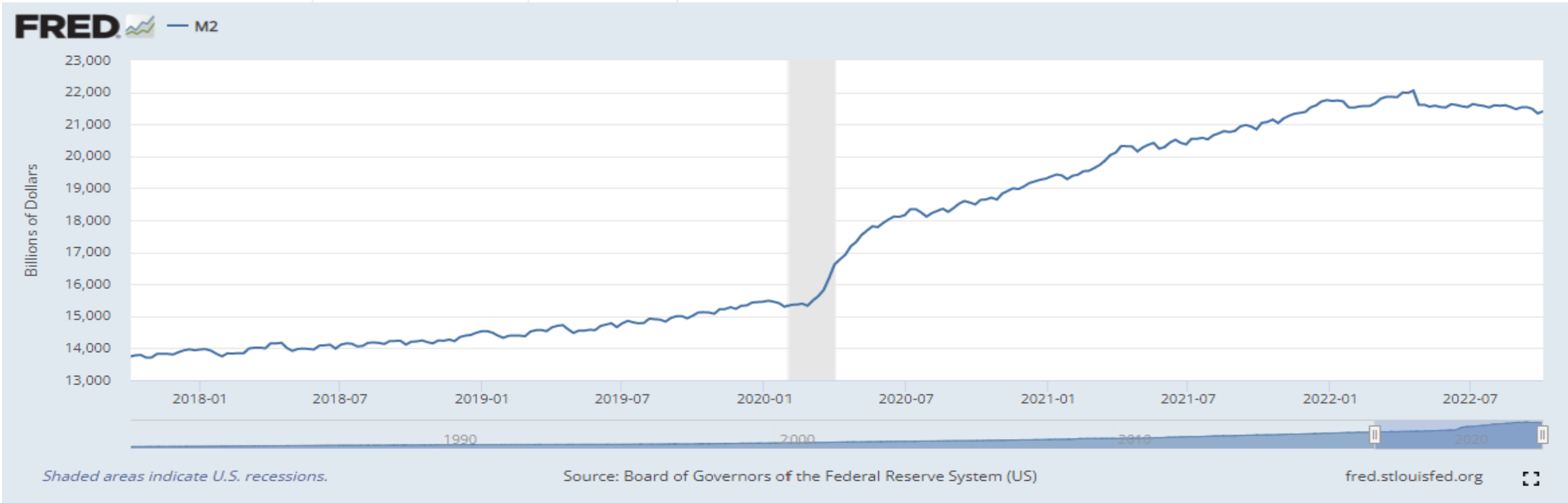


UNDERSTANDING INFLATION IN 2022

PRESENTED BY:



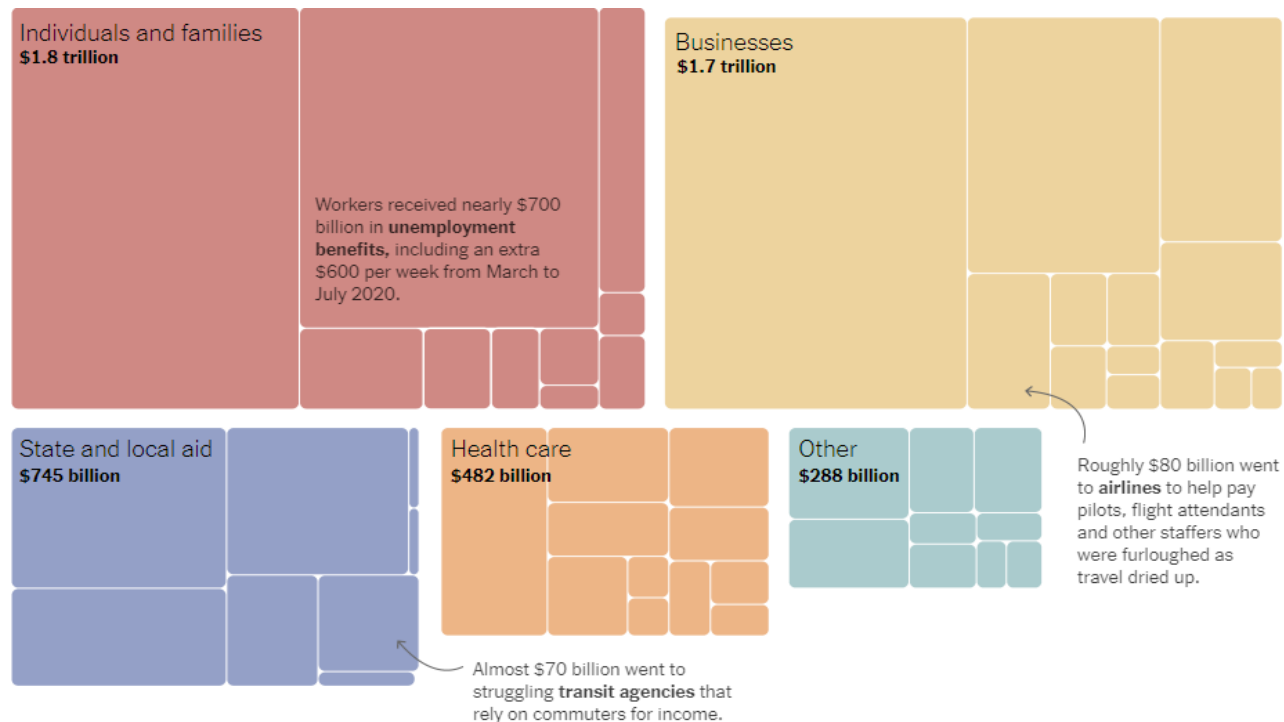
TRACTION
FINANCIAL PARTNERS



**INFLATION – “TOO MUCH MONEY
CHASING TOO FEW GOODS.”**

GOVERNMENT SPENDING (STIMULUS) & THE FED

How was the \$5 Trillion in Government stimulus spent?



Federal Reserve – Quantitative Easing

- The Federal Reserve's balance sheet has ballooned following the pandemic to approximately \$8.723 trillion U.S. dollars
- Used to provide liquidity to the financial system and increase money supply.
- This is accomplished by purchasing treasury securities and government-guaranteed mortgage-backed securities.

Federal Reserve – Federal Funds Rate

- The Fed cut its federal funds rate to the range 0%-0.25%.

SUPPLY SIDE FACTORS

- Supply Chain Disruptions
 - COVID 19
 - Lockdowns
 - Ukraine/Russia Conflict
 - Global Bottlenecks
 - Equipment Availability
 - Labor Shortages



CPI COMPONENTS

All items	7.7%	All items less food and energy	6.3%
Food	10.9%	Commodities less food and energy commodities	5.1%
Food at home	12.4%	Apparel	4.1%
Cereals and bakery products	15.9%	New vehicles	8.4%
Meats, poultry, fish, and eggs	8.0%	Used cars and trucks	2.0%
Dairy and related products	15.5%	Medical care commodities	3.1%
Fruits and vegetables	9.3%	Alcoholic beverages	5.0%
Nonalcoholic beverages and beverage materials	12.7%	Tobacco and smoking products	6.6%
Other food at home	15.4%	Services less energy services	6.7%
Food away from home	8.6%	Shelter	6.9%
Full service meals and snacks	9.0%	Rent of primary residence	7.5%
Limited service meals and snacks	7.1%	Owners' equivalent rent of residences	6.9%
Energy	17.6%	Medical care services	5.4%
Energy commodities	19.3%	Physicians' services	1.8%
Fuel oil	68.5%	Hospital services	
Gasoline (all types)	17.5%	Transportation services	15.2%
Energy services	15.6%	Motor vehicle maintenance and repair	10.3%
Electricity	14.1%	Motor vehicle insurance	12.9%
Natural gas (piped)	20.0%	Airline fare	42.9%

HOW DO GOVERNMENTS FIGHT/REDUCE INFLATION

Increase Federal Funds Rate

- Effectively slows down the economy.
 - Encourages banks and other lenders to raise rates on consumer and business loans.
- Currently the Fed funds rate is 3.75-4.00%
- Forecasted Fed funds rate by year-end of 4.5-4.75%.

Quantitative Tightening

- The Federal Reserve reduces its supply of reserves in order to tighten its balance sheet.
 - Fed's plan is to allow \$30 billion of Treasury securities and \$17.5 billion of mortgage-backed securities to roll off the balance sheet each month for the foreseeable future.

Price Controls

- The government sets price caps to specific goods.

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