

Lifestyle Inflation



What it is, what causes it, and what you can do about it. BY PRIYANKA SANGANI

WHEN DID YOU LAST UPGRADE your cellphone? Three months back? And the previous one? Another six months? Maybe you're sporting grander tags on your clothes and watches, driving a more expensive car, and spending more on multiplex movies as well. If a growing economy has put more money into your hands, it has also brought along a propensity to spend more than you require. It's inflation of a different kind, lifestyle inflation.

Says Rohit Sarin, Partner, Client Associates: "People's incomes have gone up. Along with this, attitudes towards spending and saving have also changed." Another reason for lifestyle inflation is the easy availability of credit. Credit cards, debit cards and easy finance schemes have made it possible for the average salaried person to buy items that were earlier beyond reach. So, you'd rather buy a Santro car that costs around Rs 3,60,000 than the ubiquitous Maruti 800, which costs around Rs 2,31,000, simply because you can afford to pay the EMIs (equated monthly instalments).

While you're welcome to spend your money, it does throw your financial planning into disarray, and this is something financial planners are struggling with. The way out?

THE COST OF LIVING IT UP

	March 2004	March 2005
Total Annual Income (Rs)	20,00,000	24,00,000
Annual Expenses (Rs)		
EMIs (House, Car, etc.)	3,60,000	3,60,000
Cars (Petrol, Maintenance, etc.)	1,50,000	1,80,000
Household Expenses	1,56,000	1,98,000
House Maintenance	25,000	30,000
Domestic Help	48,000	54,000
Kids' Education	1,20,000	1,20,000
Medical Expenses	36,000	50,000
Clothes	1,25,000	2,00,000
Utilities (Phone Bills, Electricity Bills, etc.)	1,10,000	1,25,000
Gadgets (Cellphones, TVs, etc.)	90,000	1,20,000
Socialising/ Entertainment	78,000	1,08,000
Holiday/ Travel	2,00,000	2,50,000
Total Expenses	14,98,000	17,95,000
Increase In Expenses		19.82%

The overall expenses of Rajashekhar (name changed), working as a manager in an MNC, has gone up by nearly 20 per cent, well above the normal inflation (as measured by the change in wholesale price index) of around 5 per cent. The difference is due to the improvement in his lifestyle (as seen in the increase in spend on clothes, gadgets, entertainment and travel) and can therefore be called lifestyle inflation.

Says Ranjeet Mudholkar, CEO, Financial Planning Standards Board, India: "The emphasis on lifestyle costs has to be worked out at an individual level with the planner. Plans need to be changed to incorporate lifestyle changes." It is therefore important to revisit your financial plans on a regular basis to ensure that you spend sensibly.

But spend and sensibility don't often go together, so here are a few tips. First, try and increase your savings; second, get into investing in assets that are expected to give returns above the inflation rate (such as equity, if you can stomach stock market churns, or property). Most important, show some restraint; it's your money, after all. **bt**