



Ask a Trust Officer

Inflation unleashed?

DEAR TRUST OFFICER:

With all the money that the Federal Reserve is pumping into the economy, coupled with the surge in deficit spending, should I be concerned that inflation will be affecting my lifestyle?
—LIVING ON A FIXED INCOME

DEAR LIVING:

Inflation has been a growing issue for some time now. Between July 2007 and July 2008, the Consumer Price Index rose 5.6%, the fastest growth in 17 years. Of course, in the second half of 2008, with the recession and drop in oil prices, the threat receded.

But now, inflation is returning. In the first two months of this year, consumer prices rose at an annual rate of 4.1%; producer prices at a 5.8% rate. Sometimes when prices are constant, inflation occurs in the form of “shrinkage”—paying the same price for, say, a smaller can of tuna or box of cereal.

The decision in late March to pump more than \$1.2 trillion into the economy means that that the Fed will need to “print” more money. The very next day saw a weakening dollar and a jump in oil prices, both inflation signals.

Some economists warn of similarities to the Carter years, with the resulting double-digit inflation. Others suggest that high employment and sluggish consumer spending will keep inflation in check.

Your concern about inflation, we believe, is justified. It may be time to review your portfolio and consider some steps that may, to some extent, offer a shield against a serious threat to your future purchasing power.

Please contact one of our trust officers at (989) 779-6207 with any questions.

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