Economic Inflation

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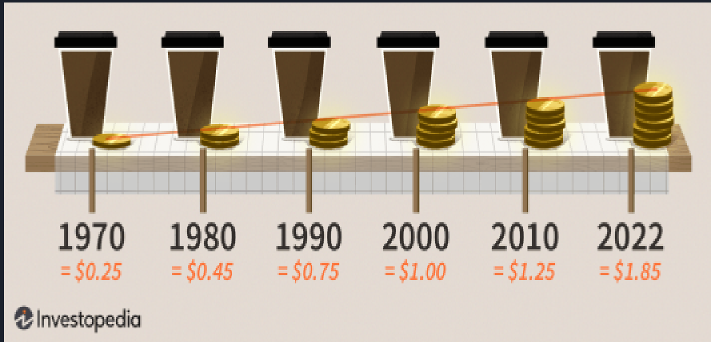
What is Inflation?

- Simply put, Inflation is the ongoing and steady rise of prices across the entire economy, not just a specific category
- Noticeably, the cost of everything has gone up over the past few decades
  - Income, consumer spending, etc.
- As price tags went up, so did our annual salaries
- With the evolution and advancement of so many elements, technology being the biggest one, the average worker in 1970 was never going to be making below five figures annually for the rest of their lives



What is Inflation? (Cont.)

- Inflation may oftentimes be referred to as a negative topic but it should be seen as something completely normal
- In a healthy economy, the average annual percentage increase for inflation is typically around two percent, which economists consider to be stability within pricing
    - This stability can hold its own or even decline as previously seen
- Not being able to meet consumer demand is another huge reason behind inflation

Measuring Inflation

- The Bureau of Labor Statistics measures Inflation through Consumer Price Index (CPI)
- Specific formula is used to calculate the general “basket of goods and services” that is typically found within a household
  - This basket of goods contains ~80,000 items that are broken up into hundreds of categories
- Thousands of houses are surveyed to improve accuracy
- The Bureau of Labor Statistics goes as far as getting in contact with tens of thousands of stores and tenants to confirm prices
- Major categories that are considered when accounting for CPI: food, rent, clothing, etc.

Impact on Car Market

- Common trend over the past few years: vehicle prices skyrocketed
- Along with interest rate numbers going through the roof, purchasing a home/vehicle has been made an unrealistic option for most of the population
  - Current used car market is very similar to the cost of a brand new car less than five years ago
- Car brands and dealerships were hit hard with the recent inflation rates, forcing them to raise the sticker prices on a lot of their inventory due to limited supply
- Vehicle loan, insurance costs, maintenance, gas etc. all increased dramatically with inflation
- Common reason is due to the low supply available for manufacturing

Impact on Housing Market

- Housing market arguably took the biggest hit within the economy
- Although inflation has taken a hit within the market, the cost of houses has been increasing steadily since the end of the great recession
  - Not until recently has the cost of owning a home been exaggerated more than ever.
- Wage increase over the years has not been sufficient enough to keep up with the inflating market
  - In 2020, the ratio from average house cost to average salary was 5x greater, in comparison to it being 2.2x back in 1950.
- Demand has also not been met among interested buyers, forcing prices to rise even more as construction companies are simply not able to build at the demanded rates

How the Government Handles Inflation

- U.S. Government and The Federal Reserve push for higher interest rates
- Consumer demand has not been met by current supply numbers, leading for The Federal Reserve to take action through interest rates
- Employment often times takes a hit when interest rates are changed
- Interest rates are raised to lure buyers away from taking out a loan for their next big purchase
    - Interest rates can only reach a certain level before companies become impacted immensely due to slow business, lowering employment numbers nationally

COVID-19 Impact

- The main reason as to why the supply has not met the demand for nearly everything in the current U.S. market is due to COVID-19 pandemic
- Once the mandated quarantine was in full-effect, millions of people lost their jobs
- Revenue and production tanked for nearly every company in the country.
- As demand numbers were at all-time lows, so was supply as the population was forced to stay at home

COVID-19 Impact (Cont.)

- As strict rules regarding quarantine began to be lifted one by one, things have not been nearly close to the same since the pre-pandemic days
- Almost everything with a price tag became suddenly sought after and purchased once people were able to go back in public once again
  - This impacted the market negatively, forcing inflation as companies were clearly not able to keep up with the high demand after previously being forced to lay off employees
- Companies were forced to raise the price on their goods in attempt to calm down the consumer spending in order to stay afloat within their production

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