

# INFLATION: HERE TO STAY?

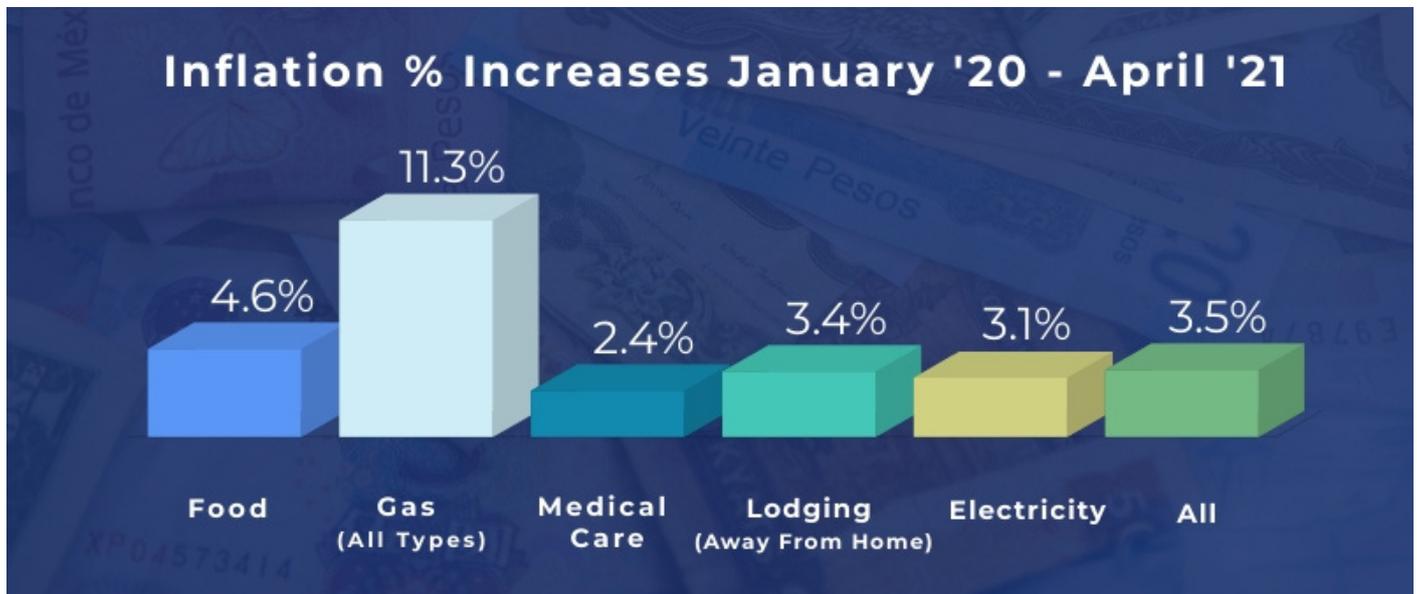


Figure 1: Inflation increases shown from 01/2020 - 04/2021 using Consumer Price Index data. Percentages are not annualized.<sup>1</sup>

## IS INFLATION TRANSITORY?

Inflation, in its simplest form, is defined as a decline in the purchasing power of a given currency over time. The topic of inflation has been quite popular lately, as investors are grappling with whether inflation is transitory (temporary) or not. The fact of the matter is goods and services are costing more. When our clients go to the grocery store, food prices are up. When they fill up their gas tank, again prices are up. Figure 1 exemplifies the increase in prices, utilizing pre-pandemic data as a starting base.

*"The incoming data are very much consistent with the view that these are factors that will wane over time and then inflation will then move<sup>2</sup> down toward our goals."*

**-Fed Chairman Powell**

## HOW TO PREPARE FOR INFLATION

If inflation becomes more than 'transitory,' it is important to bake in inflation expectations into your personal budget. Adding inflation expectations takes the surprise element out of the decreasing value of one's dollar, and better prepares an individual's budget. When non-discretionary goods increase in price, it leaves less room in a budget for discretionary spending.



[1] Bureau of Labor Statistics, U.S. Department of Labor, *The Economics Daily*, "Consumer price index up 4.2 percent from April 2020 to April 2021" at [www.bls.gov/opub/ted/2021/consumer-price-index-up-4-2-percent-from-april-2020-to-april-2021.htm](http://www.bls.gov/opub/ted/2021/consumer-price-index-up-4-2-percent-from-april-2020-to-april-2021.htm)

[2] Rugaber, Christopher, "Fed's Powell Says High Inflation Temporary, Will 'Wane'." *Associated Press News*, 22 June 2021. [apnews.com/article/inflation-health-coronavirus-pandemic-business-6e7c813472a3eb706e0cdafe305c1477](https://apnews.com/article/inflation-health-coronavirus-pandemic-business-6e7c813472a3eb706e0cdafe305c1477)

## WHY ARE WE SEEING INFLATION?<sup>3</sup>

- **Base Effects:** Mid 2021 inflation data is deceptively high, given that 2020 inflation data serves as a low starting point.
- **Pent-Up Demand:** As our economy fully reopens, people are eager to travel, go to events, and spend money where they were previously unable to.
- **Pandemic-Induced Supply Chain Bottlenecks:** Given layoffs, reduced input production, and stay-at-home orders, companies are behind on their production of goods; thus causing a supply and demand imbalance.
- **Increased & Cheaper Money Supply:** With historically low interest rates and an overall increase in the money supply, more dollars are chasing the same amount of goods than before.

## CNBC at CFA



We are excited to announce that Mark Pitre, Principal at CFA, was recently a featured speaker at CNBC's Financial Advisor Summit 2021. Mark shared his expertise with the audience of Registered Investment Advisory firms across the nation regarding succession planning.

## AVERAGE PRICE OF A NEW FULL-SIZE CAR<sup>4</sup>



↑ **8.51%**



The price of cars has increased substantially from the start of 2020 to now. A portion of this increase can be attributed to the pandemic-induced supply chain constraints in the microchip market. The average transaction price of a new full-size car increased a staggering 8.51% from January 2020 to January 2021.

[3] Bernstein, Jared, and Ernie Tedeschi. "Pandemic Prices: Assessing Inflation in the Months and Years Ahead." *The United States Government*, 21 Apr 2021. [www.whitehouse.gov/cea/blog/2021/04/12/pandemic-prices-assessing-inflation-in-the-months-and-years-ahead](https://www.whitehouse.gov/cea/blog/2021/04/12/pandemic-prices-assessing-inflation-in-the-months-and-years-ahead)

[4] "Average New-Vehicle Prices Continue to Surpass \$40,000. Up More Than 5% in January 2021. According to Kelley Blue Book." *Kelley Blue Book*, 15 Feb 2021. [www.prnewswire.com/news-releases/average-new-vehicle-prices-continue-to-surpass-40-000--up-more-than-5-in-january-2021--according-to-kelley-blue-book-301227930.html](https://www.prnewswire.com/news-releases/average-new-vehicle-prices-continue-to-surpass-40-000--up-more-than-5-in-january-2021--according-to-kelley-blue-book-301227930.html)