

# *Financially Speaking*

## **Inflation May Not Be As Scary As it Seems**

Aloha.

Aloha is such a simple looking word and I once thought that it had an equally simple meaning. When I first went to Hawaii and was greeted with it, I assumed that it just meant hello. I have since learned that Aloha is actually a very complex word in the Hawaiian language that represents love, affection, peace and compassion - and also things like grief and sympathy.

In many ways I feel like the word inflation is similar. It is a simple looking word, and people assume they know what it means, but in reality inflation is a much more complex concept than you might think, and it can have very different meanings depending upon the circumstance and context.

Let's examine what we think we all know about the simple part.

Inflation is a way of measuring how the amount of goods we can buy for a given amount of money changes over time. Most people think of that in terms of prices rising - and in the US that is what inflation has generally meant - but it can also mean that the value of the money is falling, something that has happened in other countries.

Every time our economy comes out of a recession, I see a lot more use of the word inflation, both on the news and with clients and people on social media. That is understandable because typically when the economy starts growing again after a recession there is going to be an adjustment period where prices will reset, which can appear startling if not looked at in context.

Let's look at an example of something that almost everyone is familiar with and that I have been asked about several times - gas prices.

According to the U.S. Energy Information Administration (EIA), the national average price for a retail gallon of gasoline (all formulations) at the end of May 2021 - so commonly referred to as Memorial Weekend - was \$3.076. A year earlier, Memorial Weekend of 2020, the same gallon of gas cost \$1.961 on average. That means that gas prices increased by about \$1.115 per gallon, or over 50%, in just one year. That signifies hyper-inflation and we should all be terrified right?

Not so fast. Let's add another couple of data points and some context to these numbers.

First of all, recall what was happening in May of 2020. The Covid-19 crisis was really taking hold and many countries and states, including Wisconsin, had instituted restrictions on travel, resulting in a dramatic decline in the amount of gasoline being purchased and used around the world. At the same time, oil and gas manufacturers don't just pivot on a dime so there was still lots of supply flowing. At one point there were literally tankers of crude oil sailing with nowhere to unload their cargo. Gas prices in 2020 were exceptionally low because the pandemic had caused demand to plummet and supply couldn't adjust as quickly.

To get a better idea of how gas prices have increased over time let's take a look at what the average price per gallon was prior to the pandemic. On Memorial Weekend of 2019 the national average price per gallon of gas according to the EIA was \$2.946 per gallon. That is only \$0.13 a gallon, or 4.4% cheaper, than it was this year. If you just looked at the two year increase from 2019 to 2021 you would say that gas prices have increased at about 2% a year, which doesn't seem scary at all does it?

To be sure, gas prices are just one small part of what goes into calculating that very complex concept of inflation. Just as there are examples of prices that, like gasoline, are largely just normalizing, there are also some products and services that have seen significant price increases due to supply chain disruptions and other havoc that the pandemic is still causing. In most of those situations though economists expect that the prices will come back down once the disruption is alleviated. That is already starting to prove true with things like lumber prices, as wholesale prices have declined over 40% in just the last few weeks as normal supply starts to come back on-line.

While inflation has become a scary word in our language, the right amount of inflation is actually a good thing and not something to be feared at all. But, just like eating too much candy, too much inflation can lead to problems over time. The jury is still out as to whether the price adjustments we are currently seeing are temporary or the start of something more worrisome, but until the pandemic related issues have worked themselves out I don't think we should be overly concerned.

*Trisha Arndt, CFP®, is President of Wealth Strategies of Wisconsin Ltd, 951 Kimball Lane, Suite 110, Verona, WI 53593, 848-2400. Securities and Advisory Services offered through Commonwealth Financial Network, member FINRA/SIPC, a Registered Investment Adviser.*