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RETIREMENT & FINANCIAL PLANNING CORNER

Brought to you by: Dave Hojlo,
Accredited Investment Fiduciary ("AIF")



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LET'S TAKE A BETTER LOOK AT INFLATION – HISTORY AND DEFINITIONS

What is Inflation?

- Inflation is a measure of the rate of rising prices of goods and services in an economy.
- Inflation can occur when prices rise due to increases in production costs, such as raw materials and wages.
- A surge in demand for products and services can cause inflation as consumers are willing to pay more for the product.
- Inflation can be a concern because it makes money saved today less valuable for tomorrow.



<https://www.investopedia.com/ask/answers/111314/what-causes-inflation-and-does-anyone-gain-it.asp>

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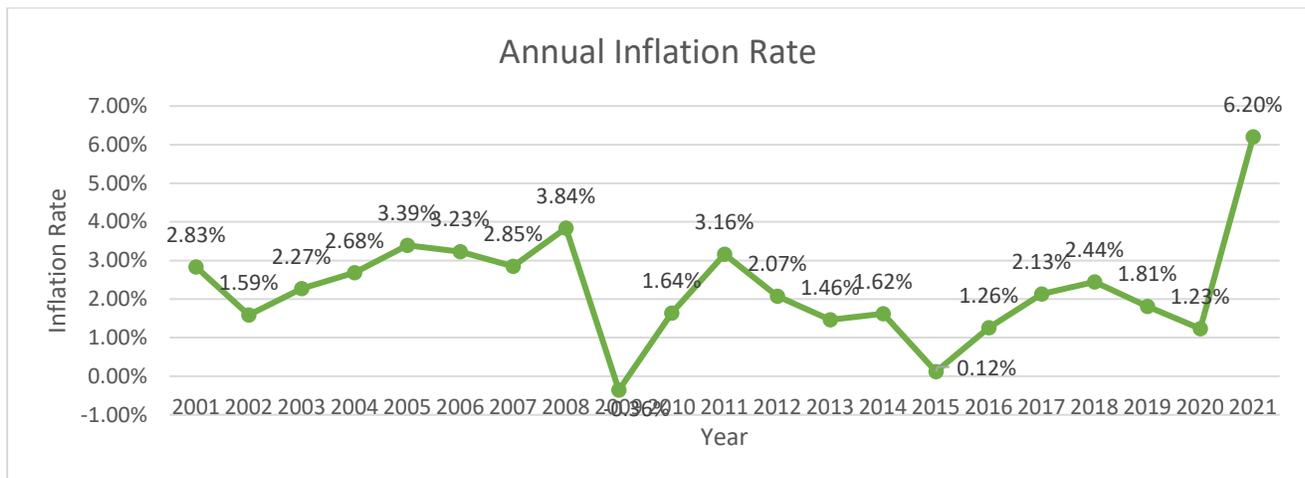
The Two Types of Inflationary Measures

- The Consumer Price Index (CPI) and the Producer Price Index (PPI) are economic indicators that measure inflation in the United States.
- The CPI evaluates expenditures of domestic and internationally imported consumer-related services for residents of urban or metropolitan areas, including professionals, the self-employed, the poor, the unemployed, and the retired, as well as urban wage earners and clerical workers.
- The PPI looks instead at the prices that producers pay and measures changes in the sale prices for the entire domestic market of raw goods and services.

<https://www.investopedia.com/ask/answers/011915/what-difference-between-consumer-price-index-cpi-and-producer-price-index-ppi.asp>

Average Rate of Inflation from Past to Present

Years	Rate	Years	Rate
1960-2021	3.72%	1990-2021	2.53%
1970-2021	3.99%	2000-2021	2.31%
1980-2021	3.25%	2010-2021	2.10%



<https://www.macrotrends.net/countries/USA/united-states/inflation-rate-cpi> (Graph Data)

**2021 Inflation rate as of 11/10/2021, Graph created by CORBCO Retirement Group from Macrotrends data research information.

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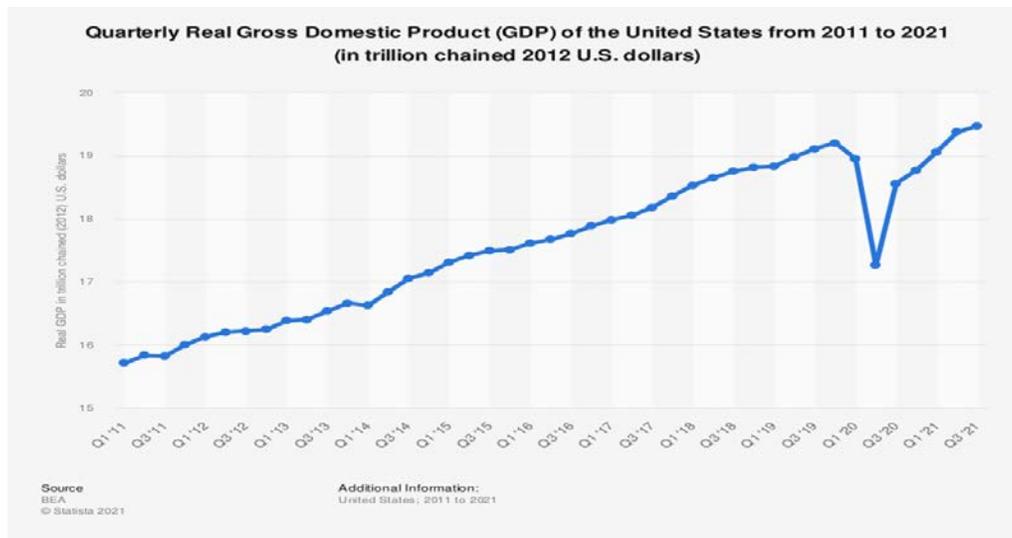
Investment Sector Ideas During Inflationary Times

- Several asset classes perform well in inflationary environments.
- Tangible assets, like real estate and commodities, have historically been seen as inflation hedges.
- Some specialized securities can maintain a portfolio's buying power including certain sector stocks, inflation-indexed bonds, and securitized debt. (Energy (Oil), Real Estate, Consumer Discretionary & TIPS Bonds)
- Inflation-sensitive investments are accessed in a variety of ways as both direct and indirect investments.

<https://www.investopedia.com/articles/investing/080813/how-profit-inflation.asp>

Relationship Between Inflation and GDP

- Individual investors need to find a level of understanding of gross domestic product (GDP) and inflation that assists their decision-making without overwhelming them with too much unnecessary information.
- If the overall economic spending is declining, or holding steady, most companies will not be able to increase their profits (which is the primary driver of stock performance); however, too much GDP growth is also problematic.
- Over time, the growth in GDP causes inflation—inflation, if left unchecked, runs the risk of becoming hyperinflation.
- Most economists today agree that a small amount of inflation, about 1% to 2% a year, is more beneficial than detrimental to the economy.



<https://www.investopedia.com/articles/06/gdpinflation.asp>

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Stagflation vs. Deflation



Stagflation

- Stagflation refers to an economy that has inflation, a slow or stagnant economic growth rate, and a relatively high unemployment rate.
- With stagflation, a country's citizens are affected by high rates of inflation and unemployment.
- Inflation is natural, expected, and can be managed, while stagflation is avoided at all costs.
- The reasons for stagflation vary but are mainly due to harsh regulations combined with an increase in the money supply.
- It is believed that stagflation will most likely never occur again because poor government policies that led to it in the 1970s would not be used.

<https://www.investopedia.com/ask/answers/09/inflation-vs-stagflation.asp>

Deflation

- When prices are falling, consumers delay purchases to wait for them to fall some more.
- When consumers stop buying things, production slows as demand falls.
- When production slows and demand falls, prices drop, businesses lose money and lay off workers.
- As unemployment rolls grow, consumers have less money and make even fewer purchases.
- The cycle repeats itself, and the spiral continues until a downturn becomes a recession and a recession becomes a depression.

<https://www.gobankingrates.com/money/economy/economy-explained-understanding-difference-inflation-deflation-stagflation/>

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President Biden's Infrastructure Bill Relationship with Inflation

President Biden claims a key way to help relieve increasing prices is to pass a \$1.85 trillion collection of spending programs and tax cuts. That in the long run, the bill and his infrastructure plan could make businesses and their workers more productive, which would help to ease inflation as more goods and services are produced across the economy.

But many researchers, including a forecasting firm that President Biden often cites to support the economic benefits of his proposals, say the bill is structured in a way that could add to inflation next year, before prices have had time to cool off. Some economists and lawmakers worry about the timing, arguing that the risk of fueling more inflation when it has reached record highs outweighs the potential benefits of passing a big spending bill that could help to keep prices in check while addressing other social goals.

Many economists say it could create a short-term stimulus because the plan is structured to raise money gradually by taxing wealthier Americans, who are less likely to spend each additional dollar they have, and redistribute it quickly to people who earn less and are more likely to spend newfound cash. Because of the difference in timing between when the government spends money and when it starts to bring in more revenue, the bill is expected to pump money into the economy in its early years.

<https://www.bloomberg.com/news/articles/2021-11-12/biden-says-infrastructure-bill-will-ease-u-s-inflation-pressure>

<https://www.whitehouse.gov/briefing-room/statements-releases/2021/10/28/president-biden-announces-the-build-back-better-framework/>

<https://time.com/6121415/build-back-better-spending-bill-summary/>

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