

Making Sense of Investing

BY JESSICA PERRONE

Question:

Dear Jessica, I've recently heard more people talking about Inflation. Can you explain what it is exactly? - Michelle, Summit

Dear Michelle,

Thanks for writing in; you are not alone! It's a question I am frequently asked! According to Investopedia, "Inflation represents the rate at which the cost of goods and services increase over a period of time."

You probably see Inflation in your everyday life. Inflation translates to you, the consumer, paying more for products and services. Have you noticed a price increase when checking out at the grocery store or your favorite restaurant? What about the cost of filling up a car or SUV with gas?

There are three types of Inflation: Demand-Pull, Cost-Push, and Built-In.

Demand-Pull Inflation takes place when demand for goods/services exceeds production capacity. Take, for example, those limited edition Nike sneakers that all the teens seem to want. Nike restricts the number of sneakers produced, resulting in higher prices and demand. Because they sell out quickly, individuals can even turn around and sell those sneakers on a secondary market at a higher cost!

Cost-Push Inflation occurs when production costs increase prices. It is the type of Inflation you are most likely experiencing at the grocery store. The costs of making and transporting goods to your store aisles increase the price you pay in the check-out line.

Built-In Inflation happens when prices rise and wages rise too, to maintain living costs. Have you seen all the help-wanted signs around town recently? I've seen signs advertising rates of up to \$15/hr for entry-level positions. There are two reasons for this type of wage inflation. The first is due to a challenging labor market, and the second is a result of the Cost-Push Inflation that we as consumers are experiencing in our everyday lives.

An excellent example of both Built-in and Cost-push Inflation can be seen in McDonald's earnings report this past quarter. CNBC reported, "Operating costs and expenses rose by 14% in the quarter. Those higher costs include wage hikes by McDonald's and many of its franchisees to attract and retain workers in a tough labor market. The ingredients for menu

If you have any investing or money questions you'd like answered, please email me at hello@herfiniq.com



Jessica Perrone, Founder of HerFinIQ.com, is a Summit mom and experienced investor who's on a mission to empower women and teen girls through Financial and Investing Education. Each month, she will answer questions she commonly receives on how to invest.

staples like its Big Macs and McNuggets are also becoming more expensive."

In summary, Inflation is the measurement of increased costs, which people locally and nationally feel. From the increased price of family pizza night to a fill-up at the pump, when we see how it adds up on the credit card bill at the end of the month, chances are you can blame Inflation.

If you have any finance, investing, or money questions you'd like answered, please email me at hello@herfiniq.com.

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