Wants, needs and credit: How to make – and stick to – a budget

Having a clear picture of your income and expenses – as well as what to want and choose to spend that money on - is more important than ever. Let's look at how to budget for inflation.

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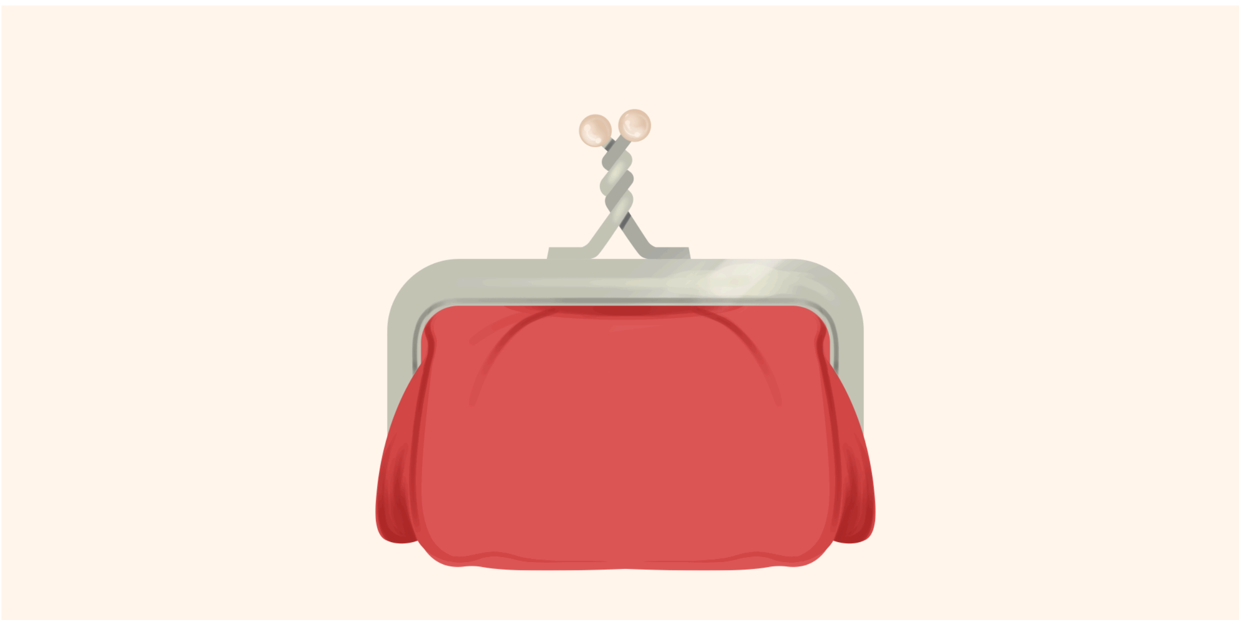

Price increases, like the ones most Canadians have been experiencing due to inflation, are unlikely to decrease anytime soon, which means many can benefit from developing some budgeting skills that can be used now and into the future.

Income levels, expenses, lifestyle, and what a person considers a need versus a want are all factors to consider when starting a budget. But there may also be some new factors that have crept up as a direct result of inflation – like hefty price tags at the grocery store.

False sense of security

"Expenses have increased in absolutely every single category. I can't think of one that hasn't," says Bruce Sellery, chief executive officer at Credit Canada.

"Back in the days of yore, when there was inflation and you didn't have an increase in wage, you felt the pinch because you'd go to the store with your $100 cash and you couldn't buy all your groceries, whereas now you've got a credit card," says Sellery.

"You don't actually feel the pinch because you just aren't paying your credit card off in full."

Indeed, credit cards are becoming a common crutch for households as they battle against inflation and interest rate increases, but this dependence has pushed Canadian debt loads into record highs. Equifax Canada's Q2 2023 Market Pulse report released in September reported that Canadian consumer debt had ballooned to $2.4 trillion, with credit card balances reaching an all-time high of $107.4 billion.

But it's leading many to have a false sense of where their financial strain is really coming from, says Sellery, likening putting expenses on one's credit card to stretchy jeans.

"When you buy stretchy jeans, you can gain five pounds and it is no big deal. If you have regular jeans and a regular belt, you gain five pounds and you feel the pinch," he explains.

"One of the problems of our times is that you don't actually feel the pinch, but you have no wiggle room. Then all of a sudden, you have a car repair, and you're completely slammed. There's no early warning indicator."

Getting an accurate financial picture

For this reason, it's important for people to assess their budget and financial inflows and outflows at least once or twice a year. Sellery recommends the ABC method: Analyze, brainstorm, change.

"First, you're going to analyze what's coming in and you're going to look at what's going out. For instance, 'I spend this on my mortgage, this on takeout food, this on Ubers'."

This step allows people to see the hard truth of where their money is coming from and going to and, if there is a shortfall, leads to brainstorming what can be done to either increase income or cut expenses.

It also means committing to making the changes needed by ensuring it's realistic and sustainable, "because otherwise it's a nice theoretical piece of paper, and you feel disempowered, and you're never going to use it."

Where to cut back

A critical part of identifying areas to make spending cuts is determining wants versus needs, but this is a personal choice that depends on many factors in a person's life, such as living circumstances and values, which means it must be customized.

“One of the hardest exercises that we can do is determining needs versus wants. In the strictest sense, food, clothing, shelter, human connection, purpose are needs, right? Everything else is a want. Food is a need. (Shopping at) Whole Foods is a want,” says Steve Bridge, certified financial planner and coach at Money Coaches Canada.

Once a need is established, there may be some wiggle room within that category. For instance, one can determine that a vehicle is a necessity to get to and from employment or school, but having an expensive vehicle is a want. Or a cell phone might be a need, but the latest one is a want.

After this list of needs and wants is established, it’s time to decide: “What are you willing to do to have these things?” says Bridge, adding that it can mean making tough choices to take from one category to have something in another, “and because of inflation, those choices are now tougher.”

Popular blogs like Jacob Lund Fisker from Early Retirement Extreme can help inspire ways to cut back, Bridge adds. Fisker’s claim to fame is that he retired at age 33 from his job as an astrophysicist, continues to live on US$7,000 a year, and developed the FIRE (financial independence, retire early) movement.

As the name suggests, the spending cuts from Fisker, and those like him, can be very extreme.

“This is only for inspiration, to read it and go, ‘Oh, that’s interesting, they’re doing without all of these things’,” adds Bridge.

There are many budgeting tools and calculators online, including on the Credit Canada and Money Coaches Canada websites, that can help individuals start living within their means – and create financial habits that can be used in leaner times of inflation or not.