Regions Insights Podcast

Episode 2: Your Essential Inflation Outlook

In 2022 and 2023 inflation was the headline-grabbing superstar of the financial world. Episode 2 of The Regions Insights Podcast's new series tackles the past, present, and future of this economic trend. Leading the charge is Bryan Koepp, a wealth planning executive from Regions, and joining him is Omair Sharif, the mind behind Inflation Insights, an inflation forecasting consultancy.

Episode Transcript

Chris Blose: If one economic trend represented the year 2022, it was almost certainly inflation. You couldn't go into a grocery store without seeing inflation's effects on every shelf. You couldn't fill up a car without feeling a little pain. You couldn't watch or read the news without coming across a story that mentioned inflation.

But where does inflation stand today — and what does it mean for individuals and businesses? That's the topic for today's episode of The Regions Insights Podcast, where we look at trends, tips and triumphs around your money.

I'm your host, Chris Blose, and we have two guests today here to help us answer that question. We can't always predict the future, but Omair Sharif, an economist and founder and president of the analytics and research firm Inflation Insights, and Bryan Koepp, a wealth planning executive at Regions Private Wealth Management, will help us make sense of what's happening now.

Koepp leads the wealth planning practice at Regions and also leads corporate advisory outreach with corporate and commercial bankers. Given the concerns of his clients, he's been watching inflation closely.

Bryan Keopp, wealth planning executive at Regions:

There's no doubt that inflation has become a top priority issue amongst clients. I think that prior to 2022, it was really, in essence, a non-existent issue. Beginning in 2022, what we really saw was what I would call, you know, a traditional inflation effect. And what that would be is the impact that you would see, really across the board in regards to products and services.

Bryan Keopp:

And there's no doubt that we saw that peak midyear last year. And what we've seen is, what I would say, statistically and academically, a decrease in both the consumer price index and also the personal consumption expenditure index, which are really the two key measurements for inflation. There's been, however, a lag in regards to what clients and, in essence, consumers have seen in regards to the goods and services that they currently want to purchase and need.

Chris Bose: The concerns around traditional inflation have been hitting consumers and companies alike, Bryan explains. I wanted to find out more about how inflation is affecting businesses in particular, so I asked Bryan, when a business owner is considering input production costs, pricing strategies and profit margins, how does an inflationary period change the way they should think about planning?

Bryan Keopp:

I think we can align the answer, really, like looking through the eyes of whether it's personal cashflow or business cashflow. Inflation impacts cashflow. And when it does that, it affects the subsequent decision making that a business owner or a personal consumer's gonna make in regards to what they're ultimately going to do. When I think about business owners, immediately what comes to mind are things such as equipment and rent, leasing costs and utilities and transportation. These are things that directly impact operations and are going to subsequently impact decision making in regards to how we move forward, because those are the essentials. So, this raises questions then about, for example, if I'm a business owner, do I need to change materials to soften the cashflow brand if I stay the course of what I'm currently using? Or, for example, if I have a marketing campaign and I'm on multiple media outlets, do I need to bring that back to utilize those savings, to make sure that the quality of my product stays where it needs to be? So invariably, again, I think it's always great to think about inflation and ultimately whatever the quote unquote statistical number is, is the impact on actual cashflow. And every business is different in regards to where they stand on that issue.

Chris Blose:

How does inflation affect that purchasing power? And how are businesses thinking about the behavior of their actual consumers as well during an inflationary period?

Bryan Keopp:

Well, when you're thinking about it from a business perspective, ultimately when the cost of services go up, you have the choice of either absorbing that cost or raising prices. And what we saw really at the beginning of 2022, specifically with businesses that had deeper cash reserves, in essence, a better cash balance sheet, which means obviously more cash margin, they held in there for a while in regards to do we increase prices or not. But then what we saw as we got to mid 2022 and then since then is that prices had to increase. Subsequently then you also had these other phenomena that you've probably read about in the media, things such as shrinkflation, which is, hey, we're gonna keep the price of a product the same, but we're just gonna reduce the size of it.

Bryan Keopp:

So I always like to think about the cookie tray or the ice cream container that, you know, maybe it was a 40 ounce container of ice cream. Now it's 32 ounces and we're gonna charge the same, but the consumer's getting less. Okay. The other now that we're seeing and is the question of greedflation. If, statistically, inflation is reducing, are vendors keeping prices higher to simply make back some of those subsequent cash surplus or reserves that they lost in 2022 in the beginning of 2023? I can't really answer that question to a certainty, but what I can say though is, is that in different industries and different businesses, they're gonna handle that in a different way. Businesses do have a responsibility, at least publicly traded ones, to their shareholders and to their employees. And so I would venture to say that, yeah, it would make business sense that there may be a recoup of, of subsequent prices as inflation begins to come down and subside. But nevertheless, I think that actual price reduction is always a trail. So, a number of different thoughts and theories out there makes the world very, very interesting. I think at the end of the day, strong businesses will be able to navigate this question as they have many in the past.

Chris Blose:

you brought up this notion that, you know, goods and services are not all equivalents, they're not all quite the same. So, are there specific areas where inflation is maybe hitting an industry harder or hitting a consumer's pocket, but harder than others? And how does that affect, you know, purchasing behavior?

Bryan Keopp:

So, here's what I would tell you in regards to consumers and where inflation is hitting them the hardest. I think it's on the essentials, and those would be things such as food, shelter, and housing, utilities and energy. And the reason that's the case is because those are the fundamental things or items that really a consumer needs to really, in essence, live and kind of navigate the world that we live in.

Chris Blose:

I'm curious too, none of this exists in a vacuum. So how does this current environment influence the decisions that investors are making or how they view risk-taking behavior?

Bryan Keopp:

Wow, that is the question of 2022 and 2023 to say the least. It really is an investor-by-investor question. But let's go back to the commonality. And the commonality is what is your cash flow? What is the purpose of that cash flow? And ultimately then what is the purpose of the investment strategy in conjunction with the phase of life that you're in? We had a number of retirees that came out of Covid and said, “You know what? I'm moving on with the next phase of my life,” and now we have an inflationary cycle. They're in one phase of life in regards to needing their subsequent portfolios to generate income and in respect that's gonna be handled one way versus let’s say somebody who, let's just say, millennial, who's just started out with their careers in the next steps of their career, and they're really in a building phase.

Bryan Keopp:

And so what we're talking about here is, you know: income is important in regards to the necessities, but in regards to the portfolio itself, it's about growth right now and thinking about where they want to be in 5, 10, 15 years. So I think on a very elementary level, you have that differential. A reminder though is that not all inflation is bad. And so for those retirees, remember that social security, if indeed you're taking social security, and there's a number of retirees with different retirement ages regarding that government benefit, because social security is tied to the consumer price index, 2023 resulted in the largest increase in social security benefits in the last 40 years, which was 8.7%. That's obviously not gonna happen next year at the same level and frequency, but nevertheless, that's a cashflow impact from a positive perspective for retirees that maybe asking the question of saying, “Hey, did I retire, quote unquote at the wrong time?”

Bryan Keopp:

So, in looking at inflation in a vacuum, Chris, I think the mistake there is that you miss all the subsequent mitigating factors in regards to the big picture. And so, in essence then, what we always recommend, what I recommend personally, is to stress test various scenarios. And that's easily done in a wealth plan with various inflation models to determine, "Hey, what is the potential impact and outcome?" And that's the beauty and art of wealth planning is to be able to hypothesize regarding what potentially could happen to see what the perspective effect is, outcomes to be determined, but really in essence, what is the effect of the mitigating factor that we're talking about?

Chris Blose:

I'm curious too, you know, within the actual portfolio, within an individual's investments, are there specific asset classes that are more or less affected by inflation? And in turn, are you looking at how you put together an entire portfolio a little differently in a period like this?

Bryan Keopp:

Yes. And so one would say the best thing to invest in right now is fine wine and art. But, I wouldn't necessarily recommend that in regards to a significant part of your portfolio. So what would be really prudent to do would be to say, okay, if we took a portion of a portfolio and we hedged where inflation may or may not go, that gives a client or an investor the best chance of success.

So, I think you always have to ask the key question of what are the costs of acquisition and does it outweigh the benefit of the hedge?

I think the other thing with alternatives to think about too is sometimes they're highly illiquid, so it does expose you to a different type of risk. And so that needs to be measured with all the other subsequent risk management issues that go into an investment portfolio. I think to solve for income, one of the things that somebody can always think about and take into account is dividend paying equities. Sure, there's risk in the equity markets and the equity markets have been extremely volatile, but if you have a strong paying dividend stock or stocks, what that's gonna allow to have happen is taxation at dividend tax rates, which is really significant because it's one of the lowest forms of taxation you can pay on income distributions.

Bryan Keopp:

And so, as you can see, the hedge becomes micro hedges, and that's why a full discussion with your portfolio manager, with your planner, is essential to get that sequencing right in regards to volatility growth.

Chris Blose:

The other aspect of this, aside from investment is kind of, borrowing and lending, and I'm curious how both for individuals and for businesses who are maybe looking to grow or maintain their current status, how does an inflationary period affect typical borrowing and lending activities?

Bryan Keopp:

Well, first of all, if you have a fixed rate loan lending situation prior to inflation taking off in 2022, a really strong wealth planning principle would be to keep it. So, number one, I think that there is a lot of moral benefit in living debt free, but what we also see with clients who attain, master and procure wealth is their mastery in regards to leveraging credit at the right times. And so for people that were able to lock in a fixed rate mortgage in the twos or the threes or the fours, and now you're in a higher interest rate environment, simply put, that's golden and you preserve that strategy and you build around it. I think that obviously with interest rates increasing, which happens from a policy perspective when we have higher inflationary times, is that the priority for borrowing for business owners and individuals alike, changes.

Bryan Keopp:

And so you begin to look at more, is it essential versus is it, in essence, the best leverage? And that makes a lot of sense because the cost of capital increases. So that goes to really, prioritization again and, and saying, okay, if it's a business project, does it make sense to expand at this time? If so, how are we gonna do it? What is the plan to work through that? What's the exit strategy? Same thing personally, if I'm going to take out a loan right now, whether it's for real estate to improve my home, maybe it's some other type of lending opportunity for investment purposes. What is the cost of that capital and what's the impact to my personal balance sheet?

Chris Blose:

How do people that you work with, investment clients, or the field in general, how do people tend to react to events like bank failures that occurred, I think in March, you mentioned, of this year? How does that affect the larger landscape?

Bryan Keopp:

Well I think that, there's no doubt that we live in a, in a very, what I'd call fast news cycle. And, invariably, news will break and we need to wait for the facts to come in to ensure accuracy in regards to what is out there. And I'm human just like everybody else. There's emotion that immediately rises when you hear news, positive, negative, or even indifferent. So the main thing that we need to do is we need to step back. We need to look at the facts, we need to take a deep breath. And then what we need to focus on, fundamentally, the things that we can control, letting go of the things that we can't, but planning around the things that we can.

Bryan Keopp:

And the great news there is, there's so many things that we can do. We're not necessarily at the mercy of the financial news of the day. So we can control what goes into a portfolio, we can control what we discretionarily spend around the fundamental things. So we get back to things such as food, shelter, housing, utilities, and energy. We can even make small decisions there. We can live, we can prioritize based upon what's important to us. We have free will to make that decision and live with the subsequent ramifications of that decision. And when it doesn't shake out the way that we want it to in regards to outcome, what we can then do is refocus and repurpose and determine what's next.

Bryan Keopp:

That's the beauty in the art of planning. And that's what I'd encourage all of our listeners to do today, is that, you know, it's an accumulation of decisions. It's not one decision per sé, in a vacuum, that changes the entire Rubicon. It's combinations of decisions. And when we have a decision that’s made, maybe a startup didn't pan out the way that we wanted it to, or, you know, we timed something at the wrong time. Which, by the way, timing of the market and timing of the sale of businesses is impossible. Let's look at that decision. Then let's move on. Because living in the past regarding one decision puts the next three at risk. And I believe that's how you artfully navigate, you know, financial times as we've dealt with, which, you know, some of it’s expected, some of it's not, but it's, in essence, to really stay focused on priorities, what I wanna accomplish, the things that I can do to better that potential probability.

Bryan Keopp:

And, again, however you wanna think about it, if it's getting 1% better each and every week towards financial freedom and financial purpose, make that your mantra to get to where you need to be.

Chris Blose:

Now, Brian I'm not gonna ask you to forecast with a hundred percent accuracy, cuz I know that's impossible. But, you know, given where we are, and given that you, you talk about how important planning and being able to react and adapt is, are there any trends that you see coming with inflation here in the next year or so that people ought watch for?

Bryan Keopp:

Yeah, I do, and you know, forecasting is a great thing by the way because, when we get the forecasting right, we're prepared and so I'm a weather channel junkie like a lot of you out there, especially this time of year. So, what I would say is this: There's no doubt in my mind that the Fed has made the decision that they ultimately want inflation down. And so what I would say is expect the Fed to make decisions based upon that premise.

Bryan Keopp:

So I think we can build around that. Would we expect that interest rates could go up? Maybe. But I think that the majority of that's been done, and I think that's what a lot of people in the financial industry have thought as well. Does that necessarily mean that the deflationary cycle's on its way? Not necessarily. I do believe that invariably, we've seen a peak and we're gonna continue to see a sloping downward to get towards that two and a half percent as the Fed has wanted to get to.

Bryan Keopp:

And that's their forecasting, and they're gonna accomplish what they need to accomplish to get there. I think you do have some mitigating factors. You do have some geopolitical events right now, which may throw a curve ball into the global economy and the US economy that we're keeping around, obviously Ukraine and then other global affairs. I think, you know, you get to the question of, of things such as energy cost and the Middle East and supply demand. But again, these are things that we've navigated for periods of time.

Bryan Keopp:

I would also say too is that we're entering a very strong political time in the United States, in regards to the fact that the presidential election season's already kicked off, and the preliminaries will be out with the primaries for both the Democrat and Republican parties. So, in that respect I wouldn't expect a lot from a legislative purpose over the next 12 to 18 months. So with that provides certainty in regards to the tax rules that we play by. So those are all intangibles that kind of go into the question of where are we headed? And I think that, my feeling would be is: a plateau and then hopefully in a number of months that we're on the downward slope, a little bit more steep and we have inflationary relief.

Chris Blose:

Thank you to Bryan for the helpful insight on where inflation stands now for businesses and consumers — and where it might be headed in the near future.

We also want a broader view of how inflation is affecting the economy as a whole, so we spoke with with economic analyst, Omair Sharif. In his work at Inflation Insights, he's been watching inflation closely as well, from the rising food prices in the early days of the pandemic to increases in prices on consumer goods like furniture or used cars. Now, he says, things look different:

Omair Sharif, economist and founder and president of the analytics and research firm Inflation Insights:
You know, more recently, the last I would say four to five months, we've finally seen a little bit more of what I would say is a broad-based deceleration of inflation. So, you see it now, at grocery stores, for example. Grocery store inflation had peaked at almost 13% last summer. It's still quite high at around 6% but we've, you know, almost cut it in half in the last year. Energy prices have stabilized much more. And when you look at the rest of the basket, goods inflation has started to come down. It's been effectively close to 0 outside of used car prices the last couple of months. And we're finally I think at sort of the leading edge right now of a more broad based deceleration over the next three four months

Chris Blose:
So, Omair and others who watch the numbers are seeing relief when it comes to goods. But I also asked him about services, an area that has also seen major inflation. Where does he see that affecting the economy the most?

Omair Sharif:
So, you know travel's a good place to start. Airfares are down the last couple of months and the consumer price index are likely to drop further this summer as well. And hotel rates, very similarly, car rental prices, all of that stuff has finally started to move down. We're starting to see things like, you know, auto repair which has been a big driver of inflation as well. That's also finally starting to cool off. A lot of things like, you know, movie tickets, sport tickets, sporting events, these sorts of things really took off when people, when we kind of had the reopening in early 2022.

Omair Sharif:
People were going back to the ballpark they were going to concerts they were going to movies that led to a big increase in those prices and those prices have finally begun to settle down in

terms of their growth rate as well. So, I think we are going to start to see more and more relief. The federal reserve likes to watch this metric that they call the super core and so core inflation is just everything excluding food and energy prices. The super core is just looking at services excluding the shelter cost and, yeah, the last two months it's averaged annualized growth of, you know, around 2% which is where you would like to see it, so it has started to come down I think it's going to continue to be soft over the next few months. It's still a bit early but I expect that we'll see more of this services disinflation over the course of this summer.

Chris Blose:
Now I'm curious about the perspective of a business owner during this period. You know they may have been reading the news and they may not necessarily have caught up with that information about lag and really have a true understanding of where their input costs are now. Yeah, what would you say to a business owner about how to think about their inputs right now and where inflation stands.

Omair Sharif:
I can say this since I run my own business as well, your input costs are pretty front and center. So you're pretty well aware. You know labor costs, your employees' wages, all of that. Those costs have, in some areas, clearly begun to moderate. If you are in the business of, you know, manufacturing or shipping goods whether it's importing goods from overseas or just shipping them across the country and that by the way covers, you know, obviously a broad swath of industries, everything from food manufacturing to, you know, furniture retailing you're moving goods around the world and around the US by truck. We know that freight costs have declined tremendously, shipping costs, so for example, one of the metrics we like to watch is, you know, "What is the cost of shipping a container from China to Los Angeles?"

Omair Sharif:
And domestically those costs are, to some extent, starting to decelerate. We're still seeing wage growth, overall in the US right now, running around 4 to 5% depending on what sort of measure you want to look at, but we are down from around the 6 to 8% type numbers we had last year. So still increasing, by just increasing at a somewhat slower rate. So, a bit of relief on that front and I think more importantly, one of the big issues that companies we're facing was not having enough workers. You saw the job openings numbers were historic highs last year, they have started to come down. We've seen the pace of hiring slow down as well.

Omair Sharif:

And you're hearing more and more from companies that feel more right size today in terms of how many people are working for them than they did last year when they were scrambling to try to hire people, so to some extent that's, you know, also encouraging news that's I think helped to lead to some slower wage growth which is sort of what the Fed wants to see to help tamp down inflation. But you know in other areas we still don't have a lot of relief. So think about insurance costs, for example, are still skyrocketing. If you're trying to insure your, you know, fleet of trucks or vehicles, auto insurance costs are through the roof right now, they're up almost close to 20% year over year right now. So some relief in certain areas on input costs, others, looks like they're not going to get much in the way of relief until perhaps next year.

Chris Blose:
And what hypothetically would it take to get relief and insurance costs, for example?

Omair Sharif:
Well they need to stop losing money first of all, I mean, that's their biggest problem right now. You look at, auto insurance, for example, the auto insurance arms of these big property and casualty insurers, some of them lost a significant amount of money last year and part of the reason for that was the cost of used cars jumped almost 45% last year so they were essentially replacing vehicles. If you think about it, more and more people were back on the road right during the reopening so more accidents, cars that are much more expensive to replace. Health insurance costs related to accident coverage as well. Those costs are up, so they were losing a ton of money. Because all of the costs that you're insuring against, were rising, and so as the number of accidents went up and severity of loss also went up. They suddenly started losing a ton of money so they have very consistently since this past you know last summer boosted auto insurance costs by about, roughly on average, one and a half percent each month.

Chris Blose:
I'm curious too. We tend to talk about inflation in terms of negatives and getting relief for example, but are there any sectors or categories that actually benefited from the acceleration of inflation in 2022?

Omair Sharif:
I think ultimately depends on how you want to look at it in terms of if you're the consumer or the producer. Because if you're the producer, then yes, your input costs went up a lot, but a lot of producers also charged well above the increase in their in book calls. So you know we've seen profit margins rise across the board. In 2022, you know, if you think about goods categories, whether it was automakers, the retailers who were selling the cars, furniture

retailers, apparel retailers, home appliance retailers. The prices they charge to sell their product to the stores went up by much more than their own input costs, which is why you saw profit margins increase, so in that sense for them, inflation was probably a good thing in that they were more than able to pass on their cost to the end user. From the consumer's point of view, obviously you prefer an inflation rate closer to 0 or even 2 and three quarters two percent which is where we were in 2019. Consumer side, there's really no good sort of inflation. But I think from the producer side, they benefited pretty dramatically.

Chris Blose:
So I know you're perpetually looking at new sets of numbers and they're always changing but what do you see coming in inflation in the next year or so?

Omair Sharif:
I think the next three four months we're in for some pretty good news. A run rate that is way way closer to you know, sort of the 2% to two and a half percent rate that the federal reserve is ultimately aiming for. Later this year though I think we might get a little bit of a pop where and into early q one where that run rate goes from two and a half percent to something that's more like 3 to three and a half.

Omair Sharif:
So I think later this year in the q four and q 1 of next year there might be a little bit of pop. But I think more broadly, this is probably the most confidence I would say I have had in terms of feeling that inflation is going to sustainably go lower from here because you know some of the things we talked about, the lower shipping cost, lower commodity costs, including for oil and diesel, softening wage growth. a labor market that is going from white hot to just hot. All of those things are pointing in the right direction and sort of pushing in the direction of inflation being sustainably lower and obviously supply chains as well. We're in a drastically better situation today economy-wide…

Omair Sharif:
…Than we were eighteen months ago in terms of the supply situation. You also see overseas. You know, we import a lot of goods obviously from China, well China's prices in terms of their factory prices have been falling and are negative year over year. So, we're sort of importing some disinflation from overseas as well. In terms of all the goods that we buy, so really, everything is sort of pointing in the direction of more sustainable relief coming on the inflation front. So I think I could sit here and look out over the next year and say we're going to see a continued deceleration of core inflation and the reason I sort of talk about core a little bit more

is that I think number one that's just something that the fed pays more attention to than the headline partly because energy prices of course do tend to be so volatile. But I think you know at this point if we look out to let's say next summer, I have a reasonable degree of confidence that we'll be below 3% on core inflation, But it doesn't mean that it's a straight line down from here, I think there's going to be some bumps along the road especially late this year to the start of next year but I would expect that path to continue to a lower inflation trajectory that is...

Omair Sharif:
…much much closer to what the fed would like to see.

Chris Blose:
A lot of our listeners will be, potentially, business owners or people who are making decisions at businesses and they may want to be able to get a better grip on the complexities of inflation. Ah, what do you recommend for somebody to keep up with trends and to just kind of stay ahead of this topic?

Omair Sharif:
You know, there's a few things you can look at, I think that the best resource is the bureau of labor statistics, the BLS. Obviously the big one is the monthly consumer price index report which is available from the bureau of labor statistics website. But if you go to their pages on CPI.

Omair Sharif:
If you're interested in learning more about how they come up with the price for used cars each month there's a section on there that has fact sheets for a lot of indexes so you can actually go in and read about the methodology, read about what the source data is, there's an entire handbook. The CPI that you can read to figure out how they come up with these things, if you're interested in the trends they oftentimes will publish, you know, information usually every week on. There's some other ones, monthly labor review. They'll oftentimes publish these sorts of things to give people a sense of, you know, trends and so on in different parts of the consumer basket. The Atlanta Federal Reserve also has what they call an inflation dashboard so you can go to their website and they have a whole host of different inflation statistics that are listed there and you can sort of create your own charts of food prices and energy prices, gasoline, so on. So that's a really good resource and of course the Cleveland Federal Reserve as well has an entire inflation section as well with research and data and other things that you can look at to kind of brush up on what's happening…

Omair Sharif:
…To the inflation market but I would say ultimately the BLS is probably the best spot to go to and sort of get educated about it and get a sense of, you know,how things are sort of shaping up.

Chris Blose:
Well thank you so much for joining us today Omair, we really appreciate your perspective.

Omair Sharif:
Thanks for having me.

Chris Blose: We won't hold either of today's guests 100 percent to their inflation forecasts, but individuals and business owners might take heart from the observation that both Bryan Koepp and Omair Shariff think inflation relief is in sight — and already here in some cases.

Thanks to both of our guests for sharing their perspective today, and for the additional recommendations for staying on top of inflation trends. And thank you for listening.

If you want to learn more and listen to future episodes of The Regions Insights Podcast, check out URL TK

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