

The Real Reasons for Inflation

Let's discuss the most discussed topic in the economy and the markets ? INFLATION. Inflation, which is the increase in prices, not the absolute level of prices, has reached a 40-year high (CPI) of 8.5%. In this report, we will discuss the most likely reasons that inflation has chosen this moment to rear its ugly head. Why did it happen and who's at fault for letting the monster in the door. These are reasonable questions since we have enjoyed very low inflation of less than 3% for so many years.

There are many possible culprits for today's rapidly rising prices, such as Russia's invasion of Ukraine, Covid stimulus programs, Supply disruptions, lack of housing, and corporate greed. TPA has examined and will present the evidence to show that the most likely reason for today's rapidly rising prices is a combination of a necessary package of stimulus, lingering supply-chain issues, pent-up demand, and a public that is enjoying true freedom to spend for the first time in over 2 years. TPA will point, in particular, to the last factor as presenting the best timing for the recent high inflation.

TPA's four conclusions:

- **GOVERNMENT AND FED DID THE LOGICAL THING.**

Given the scenario present 2 years ago, the choices were to (1) do little or nothing in face of massive job shutdowns, unemployment, supply disruptions, and business disruption, risking a major recession or worse or (2) enact a stimulus package, moratoriums on evictions and bankruptcies, and school loan deferments; all of which risked creating inflation. The government and the FED chose the most logical actions given the emergency they faced. Logic demanded choosing (2).

- **UKRAINE IS NOT THE MAIN ISSUE.**

Inflation began well before Russia invaded Ukraine. The conflict may have exacerbated the problem, but it is not the main cause. Russia did not invade Ukraine until 2/24/22. At that point, inflation was already rampant:

- CPI YOY +7.87%
- CPI Food YOY +7.90%
- CPI Energy YOY +25.55%
- FED Balance Sheet \$8.9 trillion
- Average Home Price YOY +21.31%

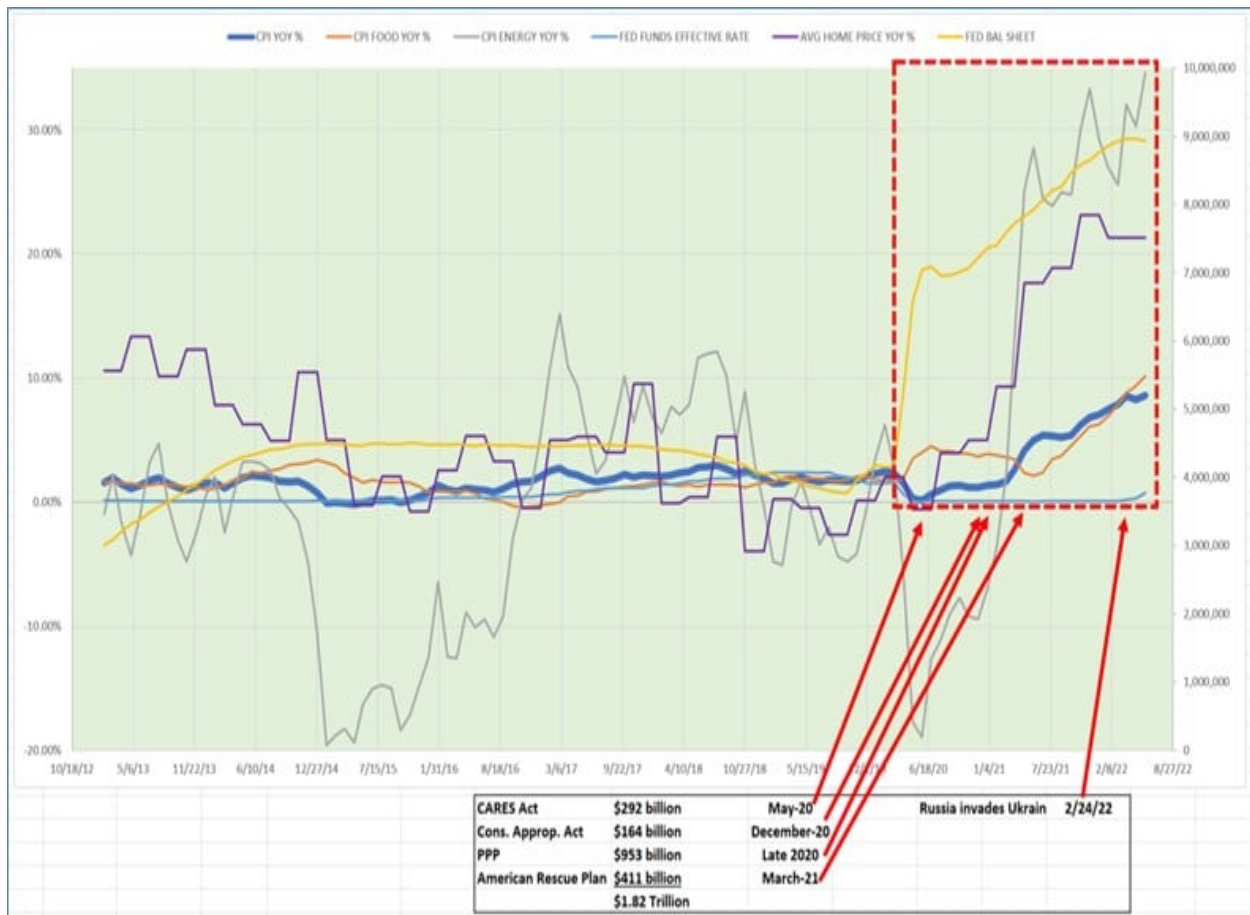
Stimulus actions in the U.S. are not the main cause of inflation. Evidence of this is that inflation is not just a U.S. problem; it is a worldwide problem. Even countries that did not enact massive stimulus are experiencing inflation.

- **TIMING POINTS TO A COMBINATION OF PENT-UP DEMAND & SUPPLY CONSTRAINTS.**

The most likely reason for inflation was pent-up demand and supply shortages after 2 years of Covid. The timeline of rising prices coincides more closely with the decline in the Covid mortality rate and the loosening Covid restrictions more than any other factors.

The rise in prices can be seen by tracking the relaxing of mandates and restrictions on the U.S. public. The chart below shows inflation data from 2012 until present, along with Covid milestones. The point at which inflation ramps up correlates more or less with the CDC announcement that people can gather indoors without masks. Specifically, the chart below shows CPI YOY (year over year), CPI Energy YOY, CPI Food YOY, Average Home Prices YOY, and the FED Balance sheet for the past 10 years. TPA has also shown the timing of each of the Covid stimulus programs and the point at which Russia invaded Ukraine. TPA sees 3 things from this chart:

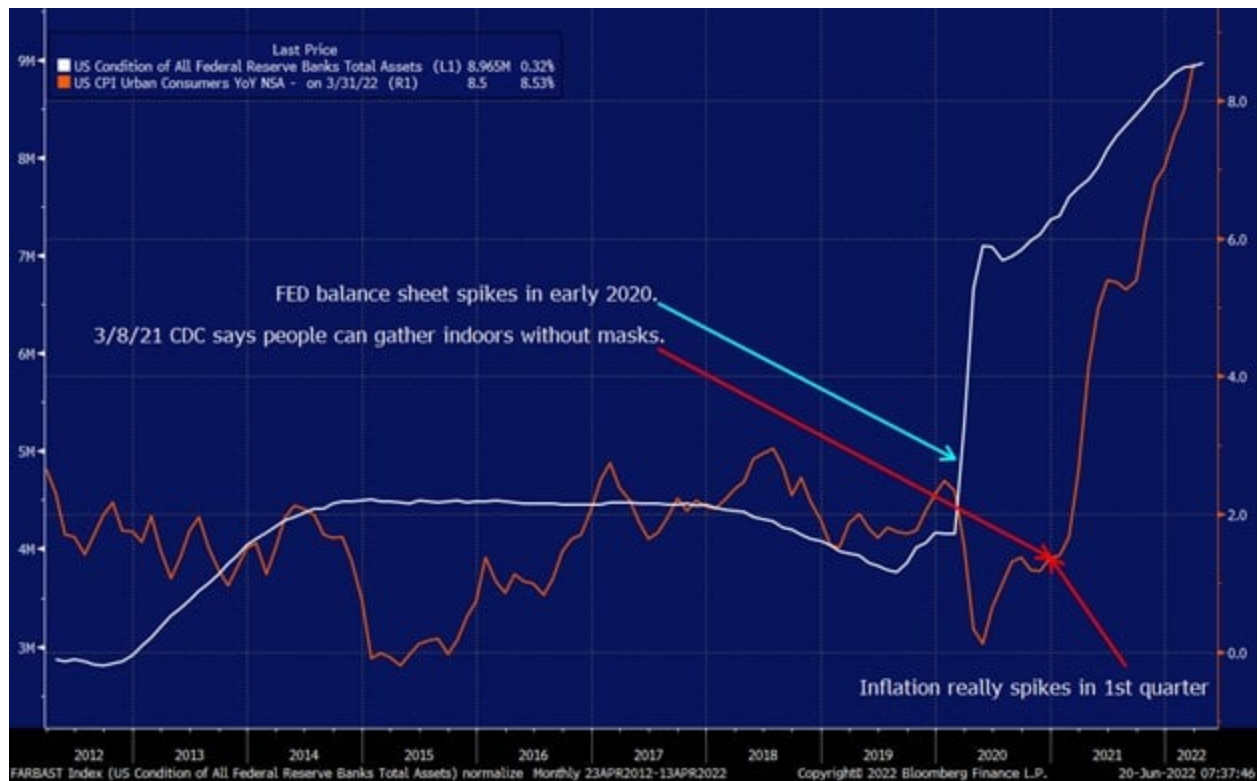
1. CPI remained in line until the very last Covid program, America Rescue Plan.
2. CPI only starts to ramp up after the 1st quarter of 2021
3. CPI was in full swing well before Russia invaded Ukraine



Price table provided at the bottom of this report.

The simplified chart below of just U.S. CPI and the FED Balance sheet shows the same thing as above. Inflation spiked once Covid restrictions were removed.

FED Balance Sheet, U.S. CPI

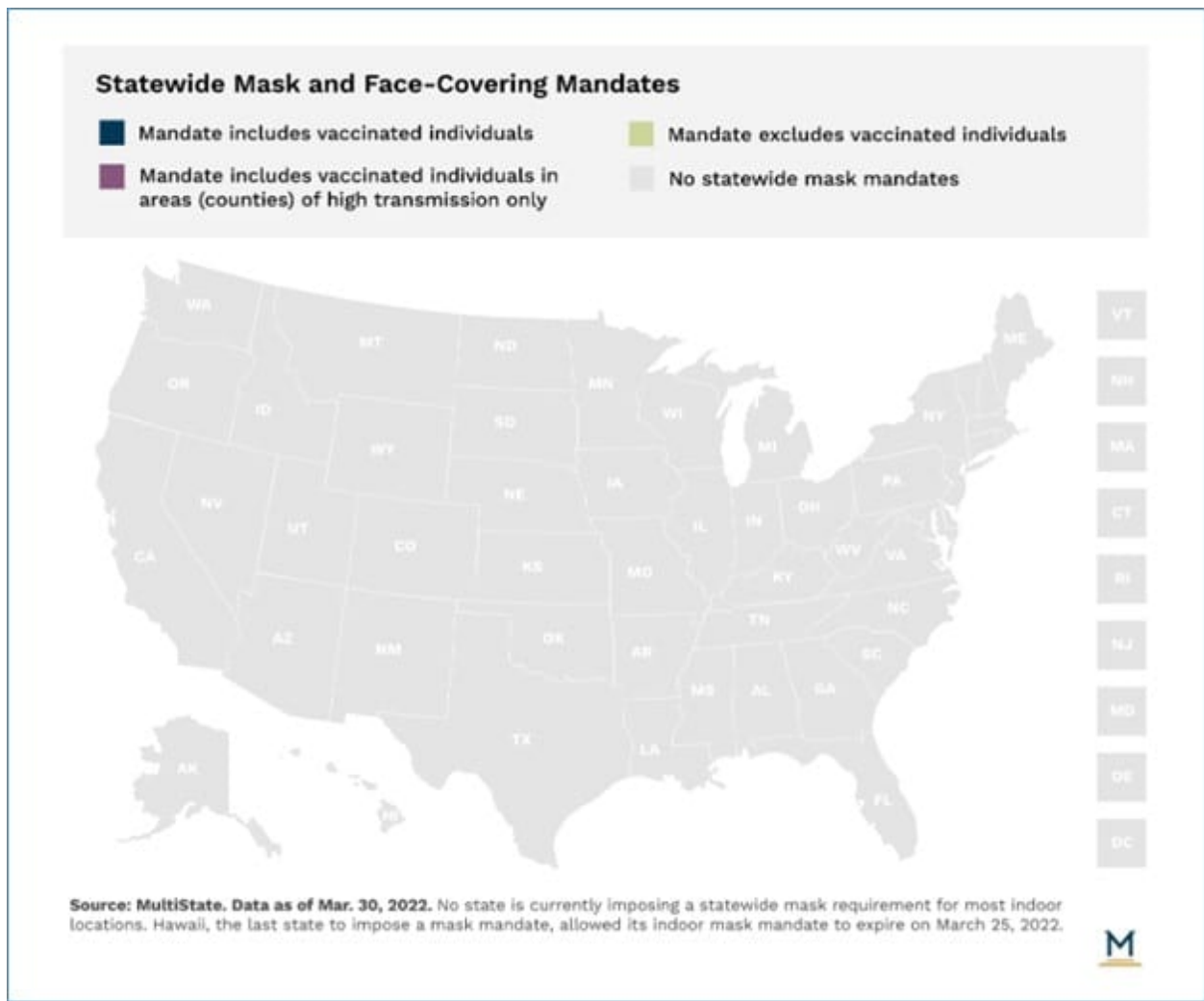


The chart below shows the CPI of the U.S. EU, Brazil, and India. It is obvious from this chart that the U.S. is not the only country experiencing inflation. In addition, other large countries have experienced much worse inflation. Not all countries enacted giant stimulus programs to counteract the effects of Covid and yet almost the entire world is experiencing a rapid rise in inflation.

The chart below also lists the various stages of the Pandemic and highlights that the moment that inflation took off coincides with the CDC fully relaxing mask mandates. This factor, more than any other, seems to align more closely with the start of the current inflation spike.

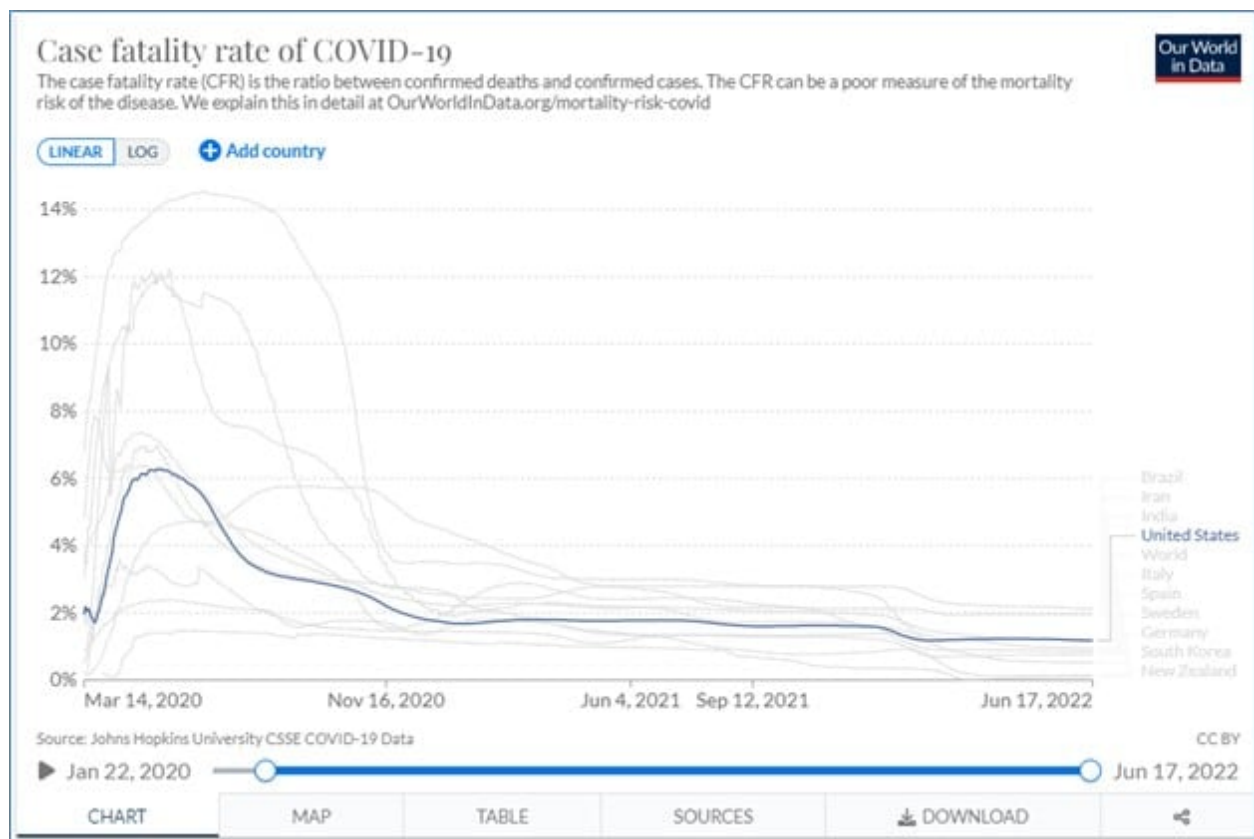


The map below shows that there are no longer any statewide mask mandates.



<https://www.multistate.us/issues/covid-19-policy-tracker>

The chart below shows that, although Covid cases continue, the fatality rate of Covid has plummeted, making travel and normal activity much safer. This allowed the Americans the freedom to travel, go out to eat, and spend.



<https://ourworldindata.org/mortality-risk-covid>

There is a lot of inflation blame to go around, but the U.S. government did what it needed to do to keep the economy on the rails, given what they knew in the early part of 2020. Also, Russia's invasion of Ukraine is a travesty and certainly has caused problems with energy and food supplies, but we have shown that inflation was already well-established prior to 2/24/22. U.S. stimulus, including education loan payment delays and forgiveness, a prohibition on evictions, and other programs, definitely increased the money supply and gave consumers the ammunition to buy. The timing of inflation, however, points to the removal of Covid mandates in March 2021 as the real catalyst for today's inflation.

Sources:

<https://www.bls.gov/cpi/>

<https://fred.stlouisfed.org/series/ASPUS>

<https://www.pgpf.org/blog/2021/03/what-to-know-about-all-three-rounds-of-coronavirus-stimulus-checks>

<https://www.sba.gov/funding-programs/loans/covid-19-relief-options/paycheck-protection-program/first-draw-ppp-loan>