Rising Costs

When it comes to the prices of the goods that we buy, you may have heard people complain about inflation. But what does that mean?

Inflation is an economic term, and it refers to the price of goods and services generally increasing over a period. Often, it is such a slow increase that consumers do not even notice it until years later. We know that inflation occurs regularly, and people can try to plan for increased prices throughout their life. For example, the price of milk today most likely won't be the same ten years from now. However, sometimes there is an unexpected sharp rise in cost, and that can cause problems for individuals and businesses alike. The rising price of everyday goods and services effects everyone, but why does it happen? There are many factors that goes into inflation, but two are highlighted below: demand pull inflation and cost push inflation.

At times, there is an increased demand for products and services than the supply will allow, making the price increase. Who is demanding these goods to make the prices rise? Usually, it's households, businesses, governments, or foreign buyers. For example, during a natural disaster such as a hurricane or tornado, it is often harder to get resources such as gasoline. As a result, the price of gas increases, because there is not enough of it to meet the demand. This is an example of "demand-pull inflation."

The cost of raw goods and materials that goes into making a good or service often increases. Pretend you're building a house. You'll need lumber, windows, carpet, etc. If the cost of lumber rises, so will the cost of your house. Another example is a Starbucks latte. To make this, Starbucks needs milk. If the milk price increases, so does the price of your latte. This type of inflation is called "cost push inflation."

The Consumer Price Index (CPI) measures and keeps track of the costs of goods and services. CPI statistic is often used to identify periods of inflation.