THE ECONOMY

Inflation Hits Stocks, Bonds … and Your Wallet

By Bruce W. Hardy, MBA

We commit a lot of editorial space in MoneyLetter to the effects of high inflation on equity and fixed income prices. But what about the effects of inflation on your wallet? Everything from food to gas to home repair products seems to be increasing in price every day. Federal Reserve Chairman Jerome Powell is taking inflation very seriously and his committee has responded by raising interest rates five times (so far) to combat the explosion of prices. Although the moves have made an impact, the Federal Reserve has noted that inflation is stickier than it had predicted.

What items has inflation hit hardest?

As you are aware, inflation has impacted energy prices, food, rent, and travel the most. To put that in perspective, meats, poultry, fish, and eggs, saw a 10.6% increase year-over-year through August, and utility (piped) gas saw a 33.0% increase year-over-year, compounded by the Russia-Ukraine conflict. In addition, airline fares increased 33.4% and rent prices are at all-time highs as people who cannot afford to buy compete for rental units.

Since it looks like higher-than-normal inflation is going to be with us for some time, you might be thinking, “What can I do to mitigate the effects of inflation on my wallet?” While inflation is nearly impossible to avoid, there may be ways to minimize its effects. Here’s a couple of quick ideas for those of you still in the work force:

1) Consider asking for a raise. The labor markets are amazingly strong – still! – and many companies are having trouble recruiting and keeping good talent. But do your homework … before you approach the boss be sure to research what salaries are for your position and experience in your area.
2) Can you create any passive income streams? Do you have a second property or spare room you can rent out for some extra cash? How about a vehicle that you don't use every day? Home Depot gets $129 a day for a F250 Flatbed in the northeast area.

Inflation hits retirees' wallets and income streams

High prices mean your budget is becoming stressed as your "income" covers less and less of the costs of living. For those of you that are already retired, it's important to understand how your income sources are affected by inflation as well. Retirees' savings often becomes part of their income, subjecting it to the rising costs of living. Couple that with this year's bear market in stocks and unusually weak period for bonds, and your retirement accounts are under additional pressure. Inflationary periods are difficult for retirees to get through, but it's not impossible. There are financial tools and investment strategies that can protect against inflation or other risks you may be worried about. Here are some to consider:

* Create or review a budget. Make sure you've accounted for today's higher prices, then consider where you can cut costs. Ideas: make sure your home's energy efficiency is up to date (think smart thermostats), review your memberships, and cancel little-used streaming services. Are they justifying the cost? Same goes for your insurance policies, and you should consider increasing your deductibles to save on premiums.

* Work if you can … use your skills and experience. Even part-time earnings are wages that keep pace with inflation.

* Don't get overwhelmed with debt. It's OK to use credit cards – especially if you're earning rewards – but pay off your balances each month and avoid the high interest rates.

* At the grocery store, try to shop midweek when prices are lower and take a few minutes to clip coupons – they can really add up!

* Shop for the best "cash" rates … be proactive with your CDs, money markets, etc.

* Consider used or off-brand items as the savings can often be significant.

* Delay Social Security … your benefits will increase and when they start, they'll be adjusted for inflation.

* Remain invested and diversified … be patient!

The news on the inflation front is not all bad. Gummed-up supply chains are easing as the effects of Covid-19 and worldwide lockdowns wane. This is confirmed by the fourth consecutive monthly decrease in the Global Supply Chain Pressure Index (GSCPI) as reported by the Federal Reserve Bank of New York.

In addition, the previously red-hot housing market is bending under the pressure of higher mortgage rates. And although the consumer has remained resilient, we are looking at a slow growth environment over the next several quarters, at least. The cooling economy will help push demand down and inflation lower. However, the speed of the decline remains in question.

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