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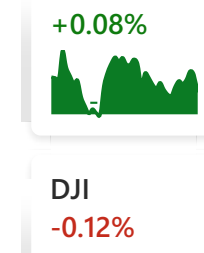
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# I'm an Economist: Here's Why I Don't Think Americans' Finances Will Ever Fully Recover From Inflation

Story by Martin Dasko • 1mo • 6 min read

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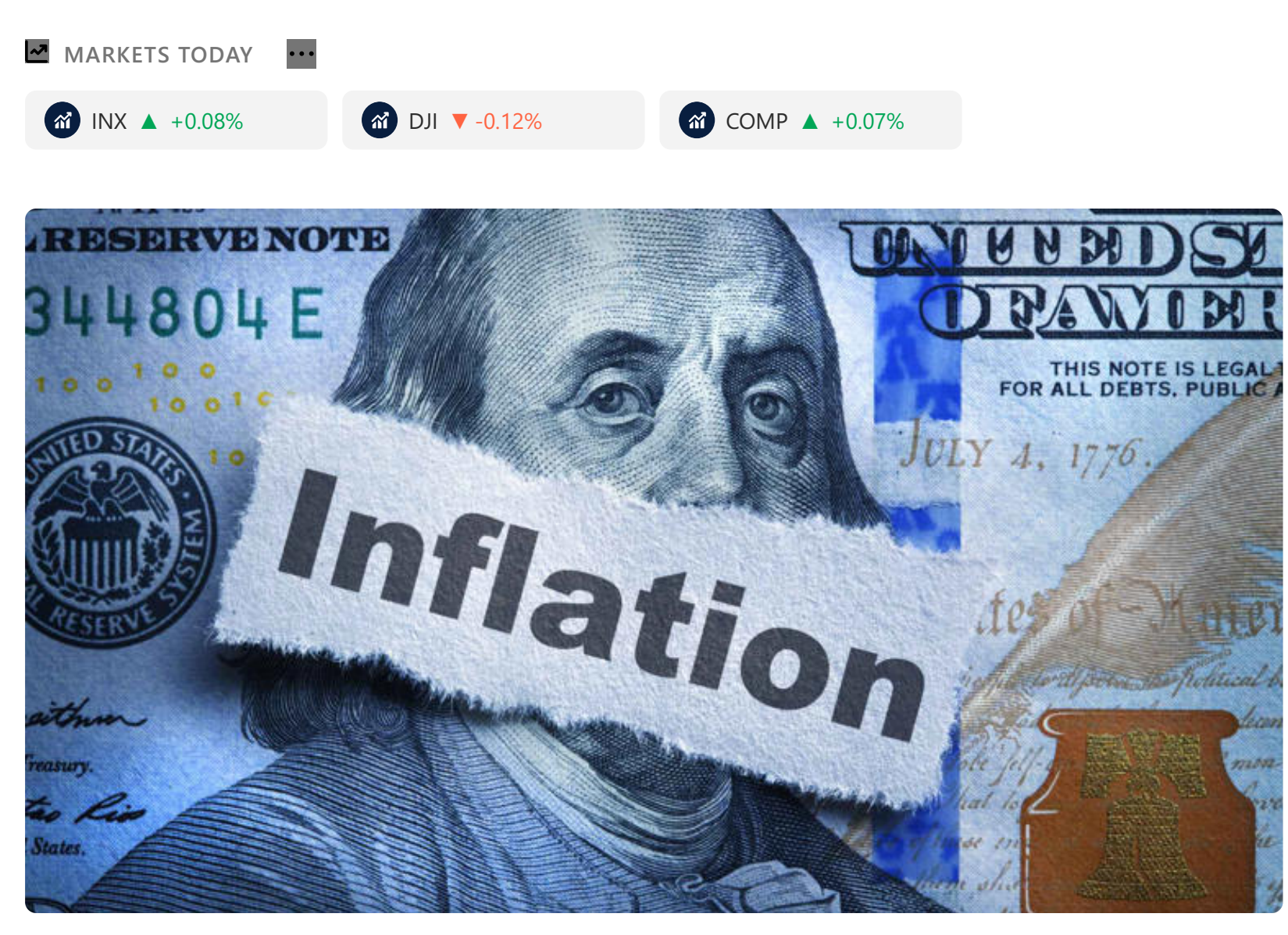

Inflation
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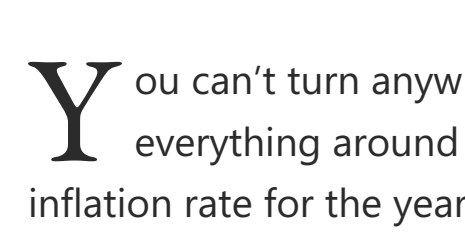
You can't turn anywhere without hearing about the impact of inflation since everything around us has become more expensive over the last few years. The inflation rate for the year ending in May was 3.3%; however, inflation peaked at 9.1% in June 2022, reaching the highest level in over 40 years.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At the time, the cause of inflation was a combination of unique factors, such as the supply chain disruptions from the pandemic, a shift in consumer spending habits as consumers had pent-up demand, and the war on Ukraine spiking energy costs globally.

We will review the damage already done to the finances of average Americans and how it won't be truly possible to recover completely.

## The Impact of Inflation

Before we can consider discussing the idea of recovering from inflation, it's crucial to review its current impact on the daily lives of Americans.

"The damage is mostly to the lower class who are seeing higher food prices and rents," noted Ernan Haruvy, a behavioral economist [x] and Professor at McGill University. "While salaries have outpaced inflation, these gains do not apply to those on minimum wage, fixed income, or government benefits."

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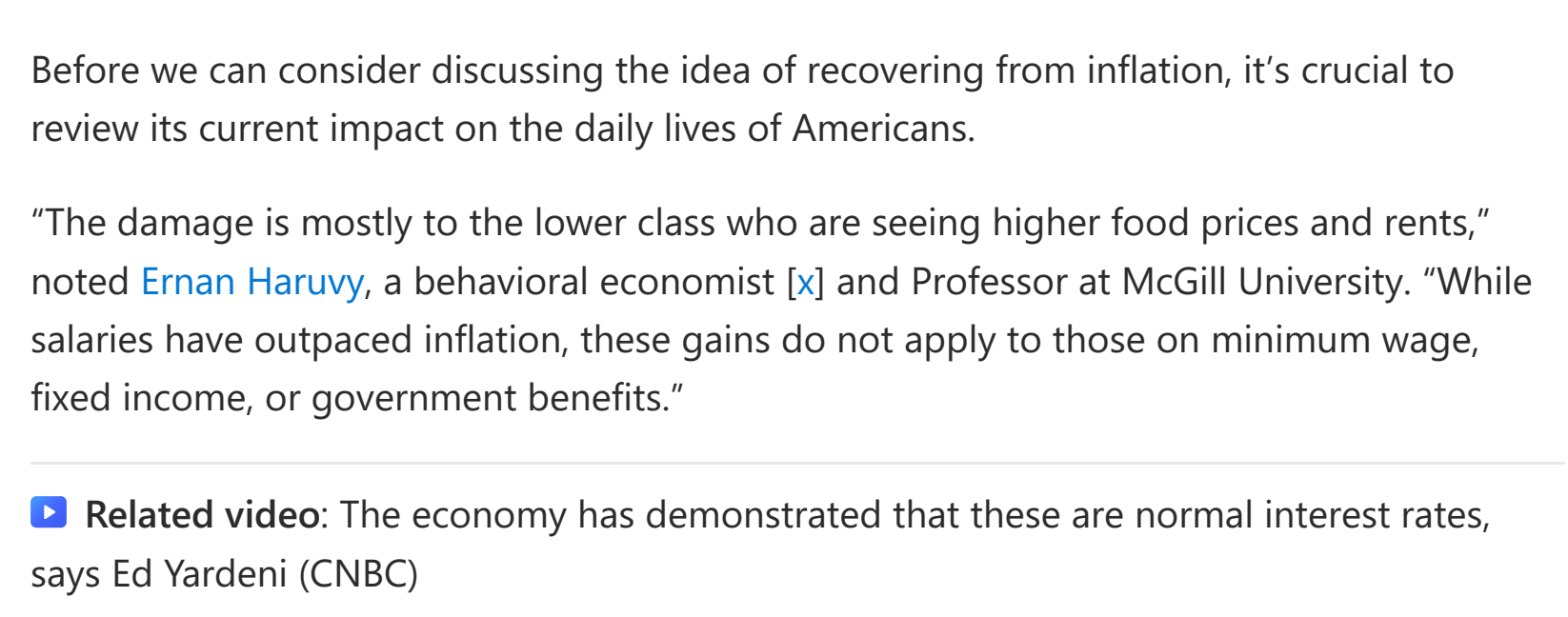
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Even if the inflation rate slows down in 2024 and moving forward, the damage has already been done in terms of how expensive necessities have become. The higher prices have been proven to be a challenge for Americans as they struggle to make ends meet.

"Inflation has already done its damage, and some costs that spiked are probably not coming down to where they once were," remarked Joe Camberato, an economics expert and CEO of National Business Capital. "Even if prices drop a bit, they probably won't return to their pre-inflation levels."

Americans may have to accept that prices won't be coming down and that this is the new normal. This means that the elevated housing prices and grocery costs are likely here to stay even as we celebrate inflation slowing down.

## Prices of Everyday Expenses Increased Greatly

With prices increasing, keeping up with certain expenses has been challenging since some costs have reached record levels. The two most common issues are food and housing, which we will break down.

## Living Costs

The cost of rent and homeownership has spiked in the last few years, and many Americans aren't able to keep up. According to data compiled by The Washington Post, home prices have shot up 54% since 2019. The median house price for an existing home has increased 5.8% in the last year to $419,300.

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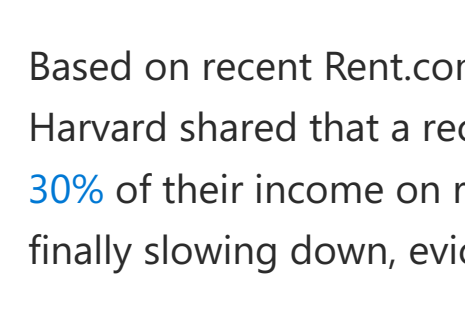
Based on recent Rent.com data, the national median rental rate was $1,987. A report from Harvard shared that a record high of 22.4 million American households spent more than 30% of their income on rent and utilities. The report also stated that despite rental prices finally slowing down, evictions have risen.

With housing prices increasing rapidly, those who wanted to enter the real estate market likely have been forced to wait. With those spending more than 30% of their income on living expenses, they've likely had to make sacrifices in other areas, like their eating expenditures and entertainment options.

## Food Prices

According to USDA and BLS data, food prices went up 9.9% in 2022, the fastest increase since 1979. Food-at-home prices for 2022 were up 11.4%, so even those who tried to stay frugal by preparing their meals felt the burn. The food price growth slowed to 5.8% in 2023, but this, combined with the increases from the previous year, has made groceries much more expensive.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With grocery prices shooting up 25% since the pandemic started, according to the Federal Reserve, the impact of inflation will be felt for a long time. These increased prices are hurting Americans already struggling to keep up with rent and living costs.

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## Why a Full Recovery Won't Be Possible In The Near Future

"The reality is that prices rarely go back to what they once were," Camberato said. "Think about the cost of a home in 1980, then in 2000, and now. Prices generally keep rising."

Since prices have shot up tremendously on so many everyday expenses, a full recovery will be nearly impossible. As inflation slows down, it doesn't look like any of these major expenses will see a price drop.

Camberato added, "Unfortunately, there's no way to recover the financial losses of the past few years completely. What's crucial is learning from these experiences. We need to plan and take action for the future."

Economic experts agree that recovering the financial losses of the last few years will likely not happen and that Americans may have to focus on adjusting to this new normal.

Haruvy noted that America has experienced worse inflationary periods and recovered eventually, but the short term will be painful for some families, resulting in long-term behavioral adjustments that will reverberate for the foreseeable future. While families may be able to recover by paying off debt, it may be difficult for many to enter the real estate market or to maintain their previous quality of living.

## Americans Have Gotten Into Debt

We can't ignore the reality that many Americans have gotten into debt. Based on data compiled by the Federal Reserve Bank of New York, the total American credit card balance reached $1.29 trillion in the final quarter of 2023, the highest figure since tracking started in 1999. While the balance dropped to $1.115 trillion in the first quarter of 2024, it's evident that the average person relys on credit cards to get by as adjusting to the higher prices isn't easy.

## Inflation Has Impaced Everyone Differently.

While struggling Americans may not be able to fully recover, it's important to note that wealthy people may have experienced a different financial fate.

Haruvy pointed out, "There is limited damage to wealthy Americans who might have to pay capital gains taxes on inflation-linked assets."

## What to Expect Next

"We've all experienced a turbulent few years, and economic challenges like these have occurred throughout history," noted Camberato. "We need to accept that they'll keep happening, and we must prepare for them."

While a recession often follows periods of soaring inflation as part of the economic cycle since the Fed has to intervene by raising rates, a recession could be avoided this time. However, the impact of high inflation and increased interest rates will hurt Americans financially as they struggle to keep up with basic living expenses.

Haruvy elaborated, "The most noticeable effects will be a decline in the savings rate and reduction in savings and investment for long-term planning, such as for retirement, college, and home ownership."

Many experts will point to the strong job market as a metric that has helped the country avoid falling into a recession, but this doesn't mean that Americans aren't experiencing hardships when it comes to paying their bills.

## How You Can Fight Inflation

One of the best things you can do is take proactive measures to fight inflation. As frustrating as it is to see prices going up, we have to accept that this is likely the new standard to adapt to.

"To counter inflation, you need to increase your income, invest wisely, and stay proactive," remarked Camberato. "Inflation never stops–it's always there. You plan for it and use your money to outpace the inflation rate. This way, you can be better prepared for retirement and your later year."

It's critical to accept that inflation has already impacted Americans' finances and that a full recovery may not be possible. However, this doesn't mean that we can't do our best to improve our financial situation moving forward.

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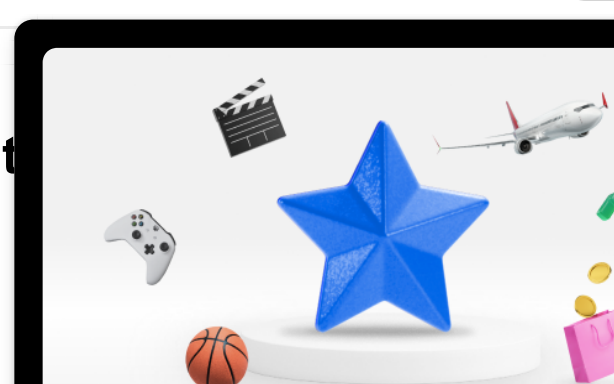
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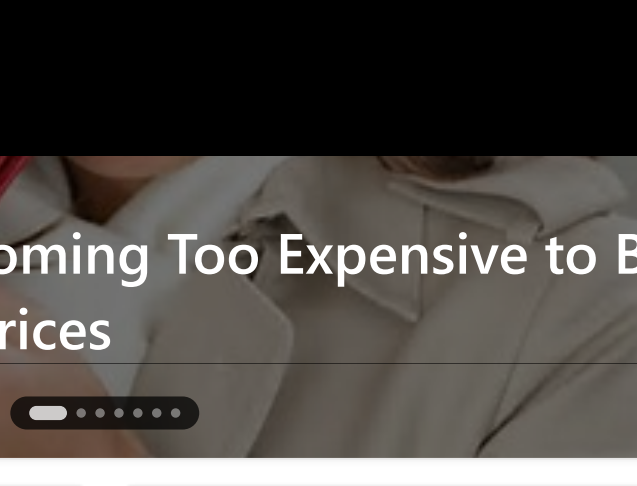
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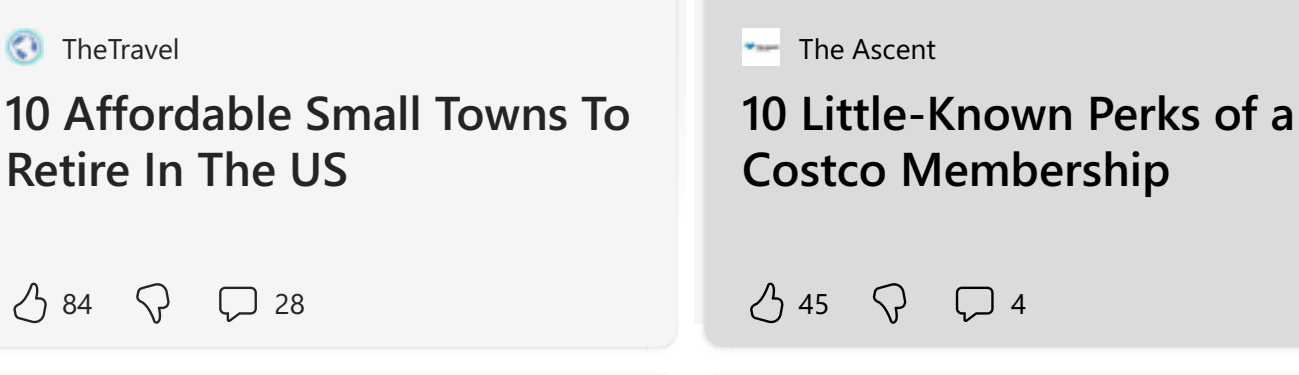
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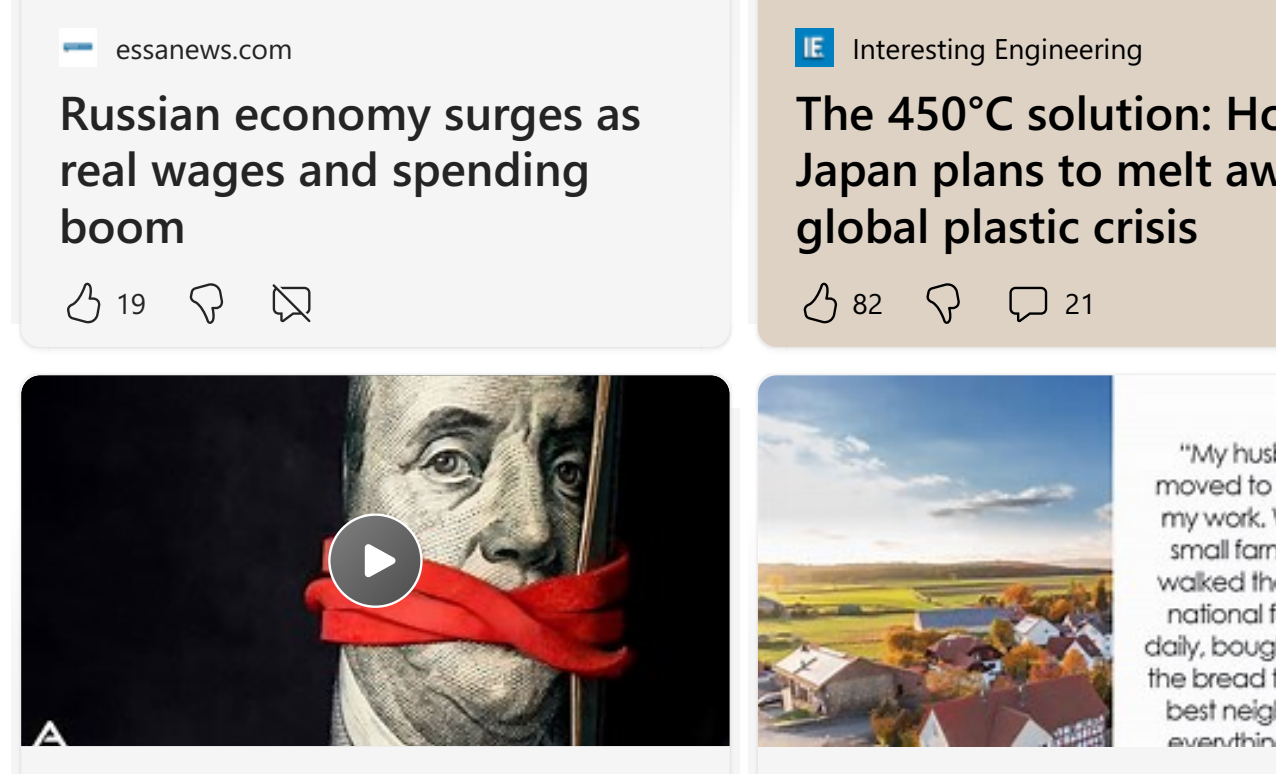
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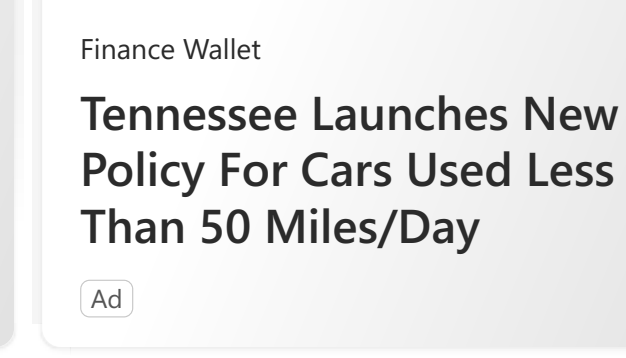
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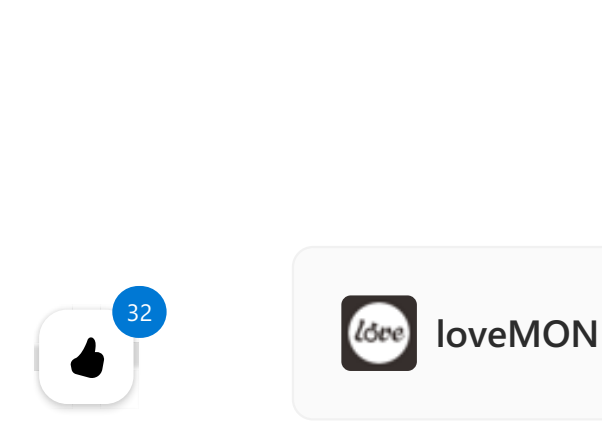
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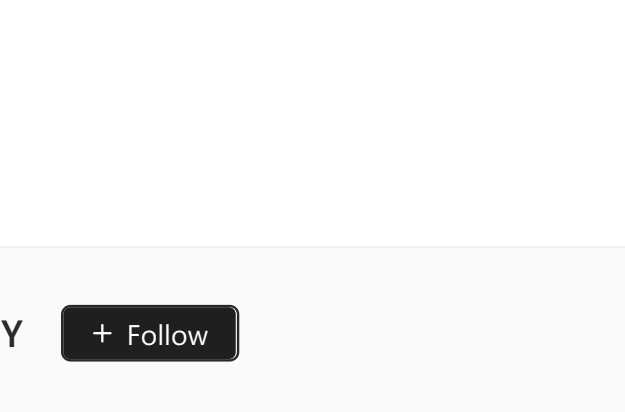
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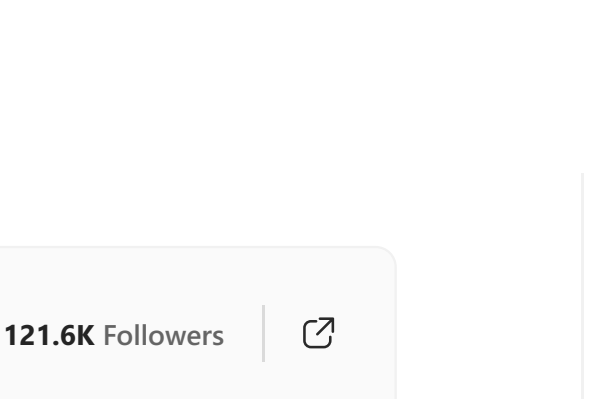
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I got some good advice from my grandfather when I was young. Never skimp on the things that connect you to the earth. Don't skimp on shoes, tires, and bed. There are obviously others in those categories but I agree. Quality tires will save your life, good shoes will save your feet, and good bed will help you sleep

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Story by Daniel Coughlin • 1mo

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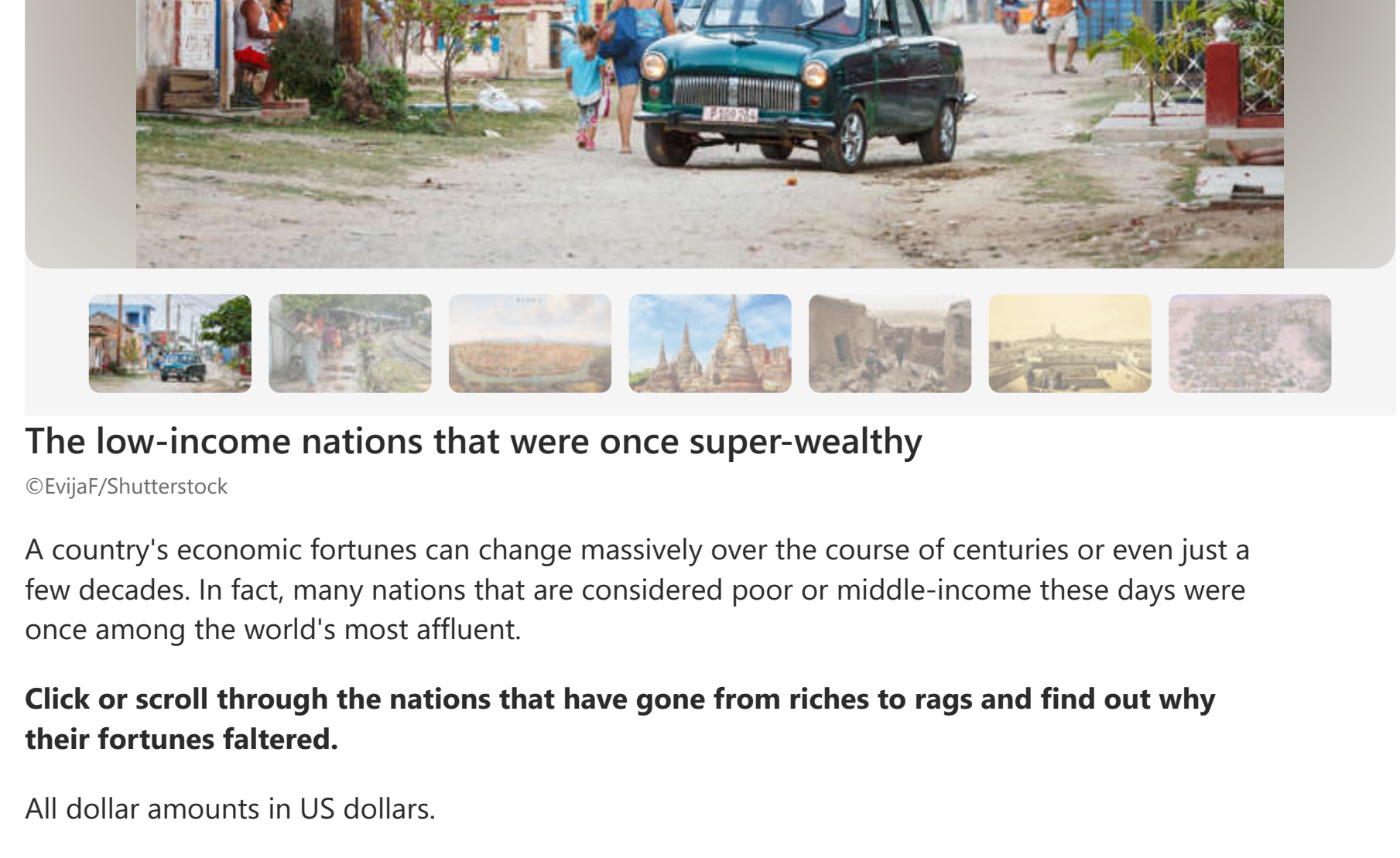

The low-income nations that were once super-wealthy
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A country's economic fortunes can change massively over the course of centuries or even just a few decades. In fact, many nations that are considered poor or middle-income these days were once among the world's most affluent.

**Click or scroll through the nations that have gone from riches to rags and find out why their fortunes faltered.**

All dollar amounts in US dollars.

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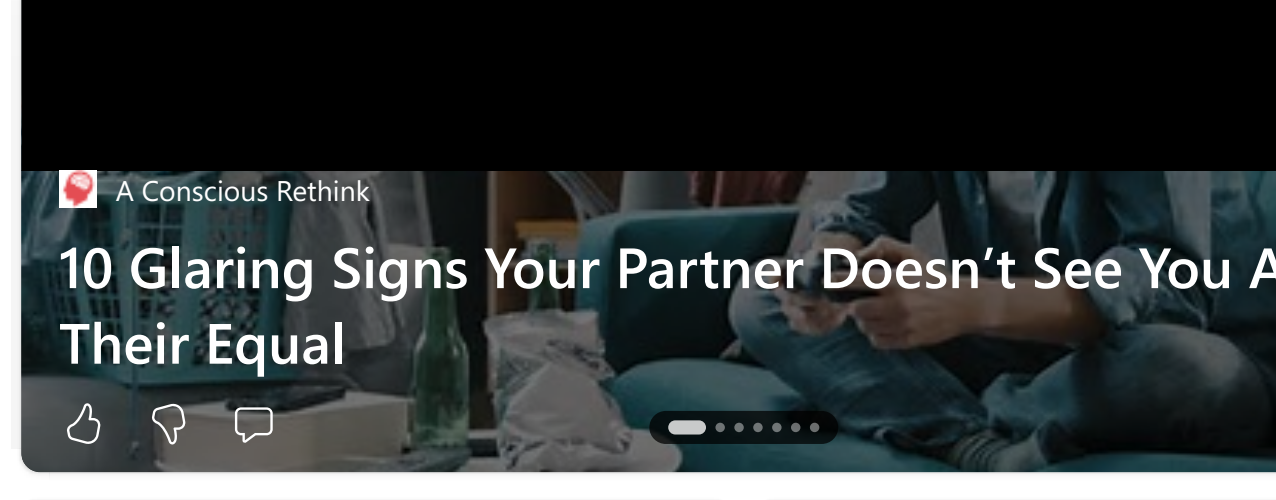
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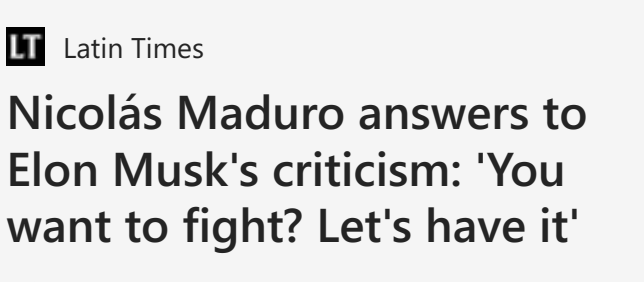
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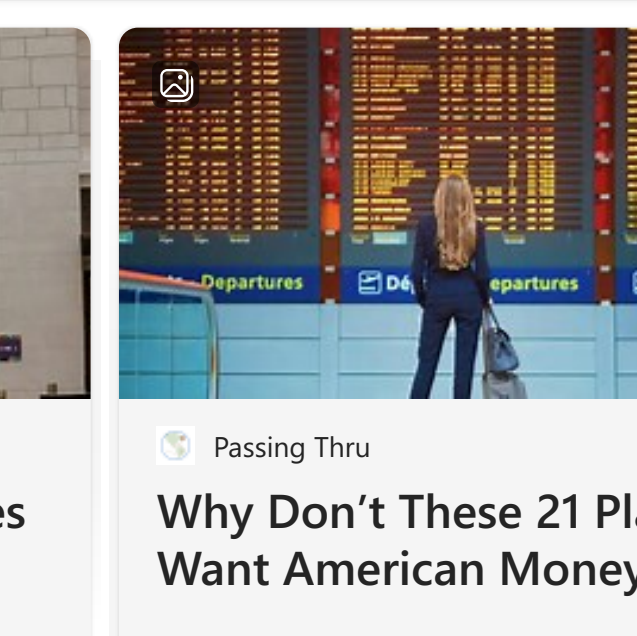
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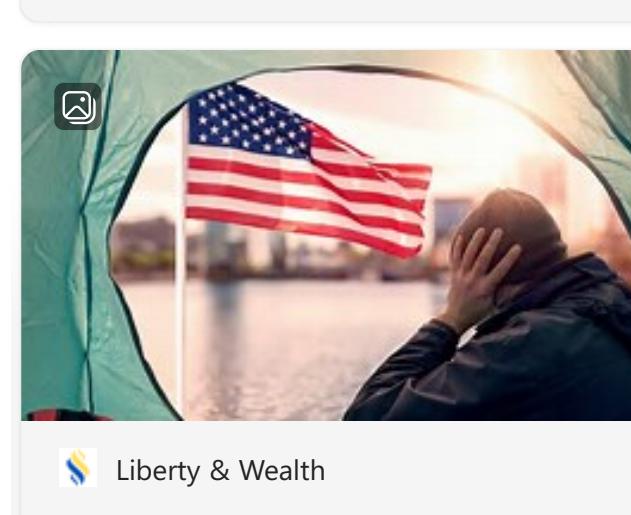
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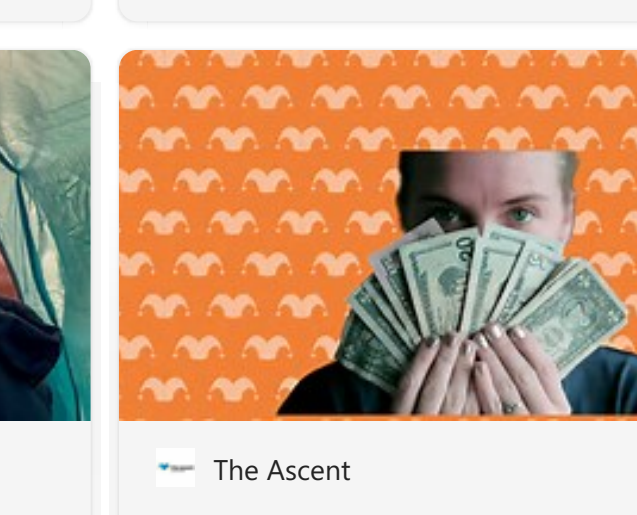
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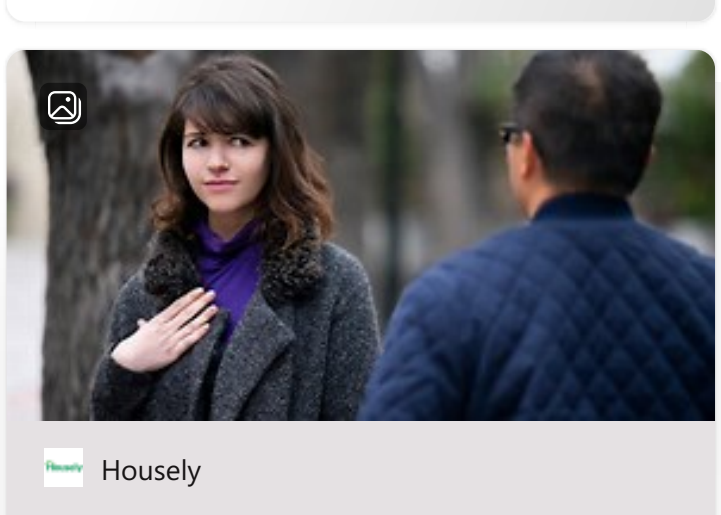
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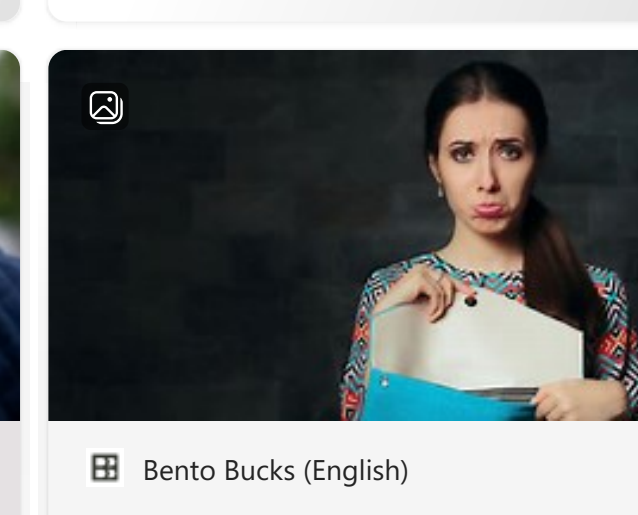
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