High Inflation: How to survive it

For the last several years, the official inflation rate has been hovering around one percent or less. But that's come to an end.

As of now, the inflation rate for this year is set to increase by 4.2%. That's much lower than back in 1980, but the highest we've seen in over a decade.

I say "official inflation rate" because anyone can see that some things have gone up more than that, especially food. But the official government number comes from the Consumer Price Index (CPI), a list of everyday consumer items which are supposed to give an accurate picture of how the overall cost of purchasing products is rising and falling.

Of course, individual items go down, covering up for others that are going up. Electronics, for instance, tend to go down, which makes up for food prices going up. So the CPI isn't a perfect picture of the economy or what it costs to live. All it is is a number we can use in comparing one time to another, and right now, it shows that we're entering into a time of high interest.

This is concerning for several reasons, including that runaway interest is one of the critical signs of an economic collapse. While the interest rates we see right now are nowhere near as high as we can expect to see in a time of an economic collapse, they're heading in that direction.

Considering that so many financial gurus have been talking about a pending collapse, rising inflation is concerning. But, on the other hand, it could be a sign of things to come.

Another troubling indicator is that unemployment is rising at the same time as inflation. President Biden’s approach to the economy doesn’t seem to be instilling confidence in either consumers or employers, and the new job creation is only about one-fourth of what it should be.

But that’s not my focus right now. Long before we reach the point of an actual financial collapse, we’re going to have to deal with rising inflation.

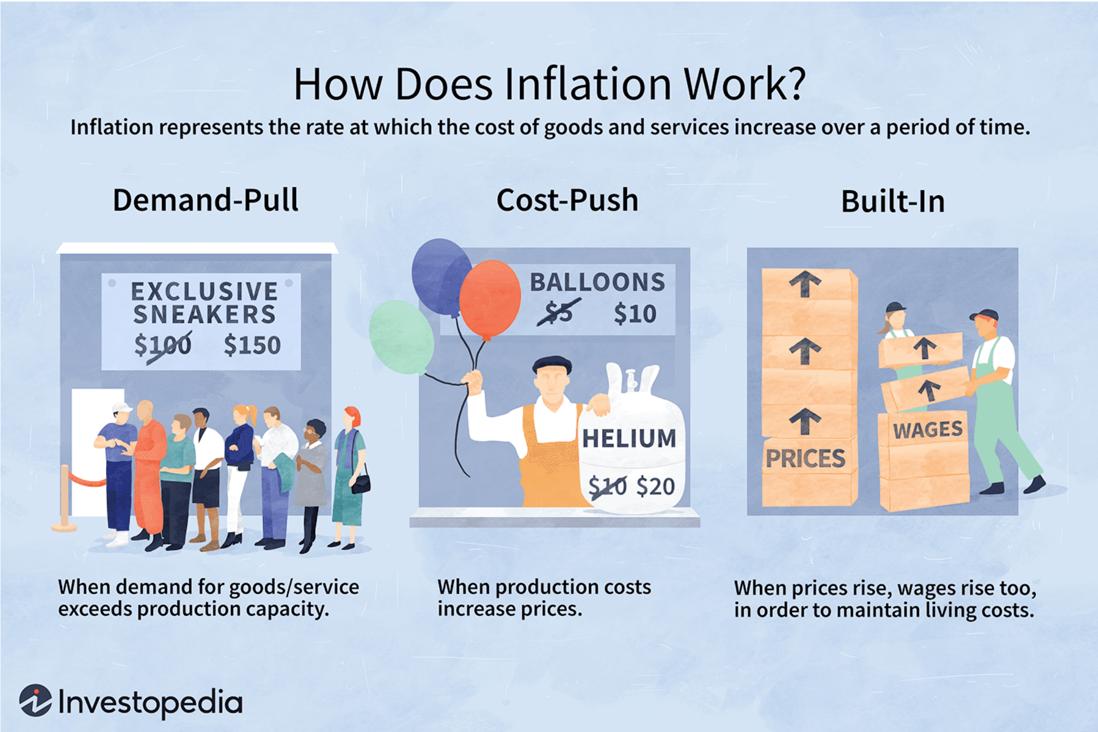
Having lived through that before, I’ve experienced what the rise in prices does to one’s buying power, making it so that the money we do have doesn’t go as far. So if we expect to maintain the lifestyle that we have now, we’re all going to have to make some changes.

Where’s the Inflation Coming From?

I’ve been expecting inflation to rise for about a year now. There’s a myth that’s taught in just about any school that teaches anything about economics. That myth is that inflation comes from greedy businesses raising prices. But that’s not true. If companies raise prices, they lose customers, so that’s not a good deal for them. Most will try to avoid raising prices until they are all but forced to do so.

Where inflation comes from is the government, specifically the Federal Reserve. Now, I know that the Fed is technically independent from the government. But the reality is that the two work hand-in-hand. For example, much of our nation’s debt is in the hands of the Fed, which issues money to meet the government’s needs, holding a mortgage on that money.

Usually, this is done through what is known as “quantitative easing,” something that our Federal Reserve has practiced for years. They issue X billions of dollars of new money per day, creating it out of thin air to “ease” the “pressure on the money pool. But since the actual value of that money is based upon our country’s GNP, if they issue cash faster than the GNP grows, they're diluting the value of the existing money, making it worth less. That's inflation.



On top of this, Congress has authorized something north of five trillion dollars in COVID-19 spending through a series of massive bills. They aren't done spending money either, as Biden's "infrastructure bill," which doesn't have much to do with infrastructure, is about to hit, with a price tag of somewhere close to another two trillion dollars.

The Fed will gladly buy up that debt, just like they did the COVID debt, lowering the value of our money just a little bit more. Put another way, Congress is spending us into inflation, and the Federal Reserve is helping them do so.

Loans and Mortgages

With that being the case, allow me to start by talking about loans, specifically mortgages. Interest rates are already climbing. I just bought a house, and in the month between my loan application for the first home, a deal that fell through, and the loan application for the home we ended up buying, the interest rate went up a full percent. That's even with my credit rating going up 30 points during the same period.

To put a point on it, that one percent increase in interest rate has increased my monthly mortgage payment by about $100. So over the 30 years of the loan, I'll have paid an extra $36,000 for that home, thanks to that one percent.

The chances are that interest rats If you're thinking about buying a home, you'd better do it now, before things get worse. For that matter, the same advice goes for anything else you might be considering buying on credit. Right now, waiting a year might allow interest rates to price that purchase right out of your budget.

If you've got a reasonable interest rate on something now, whether it is a home or a car, then I wouldn't be in a hurry to trade it in for something newer, even if that newer home or car is bigger and better. So what you'll lose in extra interest is going to mean that your money just isn't going to be able to go as far.

Living on Less

The big problem we can all expect over the next few years until inflation drops again is that it's going to be harder to pay for everything. That may not affect some people, but 63% of Americans live from paycheck to paycheck. Those people are suddenly going to find that they don't have the money to do everything they were doing before. And with an inflation rate of over 4%, that's not going to take long.

Just because costs are going up, that doesn't mean that companies will provide raises to match. While many companies include a cost of living increase in their employees' annual raise, it rarely meets the actual increase in cost. Instead, it's a theoretical figure, which may have little to do with reality. Typically, the higher the inflation rate, the more disparency there is between the actual inflation rate and the cost of living increase that companies offer.

But what if inflation goes up even faster than what we're currently experiencing. With Congress on a spending spree, there's no telling what's the following trillion-dollar-plus packages they're going to pass, adding to the national debt and increasing inflation all that much more. But with the "reset" going on and the new ideas about economics being touted, there's nothing to stop them.

That means that the self-appointed elites will still be elites while working hard to push us all down into peasant status. If they had their way, we'd all be on the government dole so that they could control us all that much better. To beat them, we're going to have to learn to live on less.

Do It Yourself

One of the best means I've found to make my money go farther is to do things myself, rather than paying someone else to do them. From replacing an engine in my car to cooking my meals, I do everything I can for myself rather than buying prepared ones.

A lot of this is centered around my home and my prepping. I don't buy packaged survival food; I package my own. Nor do I pay someone else to drill my well. While there are still costs associated with doing things myself, it's ultimately cheaper to do just about anything myself, especially if I have to do that thing more than once.

My house doesn't have a two-car garage, but rather a workshop. I've got a pretty good collection of tools that I've bought over the years, allowing me to make or repair many things. Right now, I'm working on building an antique-style coffee table and some matching end tables. Were I to buy them, it would easily cost over $2,000. But by making them, I'm saving about 85%.

This requires investing in tools, but I've always found an investment in tools to pay off. I don't just buy those tools to buy tools, but rather, I buy them when I have a significant project I'll need them for. That project pays for the tool and every time I use it afterward saves me money.

Reevaluate Your Budget

Budgets tend to get away from us. First, we start with the best intentions; then, we find that our spending has gotten out of control over time. Sometimes it's that we're spending more than what we had budgeted for. Still, more often than not, it's spending that we never included in the budget, especially things like monthly subscription services, which don't seem all that expensive but add up to be a bunch of money every month.

With costs on the rise, you’re likely to find that you’re spending more than you anticipated on some budget items. For example, my wife and I just reevaluated what we’re spending on food, finding that we’re spending almost double what we had budgeted. Fortunately for us, our finances have enough slack in them to make up for the difference; but that might not be the case for everyone.

Another thing that can kill your budgeting attempts is eating out frequently. Our budget for that is relatively low, with us eating out two meals a week. But with preparing for a move, we found that we’re spending more on eating out than we’ve budgeted for. I mention this because such items easily slip into the monthly expenditures, destroying our budget.

With costs going up and money becoming tighter, there is less room in anyone’s budget for spending errors of this sort. So instead, we must be more cautious than ever to ensure that what we are spending is what we’re expecting to spend.

Find a Cheaper Way

All in all, the best thing any of us can do is find less costly ways to live. This might mean some profound lifestyle changes, but the changes will be small for most of us. For example, growing a vegetable garden and canning your food isn’t a significant lifestyle change, but it can go a long way towards lowering food costs. Likewise, baking bread in a bread-maker or baking your cookies can help save on the family budget without making considerable changes to your life.

But some things should be looked at which might force some change. For example, one of the significant expenses for many families is paying two-car payments. For some families, that works out to be just as much as making their house payment.

I never allow myself to be saddled with two car payments at the same time. Instead, I buy one newer car for my wife to drive, and I drive an old one. Hers is the family car. That way, I'm sure that she's driving something reliable. If something happens to mine, I'm probably going to be able to take care of it on the road. Even if not, I can have a buddy help me tow it back home to fix it.

Another thing to avoid is those monthly subscription services. There's a real temptation to have them today, to have access to everything we want. But do you need five television streaming services? Can you justify that as part of your expenses? Will you still be able to explain it when things get tight?

A Final Thought

While things aren't bad right now, there's every indication that they're going to get worse. That's why I wrote this article. I'm hoping to encourage you to take action now so that you won't have problems later. That's what I'm trying to do.

If you wait for things to get worse, then it's going to be much harder to make these changes. You'll be locked into what you've got, even if you can't afford it. That's how people end up losing their homes and declaring bankruptcy. I'm sure you don't want to be one of those in that situation.