## This Isn't Your Father's Inflation

**July 18, 2022**

Newspapers, magazines, and cable TV shows are all on top of today's hottest economic story: INFLATION! We have talked about this subject before but there is no end to the inflation story that is making everyone, especially poor people, much worse off. As we look back over our many years in this business (52 for Tom and 36 for Diane), there has never been a time when there were no poor people or a time when economic circumstances were making the poor better off. The recent bulge in the consumer price index to an annual rate of 9.1%, the highest since the double-digit inflation of the 1980s is prima facie evidence that hard times are around the corner. The Wall Street Journal reports that knowledgeable hedge fund managers are jumping ship and selling stocks because they see the handwriting on the wall and investors ramp up their purchases of fixed rate annuities to reach their retirement savings goals. The Federal Reserve gave up on writing off this inflation as temporary and has embarked on a serious trip to higher interest rates. However, we must put the current inflation environment in proper perspective.

The logical cause for inflation, by definition, is too much money chasing too few goods. When you combine $5-7 trillion of government spending to help the economy to recover with a pandemic penalty on the output of goods and services, you get classic inflation. Yet, the Fed is stepping on the monetary brakes and fiscal policy is slowing federal government spending. Fears of recession, as evidenced by near record lows in consumer confidence, tells us that peak inflation may have passed. The only drawback to this conclusion is energy prices. The bugaboo is the Ukraine war and the need for U.S. energy exports to Europe to offset the loss of energy imports from Russia. The good news is that U.S. oil and gas production is on the rise and, as a result, we have been getting some respite from rising oil prices. In one year, prices have fallen from $123+ to under $100 per barrel.

The Fed's tight money policy and the slowdown in the Administration's spending has had an unexpected effect; the U.S. dollar has been skyrocketing. While inflation lowers the value of the dollar at home, the world is increasingly in need of dollars. Economists have called for a collapse in the dollar over the years because of our debt and deficit spending. So much for that argument. Global investors want dollars just at a time when the Fed is making them more attractive.

The U.S. economy remains strong and may experience a slowdown from the boom caused by the government's post pandemic spending spree but that is almost over and, if anything, the November election may bring us a shortening of the federal purse strings. We also expect a more expansive energy policy especially if the war continues.

The last time we had these economic circumstances in the early Eighties, corporate America was in rough shape. Double-digit interest rates took the air out of corporate profits as did the need for providing workers with inflation adjustments to compensation. Today corporations have reduced the cost of their debt dramatically and are using their mountains of cash to either buy back stock or increase dividends and raising pay. Your father's inflation is not what we are experiencing.

109 East Bay Street * 1E * Charleston, South Carolina * 29401 * 843-342-3044 * www.vcm.us.com