them to work are going up as well,” he says.

“On the other hand, they have to raise the price of the goods and services that they’re providing because those dollars that they’re receiving aren’t worth as much as they used to be.

“Of course, every business would like to raise their price faster than the cost of their input increase so long as it doesn’t discourage people from buying their products. And so businesses are kind of caught in this balancing act where they don’t want to raise their prices too quickly because then they’re going to lose customers.

“They also don’t want to raise their prices too slowly because then they’re going to make a loss and will pay more for their inputs than they’re getting for their outputs. Or maybe they have a reduced profit if nothing else. So they’re kind of doing this balancing act.”

Another struggle Luther points out is that workers are deciding how much they’re willing to accept for an hourly wage or an annual salary.

“(Workers) want to make sure that the wage that they’re getting over that period is not going to be devalued in real terms more than they expect,” he shares.

“So, if you expect a 2% inflation, you might agree to a wage at the outset where the employer, in real terms, is paying you a bit more on average than they’ll pay you over the course of the year, and at the end of the year, provided it’s with that 2% inflation, the employer is paying you a bit less than they paid on average over the course of the year in real terms, but your nominal wage is fixed over that period.

“The reason that they’re paying you more and then less in real terms is inflation takes place. But so long as you can form a pretty reasonable expectation about what that inflation rate’s going to be over the year, you might not mind this so much.

“You can engage in this annual contract and the employer is willing to pay you a bit more upfront because they’re going to get to pay you less on the back end, and you’re willing to accept a bit less at the end of the year because you’re going to be getting a bit more in real terms at the beginning of the year. It kind of washes out.”

But, Luther says, if workers don’t know whether inflation is going to be higher than 2%, it makes contracting much harder and makes it much riskier.

“And as the risk of something increases, some people will just decide that it’s not worth taking that risk right now,” he says.

“There are a lot of reasons why labor has been slow to return to work, but one reason that a lot of people don’t seem to appreciate is that there is some uncertainty regarding what inflation will be over the next year and many employees are contracting over the year, and so they want to have a better sense of what inflation is going to look like before they lock themselves into a wage that there will be costly to renegotiate.”

“Labor cost inflation, with the resetting of minimum wage very aggressively over a short period time, historically speaking, has reset the labor market,” says Potack. “Long-term inflation will likely accelerate both automation and industry consolidation.”