Inflation

Author: Germi Cloud

If you have been watching the news or reading any financial articles in the past couple of months you have probably heard quite a bit about inflation and interest rates. A wall street journal article recently posted, said inflation is at its highest level in 13 years. However, if you consider that over the past 13 years, we have been in an unusually low inflation period things may not be as bad as some may think.

So, what is inflation? Inflation occurs when the cost of goods and services increase over time. How could this affect your budget? If your income is not increasing, then you slowly loose purchasing power. Hypothetically speaking, one dollar today may only be equivalent to .75 cents in 5 years. This is why we want to invest and try to get our money to grow faster than the pace of inflation.

Over the past 107 years the average inflationary rate has been 3.2%, but if we look at just the past 10 years, the average has only been 1.7%. In May of 2021 inflation was at 5%, according to usinflationcalculator.com. A lot of the inflation that we are seeing is being credited to the 2020 Corona virus outbreak that forced plants and manufacturers, along with a lot of restaurants and retail stores, to shut down. The problem is now that these companies are opening back up it’s going to take a while for the supply chain to catch up. That’s why we are seeing shortages of vehicles, increased prices of lumber and many other items that are in short supply, are driving prices up, causing inflation to rise.

Morning star, an independent financial research company, recently increased their 2021 consumer price index projection to 2.9%. Morning star is also projecting that the core inflation rate will run in the 2.5% range between 2022 through 2025. One major problem with this higher inflation than we are used to is potentially CDs may not keep pace with inflation currently. In addition to that, as interest rates do start to slowly rise that will put pressure on bonds.

So, what does this mean for you? It depends on how close you are to retirement. If you're close to retirement you may have to be a little more creative with your lower risk money. If you still have ten years until retirement that means you may need to try and save a little more. Or possibly, this rise in inflation will be short lived and things will go back to normal sooner rather than later.

Sources:
https://www.wsj.com/articles/us-inflation-consumer-price-index-may-2021-11623288303years.
https://www.morningstar.com/articles/1040881/2021-inflation-forecast-heads-higher
http://www.usinflationcalculator.com