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How inflation eats into your paycheck

Gas isn't the worst of our pain, as prices everywhere are rising

By Becky Pallack

ARIZONA DAILY STAR

Like a lot of people these days, Julie Rivers is doing everything she can think of to stretch her paycheck.

She canceled cable and Internet services, stopped going out to eat and traded in the family's second car for one with better fuel economy. She works overtime, clips coupons and uses the food bank.

"It works — but barely," said the 23-year-old nurse assistant.

Prices for things she buys and her various bills are going up, but she didn't get a pay increase at work. For a lot of people, that sounds familiar.

A year ago, paychecks were growing faster than prices, but now wage growth is behind the rising costs of food, fuel and other parts of the family budget.

Overall inflation is rising at an annual rate of 3 percent this year, down from a 4.1 percent increase for all of 2007. Meanwhile, inflation-adjusted wages for non-supervisory workers have gone down for seven straight months, according to the Labor Department.

Inflation has been greater than wage growth since November, said Gus Faucher, director of macroeconomics for Moody's Economy.com, an independent economic research group.

Wages will continue to weaken, but inflation should slow because energy prices aren't going to go much higher, he said. Real income — that is, what your paycheck can buy — isn't going to grow anytime soon, though, probably for two years, he said.

Low- and mid-income workers are the hardest-hit, Faucher said. Their wage growth is the weakest, plus they spend more of their income on things with rising prices, such as gas and food.

"They're getting a double hit there," he said.

Rivers' family, which includes her husband, two toddlers and her mother, is worse off financially than it was a year ago, she said.

Her wages haven't changed, but the price of gas, electricity, groceries, car insurance and a car loan have all gone up in her budget. Plus, she and her husband have a lot of credit-card debt, she said.

"We really pinch pennies," said her mother, Ladonna Banks, who baby-sits the children while their parents work.

The family is behind on some bills, but a tax refund and economic

Extra training pays

In the short term, the best strategy for beating the economic slump is watching your spending. In the long run, job training might be the best option.

"If you can improve your skills, you can boost your earnings and improve your standard of living," said Marshall Vest, an economist with the University of Arizona's Eller College of Management. "That's the tried-and-true way of getting ahead."

Arizona Department of Commerce figures on the wages of workers in Pima County bear out this idea.

- The average wage for home health aides increased only 3 percent between 2002 and 2006, but it rose 21 percent for registered nurses.
- The average wage for floor layers didn't change in that five-year period but rose 10 percent for carpenters.
- The average wage for avionics technicians increased just 1 percent, while it grew 11 percent for electronics drafters.

Your budget vs. inflation

Because of rising prices, your paycheck doesn't buy as much as it did a year ago. In this example of a monthly budget for a family of four, the rising costs of gas, groceries, child care and rent add up to a 13 percent increase in spending.

stimulus check helped, she said.

Most people will keep their jobs as the economy slows, but workers will be hurt by reduced hours and overtime, plus downward pressure on wages, said Heidi Shierholz, an economist with the Economic Policy Institute, a liberal, independent think tank.

If inflation is here for the long-term, it could result in more demand for higher wages, which in turn causes prices to rise more. The spiral happened in the 1970s, but Marshall Vest, an economist with the University of Arizona's Eller College of Management, said he doesn't think it will happen this time.

Vest thinks the slowing economy will "put a lid on inflation" and make it a short-term problem.

The outlook for wages versus inflation is probably better in Arizona than nationwide, he said.

Statewide, private-sector wages for 2007 rose by 4.7 percent on average. This year could be more like 3.1 percent on average, Vest said.

It's a slowdown, but it's still not bad, he said. There won't be any big wage increases, but people still working in the growth-based industries — such as mortgage banking and construction — "are very lucky to have jobs today."

CHILD CARE FOR ONE CHILD

Monthly cost today	Cost 2007	Difference	Increase
\$484	\$460	\$24	5%

GROCERIES

Monthly cost today	Cost 2007	Difference	Increase
\$672.50	\$469.70	\$202.80	43%

FOUR TANKS OF GAS

Cost today	Cost 2007	Difference	Increase
\$217.60	\$186.88	\$30.72	16%

MOVIE TICKETS

Monthly cost today	Cost 2007	Difference	Increase
\$31.50	\$29.00	\$2.50	9%

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	Cost today	Cost 2007	Difference	Increase
Groceries	\$672.50	\$469.70	\$202.80	43%
Four tanks of gas	\$217.60	\$186.88	\$30.72	16%
Child care for one child	\$484.00	\$460.00	\$24.00	5%
Rent	\$668.00	\$655.00	\$13.00	2%
Movie tickets	\$31.50	\$29.00	\$2.50	9%
Electric bill	\$82.55	\$82.55	\$0.00	0%
Phone bill	\$24.00	\$24.00	\$0.00	0%
Cable bill	\$19.95	\$19.95	\$0.00	0%
Auto insurance	\$70.58	\$70.92	-\$0.34	0%
TOTAL	\$2,270.68	\$1,998.00	\$272.68	13%

Sources: RealFacts, Tucson Electric Power, Qwest, Cox, Child Care Resource and Referral, AAA Arizona, Insurance Information Institute, Hewitt Associates, Century Cinemark Theatres Note: Grocery basket is a list of 32 items from annual Star grocery-price survey. The basket's costs are from a Wal-Mart Supercenter and multiplied by five to reach a monthly price.

On StarNet: For tips on cheap food and coupons in order to keep a handle on rising costs, visit the Star Savers blog at go.azstarnet.com/starsavers.

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