



## Why Energy Prices Are Projected to Increase 50% in 2022—After Doubling Last Year

### Description

Sometimes I have to remind myself how good we Americans have it because—let's face it—there is a lot of bad news out there, particularly on the economics front.

Inflation, which hit 8.5 percent in March, gets the most attention, and rightly so. Less attention has been given to financial markets. The Nasdaq just had [its worst month since 2008](#) (the year of the financial meltdown). The S&P 500, meanwhile, is having its worst start to a year [since the Great Depression](#).

And then there's food and energy prices. There's no way to sugarcoat the data—which is a shame, because there's no place Americans feel the pinch more. (We all eat and use energy.)

In its latest [Commodity Markets Outlook report](#), the World Bank projected commodity prices will remain higher for years to come. Perhaps most alarming is that the multilateral bank projects energy prices will soar *50.5 percent* this year—after nearly doubling in 2021. The rise in energy prices, the *Wall Street Journal* [reports](#), has been “the most significant since the early 1970s.”

Food prices, meanwhile, which rose 31 percent last year, are projected to increase 23 percent this year. Needless to say, these price increases come at considerable cost, particularly to the most vulnerable in society.

“The resulting increase in food and energy prices is taking a significant human and economic toll,” [said](#) Ayhan Kose, director of the World Bank's Prospects Group. “It will likely stall progress in reducing poverty...[and] exacerbate already elevated inflationary pressures around the world.”

What has caused the surge in food and energy prices? Any economist will tell you prices rise and fall for all sorts of reasons related to supply and demand. But in this case we can find three primary reasons.

The first, as the World Bank notes, is the war Russia initiated in Ukraine, which has disrupted trade and supplies of energy and food. In some cases, the authors note, it's easy to spot examples of how

disruptions in one commodity have rippled across the economy, such as how high natural gas prices increased the cost of fertilizer, which has pushed agricultural prices upward.

Look at the price of natural gas in Europe.

(Via the [@WorldBank](#)) [pic.twitter.com/m6o9FkRfpT](https://pic.twitter.com/m6o9FkRfpT)

— Jon Miltimore (@miltimore79) [May 2, 2022](#)

There's no question the war has had an impact—[especially on European markets](#), where natural gas prices have reached all-time highs—but two other causes have received far less attention.

The first is the Federal Reserve. The central bank injected some \$5 trillion into the economy over the past two years—driving [its balance sheet to \\$9 trillion](#) even as huge swaths of the global economy were shut down by governments during the pandemic. Adding trillions of dollars to the economy in a two-year span—[flooding the system with money](#), as Fed Chairman Jerome Powell described it—while constricting the production of goods and services was an obvious recipe for inflation.

“Inflation is caused when the money supply in an economy grows at a faster rate than the economy’s ability to produce goods and services,” the Federal Reserve Bank of St. Louis [explains](#). (How the Fed didn’t see inflation coming is another story.)

Finally, here in the US, the government has continued to inhibit the production and distribution of energy. From [killing the Keystone Pipeline](#) to [halting drilling permits](#) on federal lands [and more](#), the Biden Administration has made it increasingly difficult to meet the rising demand for energy.

This is what has caused so much economic pain in the short run. Fortunately, as FEE’s Peter Jacobsen [explained](#), there is reason for optimism on the energy front in the long run—if we allow markets to function.

In the meantime, as Americans struggle with higher and higher prices, we can only hope more people realize an important truth: locking down Americans and printing trillions was an act of insanity.

And perhaps the idea of “quitting” fossil fuels is [a little bit premature](#).

*This article was adapted from an issue of the FEE Daily email newsletter. Click [here](#) to sign up and get free-market news and analysis like this in your inbox every weekday.*

**Source:** [FEE](#)

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**Category**

1. Economy-Business-Fin/Invest
2. Main

**Date Created**

05/04/2022