



James R. Derrick, CFA, MBA
Chief Investment Strategist

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ViewPoint

Low Inflation Hurts Too

Most people would agree that rising prices are not good for their financial health. We have also discussed the risks of falling prices to an economy as well. **Economists believe low increases in prices are ideal because they provide stability and an incentive to spend. However, there are drawbacks to low inflation too.**

Back in the 1980s when inflation reached 13 percent, the Federal Reserve considered inflation a major risk. Its major tool to fight inflation was raising its own rates. **One result was that the interest you could receive was also in the double digits. Money appeared to be growing fast.**




Today's inflation rate is just over 2 percent. The Federal Reserve is trying to stimulate the economy and is keeping rates near zero. This keeps interest rate options low for savers.

In other words, when the Federal Reserve wants to slow things down, it will help push interest rates above the rate of rising prices. When it wants to stimulate the economy, it will keep rates near or below the rate of inflation.

In the 1980s, many workers were receiving pay raises according to the cost of living increases. **Now the job market is soft and employees have less ability to negotiate. Most federal employees will have a pay freeze this year. Social Security recipients will go at least two years without a benefit increase.**

If you roll your eyes at the mention of the benefits of low inflation, you are not alone. Even historically low inflation may seem high. **Its impact can be damaging financially, especially if you have a lot of medical or educational expenses where prices have risen much faster than other areas.**

The Federal Reserve anticipates inflation to be around 2 percent this year. While there may not be a perfect scenario, **low interest rates still favor a growing economy, which is good for investors.** Of course, there are no guarantees. 

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420 East South Temple Suite 420 P.O. Box 4133 Salt Lake City, Utah 84110-4133
(801) 355-8888 (800) 748-4788 E-mail: info@SmedleyFinancial.com

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