



The Lesser Told Impact of Inflation

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Inflation has been top-of-mind in recent years as prices across categories soar and consumers and businesses continuously try to adapt and overcome a rapidly changing economic environment. While the surging inflation rates have cooled, and the Federal Reserve is making efforts to raise rates and lower inflation, the effects across consumers and business owners are still prevalent.

While in straightforward terms, high inflation simply means higher prices, the ripple effect of this affects businesses and consumers in profound ways. From rising debts to altering shopping habits, to skyrocketing operating costs and impacts on business growth attitudes and morale, the effects of recent soaring inflation will have a profound impact for years to come.

Beyond the headline-grabbing price hikes, a hidden narrative unfolds, painting a picture of how inflation subtly transforms everyday lives and economic landscapes. This expanded narrative delves into the lesser-told impacts of inflation, exploring its far-reaching consequences on consumer behavior, business strategies, and the very fabric of our society.



Household Savings Are Falling, Debt is Rising

Besides rising prices impacting where and how consumers spend their money, inflation has affected long-term investment opportunity. Simply: savings are down, debt is rising. As wages haven't kept up with inflation, many are driven to use loans and credit cards to pay for necessary products and services.

According to Medallia, research found that 30% of consumers have more current outstanding debt as of June 2023 compared to the beginning of the year and 50% of households are either just barely making ends meet or are unable to do so, up from 40% in August 2021.

Inflation often exacerbates existing economic disparities. Low-income households, already struggling to make ends meet, are disproportionately affected by rising prices, further widening the income gap and perpetuating a cycle of poverty.



The Erosion of Purchasing Power

Rising prices outpace income growth, creating a squeeze on household budgets. Individuals are forced to prioritize essential needs, sacrificing discretionary spending on non-essentials like entertainment, travel, and even healthcare. This shrinking discretionary budget impacts not only personal well-being but also industries reliant on these expenditures.

Shopping Habits Are Changing and Consumers are Buying Less

While we've discussed that consumer shopping habits are affected by inflation, we haven't discussed exactly how that sentiment manifests. While you can't make general statements for every individual's shopping habits, there are trends emerging that highlight the impact on shoppers.

Rising inflation means that overall, consumers will spend less. Shoppers are prioritizing purchasing staples rather than luxury items – think only buying groceries, necessary home supplies, etc. in lieu of buying a new television. Inflation also impacts which staple goods are being purchased. According to J. P. Morgan, "Cash-strapped consumers are also trading down to own- or private-label goods—products sold under a retailer's name, typically at a lower price than their branded counterparts—as a consequence of inflation."

Additionally, the customer experience plays a much larger part on where individuals are choosing to shop. Even in the face of rising prices, a brand that delivers an exceptional customer experience will garner attention from consumers.

Intergenerational Impact

The long-term effects of inflation go beyond the immediate challenges. Young adults entering the workforce face higher living costs and potentially stagnant wages, hindering their ability to build wealth and achieve financial security. This creates a ripple effect impacting future generations.

Social Unrest and Political Instability

Prolonged periods of high inflation can contribute to social unrest and political instability. Frustration with economic hardship can lead to protests, strikes, and even political upheaval. It is crucial to address the root causes of inflation and implement policies that mitigate its negative consequences.

The Impact on Business: Higher Utility, Transportation, and Equipment Costs

In the flipside, inflation affects businesses in other similar ways. The costs of materials, products, and services increase, creating an environment where prices need to reflect the higher cost of production, employees increase pressure for additional compensation, and general expenses to keep the lights on keep growing.

These pressures manifest in different ways. As food costs increase, for example, restaurants may resort to buying lower-quality stock or simply lessen the customer experience with smaller portions or higher prices.

Additionally, inflationary pressures can exacerbate pre-existing supply chain disruptions, leading to stock shortages, production delays, and increased costs.



The Adapting Attitude of Businesses

Inflation affects the trends of businesses in much the same way it affects consumers.

According to Forbes, "...higher costs of services can affect the amount of cash you have on hand. Cost increases might force you to forgo any large expenditures while cutting everywhere you can. Inflation might make you think twice about expanding." This creates an entire shift in attitude as a business owner. Rather than thinking about growth, you're thinking about where you can cut or maintain expenditures – about how you can preserve the customer and employee experience while also making the cuts necessary to keep your doors open.

In the long-term, inflation can affect a businesses' daily, annual, and programmatic objectives. Businesses feeling the pressure of inflation won't make financial risks, will spend less on marketing, and may even delay product launches. This attitude shift doesn't just affect the present initiatives, but we will likely see the ripple effect of this period for years to come.



Employee Morale

We can't discuss inflation without discussing layoffs, and we can't discuss layoffs without discussing employee morale. It's a given that as costs soar and affect a businesses' bottom line, making cuts to workforce, freezing hiring, and even making changes to compensation is not an uncommon occurrence. All of these events play a heavy role in changing the employee experience and engagement.

Employees feeling the pressure of impending layoffs or having experienced a cut in compensation will inevitably transfer that stress into the workplace. Additionally, employees who have survived a layoff will be experiencing the guilt and anxiety that accompany that. With the combined financial pressure at home alongside workplace stressors, inflation undoubtedly makes an impact on employee morale, engagement, and overall satisfaction.

The constant pressure of rising costs and financial strain takes a toll on mental health. Stress, anxiety, and even depression can arise as individuals grapple with making ends meet. These impacts ripple through society, affecting work performance, relationships, and overall quality of life.

The impact of inflation extends far beyond the price tag. It shapes individual choices, business strategies, and the very fabric of society. While the recent inflationary spike may have eased, its effects will continue to be felt for years to come. Recognizing the full scope of its impact, from the individual struggles to the broader societal implications, is crucial for building resilience, fostering empathy, and crafting effective policy responses that prioritize not just economic stability but also human well-being in the face of rising prices.

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