

Why Does It Feel Like We're Working Harder Each Year?

Do you ever feel that, despite advances in technology and efficiency, maintaining the same lifestyle seems to require more effort each year?

You're not imagining that feeling. The answer largely lies in how inflation and purchasing power work over time.

What Is Inflation?

Inflation is the general increase in the price of goods and services over time. When inflation rises, each pound buys slightly less than it did before.

Central banks often aim for a modest level of inflation (historically around 2% per year), as this is considered consistent with economic stability and steady growth. However, even small levels of inflation compound over time.

For example:

- At 2% annual inflation, prices roughly double over 35 years.
- That means income must also grow to maintain the same purchasing power.

If wages rise broadly in line with inflation, living standards can remain stable. If wages grow more slowly than prices, households may feel financially stretched.

Compounding Effects

Inflation does not operate in isolation year by year — it compounds.

A 2% rise this year followed by 2% next year builds over time. Over long periods, this gradual erosion of purchasing power can become significant.

This is one reason why standing still financially can feel like moving backwards.

The Role of Money Supply and Economic Policy

Governments and central banks influence economies through interest rates and monetary policy. At times — particularly during economic downturns — money supply may increase in an effort to support economic stability.

The long-term effects of such policies are widely debated among economists. What matters for individuals is that:

- Economic conditions can change
- Inflation can accelerate unexpectedly
- Purchasing power may decline if income and assets do not keep pace

Shouldn't Technology Make Life Easier?

In many ways, it has.

Technological innovation — including automation, digital platforms and, more recently, developments in Artificial Intelligence (AI) — has improved productivity and reduced the cost of many goods and services over time. Access to communication, computing power and information is significantly cheaper and more accessible than it was in previous decades.

However, not all areas of spending are influenced equally by technological progress. Essential costs such as housing, energy and food are affected by supply constraints, regulation, global markets and economic policy. These factors can drive prices higher regardless of improvements in technology.

As a result, efficiency gains in some areas of life do not always translate into lower overall living costs.

What Does This Mean for You?

The key takeaway is not that the system is flawed, but that inflation is a persistent economic factor.

If cash savings do not grow at least in line with inflation, their real value declines over time. This is why many people consider:

- Career development and income growth
- Owning productive assets
- Long-term investment planning
- Diversification

Cash savings remain appropriate for emergency funds and short-term expenditure planning. Investment decisions should only be made where capital is not required for immediate needs and where the associated risks are understood.

While some investments have historically delivered returns above inflation over long periods, past performance is not a reliable indicator of future results.

Investment Risk Information

Investments are not suitable for everyone. The value of investments can fall as well as rise and you may get back less than you invest. Investment returns are not guaranteed and markets can be volatile, particularly over shorter timeframes.

You should consider your financial objectives, time horizon, capacity for loss and attitude to risk before investing. If investment losses would materially affect your financial security or peace of mind, this should be carefully assessed before proceeding.

Diversification does not remove risk and does not guarantee positive returns.

Important Information

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If you would like to review your financial position or discuss whether any investment strategy is appropriate for your circumstances, please contact us to arrange a personalised discussion.