

## What's Your Personal Inflation Rate?

The annual inflation rate for the United States was 8.6% for the 12 months ended May 2022, marking the largest annual increase since December 1981.<sup>1</sup> While there are different ways to measure inflation, the most commonly used index for households is the Consumer Price Index (CPI) tracked by the U.S. Bureau of Labor Statistics. However, the impact of inflation on your household budget could be significantly higher or lower than the CPI, based on your spending habits and other factors.

Below, you'll learn why inflation impacts individuals and households differently and how to calculate your personal rate of inflation.

### Inflation impacts everyone differently

Everyone's spending is different, which means no two individuals or families will experience inflation in the same way. For example, if you own a home and have a fixed-rate mortgage, you may feel no impact as a result of rising housing costs. However, if you rent, or are in the process of purchasing a new home, your experience may be very different.

Variables that determine how inflation may impact your budget include:

- Household size
- Where you live
- If you own or rent your home
- Whether you work from home or commute daily
- Childcare costs
- Healthcare expenses
- How often you travel or dine out, etc.

Keep in mind, inflation impacts both discretionary and non-discretionary items in your budget. Non-discretionary expenses are your essential expenses, such as food, housing, clothing, childcare, healthcare and transportation. Increases in these expenses can adversely impact your finances or your lifestyle if you're unable to adjust discretionary spending to compensate for rising costs. Discretionary spending refers to expenses you could live without if you had to, or that you can adjust as needed. These may include dining and entertainment, leisure travel, streaming apps or club memberships. Personal priorities and circumstances will dictate which expenses you and your family consider essential.

It's important to remember that the inflation rate measured by CPI is an average of the price increases for a certain basket of goods and services tracked. It doesn't mean that the prices for all consumer goods and services increased by that amount over a given period of time. For example, while the inflation rate in May was 8.6%, gas prices were up 48.7% for the same period. It's also common to see broad differences within a single category, such as food. While food prices rose roughly 12%

overall, eggs rose 32.2%, milk was up almost 16% and fresh vegetables were up 6.4%. Some of the largest increases (unadjusted for seasonal changes) were in the following areas:<sup>2</sup>

|                                 |                          |
|---------------------------------|--------------------------|
| Fuel oil: +106.7%               | Used cars prices: +16.1% |
| Gasoline: +48.7%                | New car prices: +12.6%   |
| Airfares: +37.8%                | Electricity: +12%        |
| Natural gas: +30.2%             | Food/groceries: +11.9%   |
| Public transportation: +26.3%   | Dining out: +9%          |
| Lodging (hotels/motels): +22.2% | Rent: +5.2%              |
| Delivery services: +16.4%       |                          |

## How to calculate your personal inflation rate

The formula below provides an easy way to determine the impact of inflation on your spending. First, you'll need to capture some data on your current expenses, as well as last year's spending. That's easy to do if you use a budget to track expenses. If you don't have a budget in place, gather current and prior year bank, credit card and other financial statements for this month and the same month a year ago. Using the formula below, add up your spending for the same month in 2022 and 2021. Then subtract last year's spending from this year's spending for the same month. Divide the difference by the amount of the 2021 monthly expense. Multiply the result by 100 to get your personal inflation rate.

For example, if you spent \$5,300 in July 2022 and \$5,000 in July 2021, your personal inflation rate is 6%:

$$(\$5,300 - \$5,000) \div \$5,000 = 0.06\%$$
$$100 \times 0.06\% = 6\%$$

Keep in mind that this formula focuses on year-over-year differences in spending, but any increase or decrease in income over the past 12 months will also affect your results by lowering or raising your rate accordingly. As you review your spending, you may notice that certain categories remain unchanged from one year to the next, such as fixed rate mortgage or car payments. Other spending may be subject to seasonal variations, such as summer vacation travel, back to school shopping or end of year holiday spending. As a result, comparing your spending over a six or twelve-month period may provide a more accurate look at how inflation is impacting your household and if opportunities exist to reduce or reprioritize spending.

Whether your personal rate of inflation is higher or lower than the national average, a budget is one of the best tools for managing your finances, so you can move closer to your financial goals in any economic environment. Need help getting started? Consider downloading one of the many budgeting apps available through the App Store or Google Play, or from your bank or credit union. Many of these tools are free, so you don't have to worry about adding another expense to your monthly budget.

To learn more about planning for a confident financial future, call the office to schedule time to talk.

<sup>1</sup> <https://www.bls.gov/news.release/pdf/cpi.pdf>

<sup>2</sup> Ibid.

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