

Financial Wellness Newsletter

HOW DOES INFLATION IMPACT MY FINANCES?

THIS ARTICLE WAS DEVELOPED AS PART OF CONNEXUS ASSOCIATION'S PARTNERSHIP WITH EVERFI, INC

The U.S. is currently experiencing the highest inflation levels since 1981, with a 8.6% spike in prices for consumer goods over the last 12 months ending May per a news release from the US Bureau of Labor Statistics.

As a result, Americans are experiencing a decline in their spending power, and voicing their concerns about the future of their finances. But how does inflation affect the individual? It's not all negative, and it's not as permanent as you might think.

- ☑ Inflation is an increase in consumer prices and is natural for a healthy economy.
- ☑ The Federal Reserve tries to maintain an inflation level of around 2% each year, but is worried about the current growth in costs of goods in the U.S.
- ☑ Inflation affects everyone differently, depending on factors like age, income/employment status, and family size, so your experience of the current wave of price increases will be unique to you.
- ☑ Understanding the causes of inflation can help individuals plan and determine how to shift their expenditures to weather the current economic reality.

INSIDE THIS ISSUE

How does Inflation Impact My
Finances1-
4

SPECIAL POINTS OF INTEREST

- What is Inflation



WHAT IS INFLATION?

Inflation is a fundamental economic indicator referring to a general increase in the prices of goods and services. Another way to define inflation is a decline in the purchasing power of your dollars over time. Simplified you can buy less for \$1 than you could before.

In economics, the inflation rate, or the percentage rate of change in price level over time, is a measure of inflation. The consumer price index (CPI) is a commonly used inflation metric; it is calculated by the U.S. Bureau of Labor Statistics. "The bureau measures CPI by monitoring the average change in prices paid for a variety of goods and services, classified by eight groups: food, housing, apparel, medical care, recreation, transportation, education and communication, and other goods and services." (www.nerdwallet.com/article/investing/inflation) For example, if an average winter jacket costs 100 dollars one year and 105 dollars the following year, the inflation rate is five percent.

HOW DOES INFLATION IMPACT MY FINANCES? CONTINUED

What causes inflation?

Following the COVID-19 shutdown and the reopening of the economy, Americans have been spending like crazy, driving up the demand for goods. Why are people spending so much money?

- ☑ A return to normal: Many are simply happy to return to normal, as people are going back to work and gaining income to spend.
- ☑ Going out again: Sick of being stuck at home wearing sweatpants, some are ready to go out, and are buying clothing, shoes, and accessories.
- ☑ Sticking around the house: Others are stocking up on items for their homes, recognizing how much time we continue to spend there.
- ☑ Built-up savings: During the pandemic, those who were able to keep their jobs may have been able to store up savings due to decreased spending on things like going out to restaurants, traveling, and attending events outside of their homes.

Negative effects of inflation

While inflation can have some beneficial effects on the average consumer, the phenomenon can be difficult to navigate in the short-term. Here are some ways that inflation can affect you:

1. The price of consumer goods goes up

The average American will probably see the most direct impact of inflation at the grocery store, where the cost of consumer goods like food is steadily rising. Consumers may want to reevaluate what products they really need or what brands they value, buying store-brand or bulk to save money. Car rentals, used cars, airfare, and furniture are seeing particularly high price spikes. Used car prices are almost 30% more this year compared with last year, according to CNBC. Clothing, remodeling supplies, gas, and hotels are also seeing a steep rise in price due to increased demand.

2. You may pay more for rent

After a drop in housing prices during the pandemic, the housing market is back with a vengeance, with both home prices and rentals seeing sharp increases. This change may affect you differently depending on your age, as younger people are more likely to be renters. The rental market has skyrocketed this year, and people are putting higher percentages of their income toward their monthly payments. Older generations, who make up many homeowners, may not be as affected by rising prices if they're staying put.

HOW DOES INFLATION IMPACT MY FINANCES? CONTINUED

3. Your savings account may struggle

While you shouldn't say goodbye to your savings altogether, it's not a bad idea to think about investing that money elsewhere if you have at least three to six months' living expenses stored away. This is because with inflation, the country's low interest rates, already just above 0% normally, will not be able to keep up with the rising cost of living. Ways of protecting against losing money could include getting insurance from the FDIC to protect your cash or putting your money into a higher yield checking account for deposits above \$10,000. Still, keep in mind that it's not wise to invest your savings in any volatile stocks, since keeping cash on hand for an emergency is always the best practice.



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Positive effects of inflation

While higher prices may not sound like a good thing, some positive effects do come from rapid inflation spikes. However, keep in mind that they may require you to think outside the box.

1. Stock-savvy investors can benefit

Some may see this as a good time to invest, since consumer spending is on the rise and increased demand raises prices. Assets like real estate, food, clothing, and utilities may be smart choices for the inflation investor.

2. Negotiating a higher wage may be easier

The worker shortage in the country has some employers paying employees more to retain skilled workers, but that also plays a role in perpetuating inflation. Higher-earning workers spend more money, straining an already struggling economy.

3. Unemployment goes down

Some data points to an inverse relationship between inflation and unemployment, suggesting that when demand for goods and services is high, employers need to hire more workers to keep up, making this a good time to be in the job market.



CONNEXUS ASSOCIATION

The primary purpose of Connexus Association is to provide scholarships for education, to assist educational institutions and to provide financial literacy education to help borrowers and savers reach their financial goals. Members of the Connexus Association consist of organizations or individuals who pay dues. Dues will be \$5.00 and will allow membership for two years. Members may renew their membership every two years with dues of \$5.00.

Please contact us with questions.

HOW DOES INFLATION IMPACT MY FINANCES? CONTINUED

What's next?

Most economists and financial advisers counsel individuals not to make any rash decisions or major lifestyle changes during times of inflation, since inflation is usually tied to circumstantial factors and can shift quickly. In the past, inflation has spiked during times of economic growth, often following a war, when people spend money on everyday purchases again. Other times, it's been spurred by oil shortages. Our current level of inflation is a result of COVID-19, a crisis whose end is hard to see.

While spending money and investing can be a sound decision, it's always good advice to save money for an emergency—because the only thing certain about the economy is that it never stays the same for long

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