

Coping with Inflation

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What is inflation?

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Low levels of inflation are a hallmark of a stable economy and are generally good for employment, economic growth and stable standards of living and efficient government. Low levels of inflation are so important that the mandate of the Federal Reserve is to work towards full employment and low inflation targets. They generally do this through the use of two main tools; the Federal Funds Rate and the reserve ratio.

The tool that we most often hear about is the Federal Funds Rate. 'The Fed' selects interest rates that they believe will maintain low levels of inflation, encourage investment and lead to market stability. While the Fed cannot set an inflation rate it can influence inflation going forward, by raising or decreasing the cost to borrow, known as the Fed Funds Rate.

In periods of high inflation, the Fed raises the cost of money to banks. Banks then raise their interest rates to borrowers. As the cost of high inflation filters through the economy, we see prices for everything we might use going up. Inflation is measured on a month-to-month basis and compared to the same month last year. This drives up everything from interest rates on mortgages to gas and food bills.

How to Cope

How does one cope with high inflation and rising costs? If you do not budget already you will need to start. We have called it a 'doomsday' budget. This is a budget that helps identify the most important expenses that you have and matches them up with your income.

Consider your core expenses:

- rent or mortgage
- transportation expenses
- utilities
- insurance
- food.

Many of these have increased much faster than paychecks. While a budget can help you see how much you have coming in and how much has to go out it may be that your expenses meet or exceed your income.

If your expenses exceed your income you need to step back and potentially make difficult choices. These choices are not fun to consider and often even less fun to put in place.

The following are some things you may consider to help cope with inflation:

- Prioritize your spending
- Reduce your energy usage
- Avoid eating out.
- Use generic products when available.
- Cut discretionary spending.
- Put off large expenses or upgrades.
- Increase income through part-time work or overtime.

Resources

- Federal Reserve: <https://www.federalreserve.gov>
- U.S. Bureau of Labor Statistics: <https://www.bls.gov/>

Here when you need us.

Call: 844-207-5465

Online: guidanceresources.com

App: GuidanceNowSM

Web ID: LivingME

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