

---

## INTEREST RATE MANAGEMENT

---

Inflation...we haven't talked much about that lately...but it's been dismal! This Thursday, the various CPI indexes are released for the month of September. Oh there will be anguish in the land!

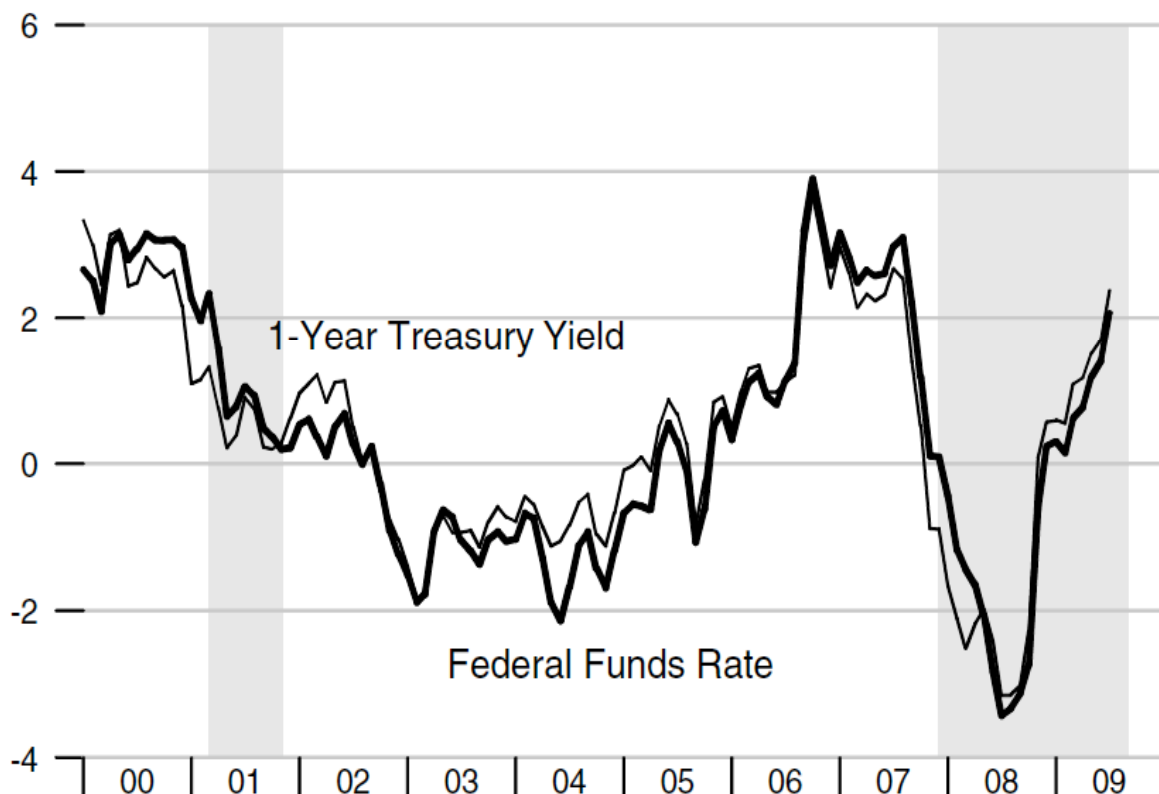
**Seniors won't be getting a pay raise starting next year on their Social Security.** As you may know, Social Security is adjusted every calendar year based on the inflation rate during the government's fiscal year ended September 30<sup>th</sup>. The inflation rate through August, on an annual basis, has been -1.44%. So be kind to Mom and Dad.

**TIPS...what a deal!** These Treasury Inflation Protected Securities, which are adjusted daily based on the non-seasonally adjusted CPI index for all urban consumers, fell in par value over the last year. In other words, if it was 100 cents on the dollar at par a year ago, current par is 98.66 cents. **Ugh!**

**Real Interest Rates Surge.** The graph below is from the October 2009 *Monetary Trends* published by the St. Louis Fed. Because inflation is negative, and the Fed Funds rate close to zero, real interest rates are higher now than throughout most of this decade. Go figure!

### Real Interest Rates

Percent, Real rate = Nominal rate less year-over-year CPI inflation



Weren't we worrying about deflation in 2003? Well, we got it now!