

October 31, 2022

To: Members of the MDP Class of 2022-2023

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## Understanding Inflation

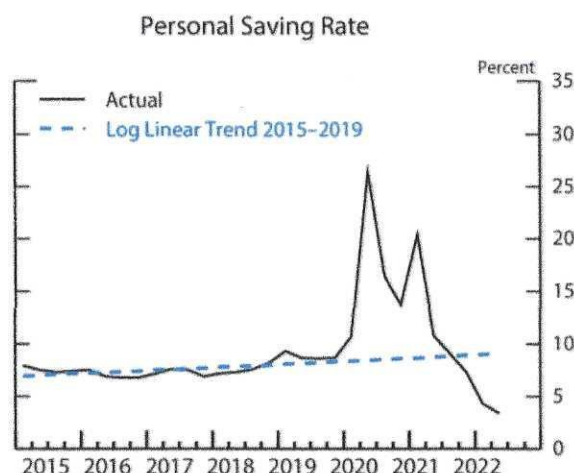
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Ladies and Gentlemen:

Here is a good summary and graph of the current economic situation:

*From: TN Bankers Association, October 31, 2022*

### Fed Analysis: Pandemic Savings Boom Could be Fueling Inflation



Source: Bureau of Economic Analysis, authors' calculations.

A dramatic increase in the rate of personal savings during the COVID-19 pandemic—driven in part by federal stimulus—may have contributed to persistently high inflation amid constrained supply, according to an economic analysis published recently by Federal Reserve staff. The authors estimated that U.S. households accumulated far greater savings than they would have if income and spending components had grown at pre-pandemic levels. They also concluded that since last year, households have decumulated about one-quarter of these excess savings.

Excess savings by those in the lower half of income distribution has been used to pay down debt, invest in equity and other financial assets or as a down payment for buying a home, instead of keeping them as liquid assets. Households in the top half of income distribution hold the vast majority of excess savings, but their savings are likely contributing to higher levels of spending, the report said.