

# Managing Inflation As A Small Business

**The Past:** Learning from History

**The Present:** Inflation & the  
Federal Reserve

**The Future:** What you can do



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# US Inflation Rate by Year From 1929 to 2023

How Bad Is Inflation? Past, Present, Future.

<https://www.thebalance.com/u-s-inflation-rate-history-by-year-and-forecast-3306093> Updated May 17, 2022

The U.S. inflation rate by year is the percentage of change in product and service prices from one year to the next, or "[year-over-year](#)."

The inflation rate responds to each phase of the business cycle. That's the natural rise and fall of economic growth that occurs over time. The cycle corresponds to the highs and lows of a nation's [gross domestic product](#) (GDP), which measures all goods and services produced in the country.

## Key Takeaways

- The U.S. inflation rate by year reflects how much prices change year-over-year.
- Year-over-year inflation rates give a clearer picture of price changes than annual average inflation.
- The Federal Reserve uses monetary policy to achieve its target rate of 2% inflation.
- In 2022 in the wake of the COVID-19 pandemic, inflation reached 8.5%, its highest rate since 1982.

## Business Cycle: Expansion and Peak

The business cycle runs in four phases. The first phase is the expansion phase. This is when economic growth is positive, with a healthy 2% rate of inflation. The Federal Reserve ("the Fed") considers this an acceptable rate of inflation.<sup>1</sup> On August 27, 2020, the Fed announced that it would allow a target inflation rate of more than 2% if that will help ensure maximum employment. It still seeks a 2% inflation over time but is willing to allow higher rates if inflation has been low for a while.<sup>2</sup>

As the economy expands past a 3% rate of growth, it can create an [asset bubble](#). That's when the market value of an asset increases more rapidly than its underlying real value.

The second phase of the cycle is known as the "peak." This is the time when expansion ends and contraction begins.

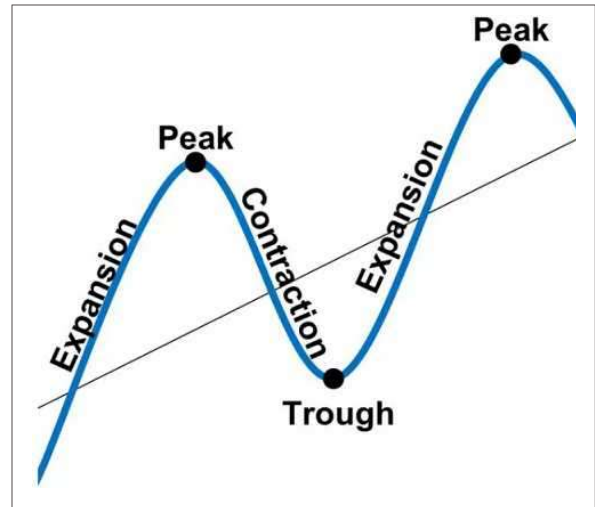
## Business Cycle: Contraction and Trough

As the market resists any higher prices, a decline begins. This is the beginning of the third, or [contraction](#), phase. The growth rate turns negative. If it lasts long enough, it can create a recession.

During a recession, deflation can occur. That's a decrease in the prices of goods and services. It can often be more dangerous than inflation.

As the economy continues its downward trend, it reaches the lowest level possible for the circumstances. This trough is the fourth phase, where contraction ends and economic expansion begins. The rate of inflation begins to increase again, and the cycle repeats.

During recessions and troughs, the Fed uses monetary policy to control inflation, deflation, and disinflation.



### The Effect of Monetary Policy

The Fed focuses on the [core inflation rate](#), which excludes gas and food prices. These volatile prices change from month to month, hiding underlying inflation trends.

The Fed sets a target inflation rate of 2%. If the core rate rises much above that, the Fed will execute a contractionary monetary policy. For example, at the May 2022 Federal Open Market Committee (FOMC) meeting, the Fed decided to raise the federal funds rate for the second time this year, this time by 0.50%, pushing the target range from 0.25%-0.50% to 0.75%-1.00%.<sup>3</sup> It will increase the federal funds rate, which is the interest rate when banks lend to each other overnight. Historically, this action reduces demand and pushes inflation lower.

The Fed can also lower the federal discount rate, which makes it cheaper to borrow money from the Fed itself. This is an attempt to increase demand and raise prices.

Other tools that the Fed uses are:

- Reserve requirements (the amount banks hold in reserves)
- Open market operations (buying or selling U.S. securities from member banks)
- Reserve interest (paying interest on excess reserves)

## U.S. Inflation Rate History and Forecast

The best way to compare inflation rates is to use the end-of-year [consumer price index](#) (CPI), which creates an image of a specific point in time.

The table below compares the inflation rate (December end-of-year) with the fed funds rate, the phase of the business cycle, and the significant events influencing inflation. A more detailed forecast is in the [U.S. Economic Outlook](#).

Year	Inflation Rate YOY <sup>5</sup>	Fed Funds Rate* <sup>6</sup>	Business Cycle (GDP Growth) <sup>78</sup>	Events Affecting Inflation <sup>9</sup>
1929	0.6%	NA	August peak	Market crash
1930	-6.4%	NA	Contraction (-8.5%)	Smoot-Hawley
1931	-9.3%	NA	Contraction (-6.4%)	Dust Bowl
1932	-10.3%	NA	Contraction (-12.9%)	Hoover tax hikes
1933	0.8%	NA	Contraction ended in March (-1.2%)	FDR's New Deal
1934	1.5%	NA	Expansion (10.8%)	U.S. debt rose
1935	3.0%	NA	Expansion (8.9%)	Social Security
1936	1.4%	NA	Expansion (12.9%)	FDR tax hikes
1937	2.9%	NA	Expansion peaked in May (5.1%)	Depression resumes
1938	-2.8%	NA	Contraction ended in June (-3.3%)	Depression ended
1939	0.0%	NA	Expansion (8.0%)	Dust Bowl ended
1940	0.7%	NA	Expansion (8.8%)	Defense increased
1941	9.9%	NA	Expansion (17.7%)	Pearl Harbor
1942	9.0%	NA	Expansion (18.9%)	Defense spending
1943	3.0%	NA	Expansion (17.0%)	Defense spending
1944	2.3%	NA	Expansion (8.0%)	Bretton Woods
1945	2.2%	NA	Feb. peak, Oct. trough (-1.0%)	Truman ended WWII
1946	18.1%	NA	Expansion (-11.6%)	Budget cuts
1947	8.8%	NA	Expansion (-1.1%)	Cold War spending
1948	3.0%	NA	Nov. peak (4.1%)	
1949	-2.1%	NA	Oct trough (-0.6%)	Fair Deal, NATO
1950	5.9%	NA	Expansion (8.7%)	Korean War
1951	6.0%	NA	Expansion (8.0%)	
1952	0.8%	NA	Expansion (4.1%)	
1953	0.7%	NA	July peak (4.7%)	Eisenhower ended Korean War
1954	-0.7%	1.25%	May trough (-0.6%)	Dow returned to 1929 high
1955	0.4%	2.50%	Expansion (7.1%)	
1956	3.0%	3.00%	Expansion (2.1%)	
1957	2.9%	3.00%	Aug. peak (2.1%)	Recession
1958	1.8%	2.50%	April trough (-0.7%)	Recession ended

<b>Year</b>	<b>Inflation Rate YOY<sup>5</sup></b>	<b>Fed Funds Rate*<sup>6</sup></b>	<b>Business Cycle (GDP Growth)<sup>7,8</sup></b>	<b>Events Affecting Inflation<sup>9</sup></b>
1959	1.7%	4.00%	Expansion (6.9%)	Fed raised rates
1960	1.4%	2.00%	April peak (2.6%)	Recession
1961	0.7%	2.25%	Feb. trough (2.6%)	JFK's deficit spending ended recession
1962	1.3%	3.00%	Expansion (6.1%)	
1963	1.6%	3.5%	Expansion (4.4%)	
1964	1.0%	3.75%	Expansion (5.8%)	LBJ Medicare, Medicaid
1965	1.9%	4.25%	Expansion (6.5%)	
1966	3.5%	5.50%	Expansion (6.6%)	Vietnam War
1967	3.0%	4.50%	Expansion (2.7%)	
1968	4.7%	6.00%	Expansion (4.9%)	Moon landing
1969	6.2%	9.00%	Dec. peak (3.1%)	Nixon took office
1970	5.6%	5.00%	Nov. trough (0.2%)	Recession
1971	3.3%	5.00%	Expansion (3.3%)	Wage-price controls
1972	3.4%	5.75%	Expansion (5.3%)	Stagflation
1973	8.7%	9.00%	Nov. peak (5.6%)	End of gold standard
1974	12.3%	8.00%	Contraction (-0.5%)	Watergate
1975	6.9%	4.75%	March trough (-0.2%)	Stop-gap monetary policy confused businesses and kept prices high
1976	4.9%	4.75%	Expansion (5.4%)	
1977	6.7%	6.50%	Expansion (4.6%)	
1978	9.0%	10.00%	Expansion (5.5%)	
1979	13.3%	12.00%	Expansion (3.2%)	
1980	12.5%	18.00%	Jan. peak (-0.3%)	Recession
1981	8.9%	12.00%	July trough (2.5%)	Reagan tax cut
1982	3.8%	8.50%	November (-1.8%)	Recession ended
1983	3.8%	9.25%	Expansion (4.6%)	Military spending
1984	3.9%	8.25%	Expansion (7.2%)	
1985	3.8%	7.75%	Expansion (4.2%)	
1986	1.1%	6.00%	Expansion (3.5%)	Tax cut
1987	4.4%	6.75%	Expansion (3.5%)	Black Monday crash
1988	4.4%	9.75%	Expansion (4.2%)	Fed raised rates
1989	4.6%	8.25%	Expansion (3.7%)	S&L Crisis
1990	6.1%	7.00%	July peak (1.9%)	Recession
1991	3.1%	4.00%	Mar trough (-0.1%)	Fed lowered rates
1992	2.9%	3.00%	Expansion (3.5%)	NAFTA drafted
1993	2.7%	3.00%	Expansion (2.8%)	Balanced Budget Act
1994	2.7%	5.50%	Expansion (4.0%)	
1995	2.5%	5.50%	Expansion (2.7%)	
1996	3.3%	5.25%	Expansion (3.8%)	Welfare reform
1997	1.7%	5.50%	Expansion (4.4%)	Fed raised rates
1998	1.6%	4.75%	Expansion (4.5%)	LTCM crisis

<b>Year</b>	<b>Inflation Rate YOY<sup>5</sup></b>	<b>Fed Funds Rate*<sup>6</sup></b>	<b>Business Cycle (GDP Growth)<sup>7,8</sup></b>	<b>Events Affecting Inflation<sup>9</sup></b>
1999	2.7%	5.50%	Expansion (4.8%)	Glass-Steagall repealed
2000	3.4%	6.50%	Expansion (4.1%)	Tech bubble burst
2001	1.6%	1.75%	March peak, Nov. trough (1.0%)	Bush tax cut, 9/11 attacks
2002	2.4%	1.25%	Expansion (1.7%)	War on Terror
2003	1.9%	1.00%	Expansion (2.9%)	JGTRRA
2004	3.3%	2.25%	Expansion (3.8%)	
2005	3.4%	4.25%	Expansion (3.5%)	Katrina, Bankruptcy Act
2006	2.5%	5.25%	Expansion (2.9%)	
2007	4.1%	4.25%	Dec peak (1.9%)	Bank crisis
2008	0.1%	0.25%	Contraction (-0.1%)	Financial crisis
2009	2.7%	0.25%	June trough (-2.5%)	ARRA
2010	1.5%	0.25%	Expansion (2.6%)	ACA, Dodd-Frank Act
2011	3.0%	0.25%	Expansion (1.6%)	Debt ceiling crisis
2012	1.7%	0.25%	Expansion (2.2%)	
2013	1.5%	0.25%	Expansion (1.8%)	Government shutdown. Sequestration
2014	0.8%	0.25%	Expansion (2.5%)	QE ends
2015	0.7%	0.50%	Expansion (3.1%)	Deflation in oil and gas prices
2016	2.1%	0.75%	Expansion (1.7%)	
2017	2.1%	1.50%	Expansion (2.3%)	
2018	1.9%	2.50%	Expansion (3.0%)	
2019	2.3%	1.75%	Expansion (2.2%)	
2020	1.4%	0.25%	Contraction (-3.4%)	COVID-19
2021	7.0%	0.25%	Expansion (5.9%)	COVID-19
2022	4.3% (est.)	1.9% (est.)	Expansion (2.8%)	March 2022 projection
2023	2.7% (est.)	2.8% (est.)	Expansion (2.2%)	March 2022 projection
2024	2.3% (est.)	2.8% (est.)	Expansion (2.0%)	March 2022 projection

\*Top of the range for the targeted fed funds rate.

## Why the Inflation Rate Matters

The inflation rate demonstrates the health of a country's economy. It is a measurement tool used by a country's central bank, economists, and government officials to gauge whether action is needed to keep an economy healthy. That's when businesses are producing, consumers are spending, and supply and demand are as close to equilibrium as possible.

A healthy rate of inflation is good for both consumers and businesses. During deflation, consumers hold on to their cash because the goods will be cheaper tomorrow. Businesses lose money, cutting costs by reducing pay or employment. That happened during the subprime housing crisis.

In galloping inflation, consumers spend now before prices rise tomorrow. That artificially increases demand. Businesses raise prices because they can, as inflation spirals out of control. When inflation is steady, at around 2%, the economy is more or less as stable as it can get. Consumers are buying what businesses are selling.

## Frequently Asked Questions (FAQs)

### How is inflation measured?

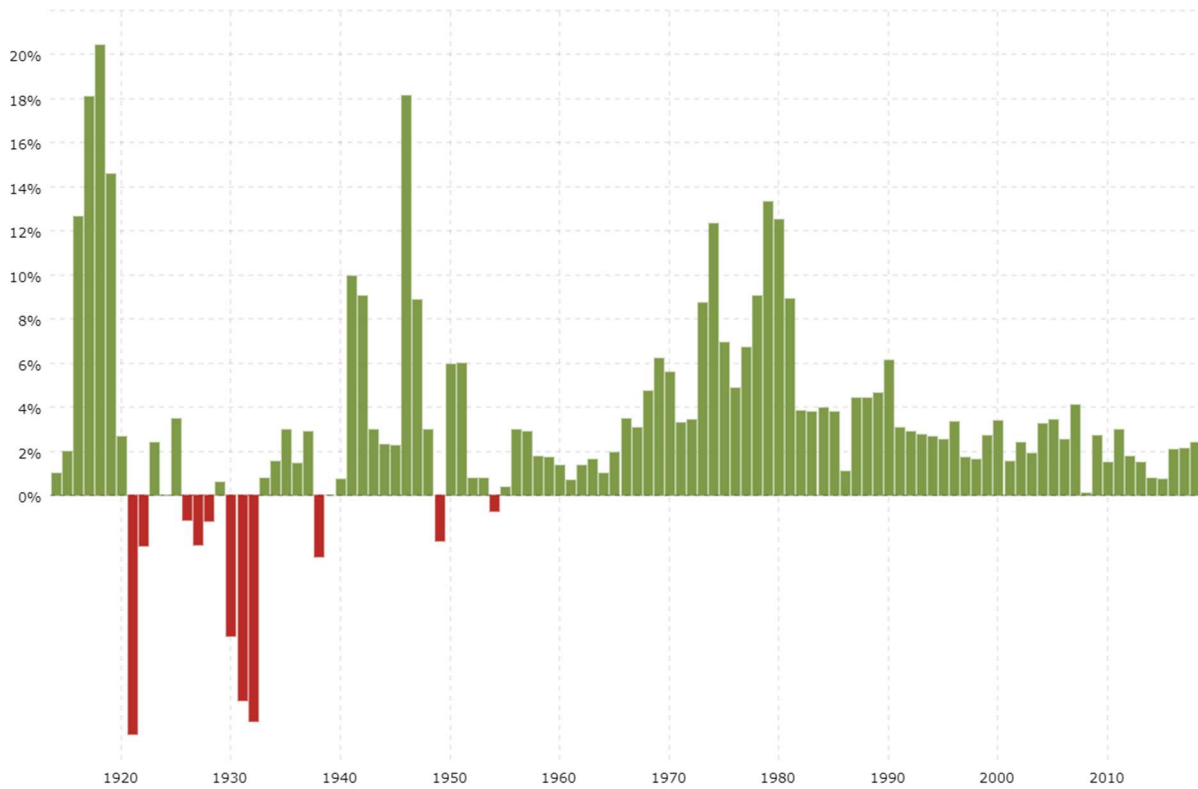
There are several ways to [measure inflation](#), but the U.S. Bureau of Labor Statistics uses the consumer price index. The CPI aggregates price data from 23,000 businesses and 80,000 consumer goods to determine how much prices have changed in a given period of time. If the CPI rises by 3% year over year, for example, then the inflation rate is 3%. The Fed, on the other hand, relies on the price index for [personal consumption expenditures](#) (PCE). This index gives more weight to items such as healthcare costs.

### What is the highest inflation rate in U.S. history?

Since the introduction of the CPI in 1913, the highest rate of annual inflation in the U.S. was 17.8% in 1917. The 1970s saw the longest period of sustained high inflation rates.<sup>10</sup>

### How do you hedge against inflation?

Because inflation causes money to lose value over time, hedging against it is an important part of any sound investing strategy. Investors use a [diversified portfolio](#) with a variety of asset types to offset inflation and ensure that the overall growth of their portfolio outpaces it.



**Cost-push inflation occurs when overall prices increase (inflation) due to increases in the cost of wages and raw materials.** Cost-push inflation can occur when higher costs of production decrease the aggregate supply (the amount of total production) in the economy.



**Elite Products, Inc**  
**Income Statement**  
**For The Month Ended June 30, 20YY**

	Current	6 Months	Current	YTD
<b>Sales</b>				
Elite Line	7,285	42,454	15.0	15.0
Regular Line	28,170	164,155	58.0	58.0
Parts	6,800	39,624	14.0	14.0
Service Labor	6,314	36,793	13.0	13.0
<b>Total Sales</b>	<u>48,569</u>	<u>283,026</u>	<u>100.0</u>	<u>100.0</u>
<b>Cost of Goods Sold</b>				
Elite Line	2,477	14,199	5.1	5.0
Regular Line	14,310	84,647	29.5	29.9
Parts	4,148	23,842	8.5	8.4
Service Labor	2,281	11,659	4.7	4.1
<b>Total Cost of Goods Sold</b>	<u>23,216</u>	<u>134,347</u>	<u>47.8</u>	<u>47.5</u>
<b>Gross Profit</b>	28,353	167,679	58.3	59.2
<b>Expenses</b>				
Operating Supplies	1,509	7,371	3.1	2.6
Postage	1,250	7,463	2.6	2.6
Gross Wages	9,821	46,506	20.2	16.4
Officer's Salary	4,000	37,000	8.2	13.1
Utilities	510	2,620	1.1	0.9
Telephone	859	5,079	1.8	1.8
Maintenance & Repairs	573	2,917	1.2	1.0
Advertising & Promo	2,466	8,562	5.0	3.0
Insurance	1,420	9,626	2.9	3.4
Travel & Entertainment	157	2,971	0.3	1.0
Payroll Tax Expense	1,146	7,125	2.4	2.5
Interest	853	5,137	1.8	1.8
Vehicle	584	2,952	1.2	1.0
Legal & Professional	275	1,650	0.6	0.6
Office Expense	434	3,013	0.9	1.1
Depreciation	750	431	1.5	1.6
Laundry & Uniforms	79	431	0.2	0.2
Miscellaneous	185	1,357	0.4	0.5
<b>Total Expenses</b>	<u>26,871</u>	<u>156,280</u>	<u>55.3</u>	<u>55.2</u>
<b>Net Operating Income</b>	1,482	11,399	3.1	4.0
Rental Income	550	3,300	1.1	1.2
	-	-	-	-
<b>Net Income</b>	<u>\$2,032</u>	<u>\$14,699</u>	<u>4.2</u>	<u>5.2</u>

## **Strategies for Dealing with Inflation**

1. Be competitive on product or services, not price
2. Differentiate your business
3. Adjusting prices during inflationary times: “what if” and inflation
4. Long-term wealth building: The benefits of paying down old debt in inflationary times
5. Invest in yourself—make learning a life-long commitment:  
be financially literate, educate your children about finances, attend educational workshops, read up on current events

### Resources:

EWH University for Small Business (see Events calendar)

Cash Flow Bootcamp

Building Your Business workshops

Sales & Leadership Roundtable sessions

Generations. The History of America’s Future 1584 to 2069, by Wm Strauss and Neil Howe

Which Direction is the U.S. Headed? Interview with Neil Howe by Ted Oakley, <https://www.youtube.com/watch?v=Ox2q9zUbY3k&t=374s>

## **Actions and Ways to Implement**

### **Marketing Focus:**

Who is your ideal client?

What is your target audience and how market?

How to qualify a lead?

Jobs select

### **Sales Focus:**

What is your average fee? Compared to market

How they communicate value

### **Delivery/Service Focus:**

How do you consistently deliver value and exceed expectations?

Quality, repeat business, and referrals

### **Cash Flow Focus:**

Review financial statement monthly

Other metrics; average price - transactions

Ease of billing collection