Inflation & Unemployment Reference

Key economic indicators affecting your finances

INFLATION

Definition: Rising prices over time, reducing purchasing power

Measured By: Consumer Price Index (CPI) - tracks prices of common goods/services

Target Rate: Fed aims for 2-3% annually (stable growth without excessive price increases)

Personal Impact: Your money buys less over time. $100 today = $97 purchasing power next year at 3% inflation

Winners from Inflation

- Borrowers (debt becomes easier to repay)
- Homeowners with fixed mortgages
- Stock/real estate investors
- People with inflation-adjusted wages

Losers from Inflation

- Savers (cash loses value)
- Fixed-income retirees
- Lenders (repaid with cheaper dollars)
- People on fixed salaries

UNEMPLOYMENT

Definition: Percentage of workforce actively looking for work but unable to find jobs

Types:

- **Frictional:** Temporary between jobs (normal, 2-3%)
- **Structural:** Skills don't match available jobs
- **Cyclical:** Due to economic downturns (recessions)

Full Employment: 4-5% unemployment (some frictional unemployment always exists)

Personal Finance Strategies

During High Inflation:

- Invest in stocks, real estate, TIPS bonds
- Negotiate raises annually (3-5%+)
- Lock in fixed-rate debts
- Avoid holding large cash balances
- Buy durable goods before prices rise further

During High Unemployment:

- Build 6-12 month emergency fund
- Continuously upgrade skills
- Network and maintain industry connections
- Consider job security over salary
- Have backup income sources

💡 **Key Takeaway:** Inflation and unemployment are major economic indicators. Monitor them to protect your purchasing power, make smart career choices, and time financial decisions. Aim for investments that beat inflation and careers with strong job security.