



TFA

Monthly Newsletter

December 2015

IN THE NEWS

Inflation – Should We Care?

by Kristi Jackson

By most economists' and Fed-watchers' accounts, the Fed is set to raise the benchmark federal funds rate at its next meeting in December. Given all of the carefully worded statements that have been published in the past several months, this is the most anticipated Fed action in recent memory. The Fed has announced that it is watching two key rates – unemployment and inflation – if they move beyond the Fed's target levels, it will act and raise the interest rate.

So, with unemployment steadily dropping and inflation at the stated 2% target, most expect the Fed to increase the rate by at least 0.25% at the December meeting. Of course, nothing is

certain until it's done –an exogenous event or some disappointing data can change this course, but as of this writing, all systems appear to be a go.

What does this do? A rise in the key interest rate is a tool that the Fed uses to keep inflation low. It is using monetary policy to control spending in the economy. It's pretty simple actually - if interest rates are higher, it costs more to borrow money, and we spend less. Less spending decreases pressure to raise prices as demand is somewhat dampened. Congress can also act to limit inflation, but its actions take much longer to process through the system and then the economy. Congress can use fiscal policies – raising

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California's Indian Gaming Reaches \$7 Billion Again

10/31/15 – ICTMN.com

Land Transfer Unites Political Foes

11/06/15 – UnionDemocrat.com

Judge Rules Tribe Gave Up Rights to Build Casino in Aquinnah

11/19/15 – VineyardGazette.com

TRLPC: Cowlitz Boosts Pricing on US\$380 Million Term Loan

11/19/15 – Reuters.com

Sault Tribe Pushes for Passage of Tribal Labor Sovereignty Act

11/24/15 – Indianz.com

New Deal with Madera County Brings Chukchansi Hotel Casino Closer to Reopening

11/25/15 – FresnoBee.com

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taxes and decreasing government spending – to have some similar effects on the economy. However, given how long Congress takes to act – the fiscal policy alternatives don't seem viable for quick results.

The Fed and other policy makers are concerned about the effects of rapid inflation. Why should consumers and businesses really care? Here are a few areas of concern:

1. Inflation erodes consumers' purchasing power – as wages tend to be "sticky", it takes longer for workers' wages to increase than the pace of most price increases.
2. Savers and investors tend to lose out – if the return you earn on your money is less than inflation, you will end up with less "real dollar" purchasing power. Those that invested dollars in prior lower-inflationary periods spent relatively more of

their resources for the same item.

3. Globally, if US inflation is higher than other countries' inflation rates, demand for our exports may fall – businesses with goods and services for sale overseas can see marked drops in sales.
4. Rising interest rates directly affect the interest expense for borrowers with variable rate loans – profit margins can be squeezed not only as top line sales can fall and operating costs themselves rise, but the

added effect of higher interest expense can erode much of a company's profit.

What can you do? Forecasting becomes much more important in times of economic change. Focus on conservative financial models that utilize realistic growth and margin forecasts. On the interest rate side itself, consult an expert on how your exposure to interest rates can be mitigated or hedged. There is no need for panic – but inflation is something to be focused on – it will effect everyone.



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