



**TOWN OF BRENTWOOD  
SELECTBOARD  
TOWN OFFICES: 1 DALTON ROAD  
AGENDA FOR 09/17/2024 @ 6:00 PM**

- I. Convene
- II. Review and sign payroll and accounts payable register
- III. Review and approve the Consent Agenda: Subject to Change
  - a. Public Minutes 09/03/2024
  - b. Nonpublic Minutes 09/03/2024 - sealed
  - c. Recreation Manifest
  - d. Treasurer's Report
  - e. Building Permits
- IV. Public Comment
- V. Discussion/Action Items
  - a. COLA / Merit
  - b. Remote Days
- VI. Regular Business
  - a. Committee Updates
- VII. Any other matter that may legally come before the Board
- VIII. Non-Public Session:  
May be called at any time in accordance with Chapter 91A:3II, a, b, c, d, e, i
- IX. Adjourn

MEMO

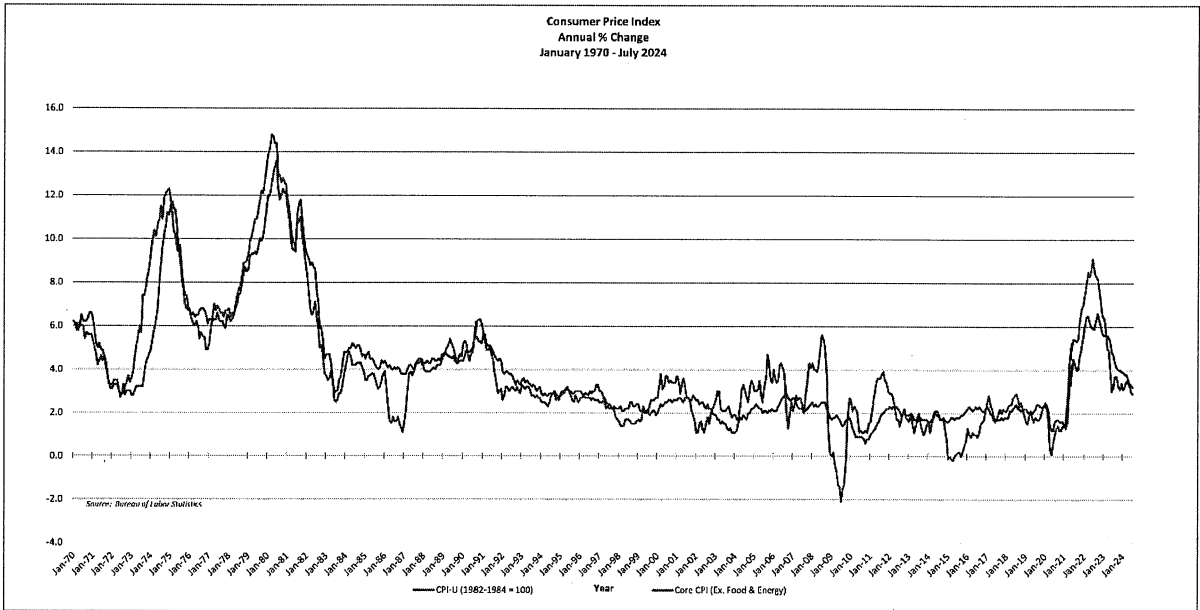
Date: September 6, 2024

To: Brentwood Board of Selectmen

From: David T. Mayes, Chief Investment Officer, Three Bearings Fiduciary Advisors, Inc.

RE: 2025 – 2026 COST OF LIVING

The estimate for inflation for April 2025 – March 2026 is 2.9% with a range of 2.3% to 3.6%. As in prior years, this estimate has been formulated by combining information on recent inflation trends, economists' forecasts, and inflation expectations implicit in current bond market prices. Additional information including data on labor market conditions and other factors may also be utilized to assist the Selectmen in determining a COLA value.



**Recent Inflation Trends:** The year-over-year change in the Consumer Price Index (CPI) has continued a moderate downward trend since hitting a low of 3.0% in June of 2023. In the subsequent months, the annual CPI change has remained between 3.0% and 3.7%, until hitting a new low of 2.9% in the July 2024 reading. The average reading on the CPI over the prior 12 months ending in July 2024 was 3.3%. Year-to-date through July, the average annual CPI change was 3.2%. Excluding the more volatile food and energy sectors, the Core CPI has increased at an average annual rate of 3.8% since August of 2023, and monthly readings on the Core CPI have fallen between 3.2% and 4.3% with readings coming in at the lower end of that range in the most recent months. Like we saw last year, this suggests that core inflation has remained persistently high but is also on a downward trend.

**Expert Consensus:** The June *Livingston Survey* compiled by the Federal Reserve Bank of Philadelphia summarizes the expectations of 32 economists from both business and academia. The most recent survey released in June 2024 shows that economists have increased their inflation expectations slightly since the prior survey in December 2023. They now expect inflation of 3.2% in 2024, declining to 2.5% in 2025.

The Bank's *Survey of Professional Forecasters* (August 9, 2024) projects CPI inflation of 2.3% for the third quarter of 2024 followed by a small uptick in the CPI to 2.5% in Q4. In 2025, CPI-measured inflation is forecasted to moderate to 2.4% over the following two quarters, to settle at 2.3% in Q3 of 2025. For the full year 2024, the expected CPI change is 2.8% with inflation moderating in to 2.3% in 2025 and 2.2% in 2026. Long-term inflation projections from this survey, based on the median projections of the forecasters surveyed, also call for inflation to settle at a more moderate level. Over the 2024-2028 period, the median inflation forecast is 2.40%. The median ten-year inflation forecast from this survey is 2.3% for the period 2024 – 2033.

The latest *Monetary Policy Report* submitted by the Federal Reserve to Congress on July 5, 2024, shows that Federal Reserve Board members and Federal Reserve Bank presidents expect inflation to range between 2.5% and 2.9% in 2024, then shift lower in 2025 with a projected range of 2.2% - 2.4%. Their longer-run inflation forecasts remain at 2.0%. These figures are based on the annual change in the price index for personal consumption expenditures (PCE), the Fed's preferred inflation measure.

**Financial Market Expectations:** The relationship between the current yield-to-maturity on nominal U. S. Treasury bonds and the current yield on inflation-indexed Treasuries (TIPS) with the same maturity provides a measure of the bond market's expectations for future inflation.<sup>1</sup> The current breakeven rate for TIPS stands at 1.81% when looking at five-year maturities suggesting that bond market investors are expecting lower future inflation in line with economist forecasts. For ten-year maturities, the expected inflation rate is 2.01%.

**Combining the Estimates:** Because all the approaches for estimating the future rate of inflation discussed here have potential flaws, past recommendations for establishing the COLA have been based on a combination of these sources. The key observation from each source of future inflation expectations is that inflation is expected to moderate substantially in the coming months and settle at a level closer to the Fed's target rate of 2.0%. These expectations are likely being driven by the expectation that the Fed's high interest rate policy has been successful in slowing the economy, as evidenced by the easing of inflationary pressures and slowdown in new job creation and reduction in unfilled job openings. As noted in last year's report, tight monetary policy generally takes about 18 months to work its way into inflation measures so the final impacts should be felt during the 2024-2025 period.

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<sup>1</sup> Expected inflation is calculated using current yields on nominal treasury bonds and TIPS using the following formula:  $\text{expected inflation} = [(1 + 10\text{-year Treasury yield}) / (1 + 10\text{-year TIPS yield})] - 1$ .

Source	Near-Term Inflation	Long-Term Inflation	Recent Trends
Recent CPI Trend	3.8% (Core CPI)		Declining
Expert Forecasts	3.2% (2024); 2.3% - 2.8% (2025)	2.3% - 2.4%	Declining
Bond Market		1.8% (5 yrs.); 2.0% (10 yrs.)	Declining

Based on these data sources a reasonable expectation for inflation for the 2024-2025 fiscal year is 2.9% with a range of 2.3% - 3.6%. This is only a small reduction from the prior year's forecast and, due to the fact that core inflation remains above 3%, a wider range seemed appropriate. It is reasonable to expect inflation to remain above the bond market's longer-term forecasts for the duration of the next fiscal year, with further moderation toward the Fed's and the bond market's 2.0% inflation forecast after further moderation in economic and employment growth.