



Rising Inflation: How does it affect you?

As reports of rising inflation in the UK flood the news, we thought the time was right to take a closer look at how it could impact you. With inflation hitting a 30 year high in recent weeks, it's bound to have an effect, so we thought it best to look into what could happen and how best to deal with the situation.

What is inflation?

Inflation is a measure of the relative value of a currency. It measures how much prices rise and fall and is tracked by several indices – mainly the consumer price index (CPI). The CPI records the average cost of 700 items including everyday items such as food and fuel and a figure is referred to as the headline rate is determined based on how much those prices have gone up over a year.

Why is the rate so high?

The rate of inflation has been rising recently and is currently at a 30 year high, but why is that? Well, one of the biggest contributors to the recent rise has been the increase in the price of petrol. The price of petrol rose by 5.1% month

on month in 2021 to reach a record high – with a 7.2p per litre increase between October and November being the biggest increase since the ONS (Office for National Statistics) began keeping records of the price in 1990. Other average prices have also risen recently, with second-hand cars becoming more expensive as issues with supply chains have consistently held up vast numbers of new cars going to market.

What does this mean for you?

In a nutshell, what this rise in inflation could mean for you is that your cash might not stretch as far as it previously had. If you are on fixed pay, then you may feel the effects slightly more as the prices of everyday items increase around you.

If you are saving, higher levels of inflation can cause problems. It may not make a huge difference in the grand scheme of things, but if you are looking to stretch your savings, moving to higher risk investments can sometimes reap more rewards – although there is an obvious increase to risk in this method.

What happens to your mortgage?

If you have a variable rate mortgage, the recent rise in the base rate will mean a slight increase in your repayments. However, many homeowners across the country have opted for fixed-rate mortgages, and monthly repayments will not increase for the duration of their fixed term.

In more general terms, a significant rise in inflation can have a negative effect on how far your income can stretch. The good news is there are measures in place to counter it such as the base rate increase and the proposed 6.6% living wage increase set for April 2022.



If you'd like to discuss the options available to you, contact your adviser today.