

# Inflation Trends and Their Impact on the Middle Class

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**Abstract:** Over the past few decades, inflation has become one of the biggest economic problems, affecting households' financial security all around the world. The middle class, as it frequently experiences both the combined pressure of slow wage growth and growing expenses, is one of the most affected groups. This paper analyses the ongoing inflation trends and how they particularly affect the purchasing power of the middle class. It draws particular attention to how families from the middle class are most negatively impacted by price increases for basic needs like food, fuel, and housing, by which their capacity to save and invest is restricted. The study aims to give readers an in-depth understanding of how inflation weakens middle-class economic stability through studying both macroeconomic data and regular household experiences.

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## I. INTRODUCTION

One of the most crucial challenges to the economy that has a direct impact on the everyday life of individuals is inflation. In simple terms, inflation is a hike in prices for goods and services, due to which money's purchasing power is eventually reduced. Although inflation affects all economies, the degree of impact and consequences vary depending on the income level of different groups in society. Among all three classes (poor, middle-class and rich), the most vulnerable class is the middle class, as it lacks the financial stability of the rich and also does not get any benefit from the subsidies and assistance as provided to the poor. In the past few decades, inflation has grown to a great extent in many countries, especially in India. The basic needs such as food, housing, and medical care are getting expensive day by day. This creates a serious burden for the middle class, whose income does not usually increase at the same pace as inflation. Due to this, their financial health gets disturbed and the way they live their lives also changes. As the middle class plays a crucial role in influencing investment, consumption, and overall economic growth, it is important to understand how inflation affects this group.

## II. LITERATURE REVIEW

For a long time, economists have been studying inflation, discussing and debating its causes and effects. While monetarists like Friedman highlighted the negative impacts of mild inflation on purchasing power, economists like Keynes view it as a booster for economic growth. Researchers expanded the debate by explaining both demand-

pull and cost-push factors, in addition to worldwide factors like fluctuations in the price of oil and disturbances in the supply chain.

There are several studies that underline how inflation creates an unnecessary burden on middle-class families. International and national organisations conducted several surveys and concluded that middle-class families spend most of their income on necessities/ basic needs. Hence, inflation as a result, inflation hinders long-term investments, squeezes savings, and lowers their ability to spend money. Unlike richer groups who often protect themselves through different types of assets, the middle class depend only upon their fixed salaries and very little savings, which make them more vulnerable to changes in prices. If concluded, the past studies reveal that the middle class is mainly negatively affected by inflation, which also acts as an obstacle to economic growth and development.

### ➤ Research Objectives

- To analyze trends in inflation and understand how price increases in essential goods and services.
- To analyze the adverse effects of inflation on middle class families, related to the basic needs like food, housing, healthcare etc expenses.
- To examine the negative effects of inflation on savings and investments of middle class families, their financial security is compromised.
- To study how consumption patterns of middle-class households change with inflation and what adjustments they make.

### III. RESEARCH METHODOLOGY

#### ➤ Research Design

The study follows a descriptive research approach is used in this study to explain recent inflation patterns and their effects. Analytical strategies are also used to determine how inflation reduces the purchasing power of the middle class and to what extent.

#### ➤ Data Collection

- Secondary Data: Data collected from various reports published by the Reserve Bank of India (RBI), National Statistical Office (NSO), World Bank, IMF, and academic journals.
- Primary Data: secondary findings are supported by local-level surveys and various questionnaires. These tools are used to collect data from selected families belonging to the middle class about their spending habits, their savings, and how their lifestyle changes during inflationary periods.

#### ➤ Sampling Method

Because families in the middle class are more strongly affected by inflation in urban and semi-urban areas, an effective sampling strategy is used to target them.

#### ➤ Scope and Limitations

This study gives special attention to middle-class families only. The sample size is chosen, and findings are concentrated, hence limited.

### IV. CAUSES OF INFLATION

According to the study, inflation is a complicated phenomenon that results from the combination of several national and international factors. The main causes of inflation are summarized through the following findings:

#### ➤ Demand-Pull Factors

Demand-pull factors play a very crucial role in influencing inflation. It is the situation when the demand for goods and services in the economy gets higher than their supply. Demand is frequently increased by urbanization, population growth, and mainly the rising consumer desires. The prices begin to rise, when the supply does not increase at the same pace as the demand.

#### ➤ Cost-Push Factors

It is another major cause of inflation. It is the situation when the production cost increases, and because of that, the producers pass on the extra burden on the consumers. The most common reasons include rising wages, expenses for transportation, costs of electricity, and raw material prices. For example, the global increase in the price of crude oil, lead to inflation across many sectors such as transportation, manufacturing and electricity etc.

#### ➤ Hike in Food and Fuel Prices

Food and fuel are two main components of the consumer choices, particularly in the nations like India. For example, Climatic changes, irregular monsoons have direct

effect o the inflation of food. In the same way, suppose if a country is dependent on the import of crude oil, it means that if any change occurs in the price of crude oil, inflation in the domestic country will be seen definitely. Inflation in these areas like food and fuel is harmful for the middleclass as they consume major portion of their income.

#### ➤ Supply Chain Disruptions

Latest geopolitical disputes and the COVID-19 pandemic like situations have highlighted clearly how vulnerable supply chains are. The global supply chains were gradually impacted due to the situations like, lockdowns, restricted transport services etc. Due to these disruptions the product availability in the domestic market decreased, and the price increased without the increase in demand. These kind of disruptions or changes are now becoming common day by day and are now considered as one of the major drivers of inflation.

#### ➤ Government Policies and Fiscal Deficit

High government expenditures like infrastructural development, welfare programs etc, increases the money supply in the economy. If this money supply grows faster than the But if the production of goods and services is slower than the supply of money, it will definitely lead to inflation. In the same way, when governments print money or borrow to finance deficits, the value of the money reduces and prices increase due to the excess money in circulation.

### V. IMPACT OF INFLATION ON MIDDLE CLASS

The middle class can neither easily adjust to the price increase as the rich nor do they receive any kind of support from the government as the poor do, such as subsidies, etc. As a result, this section of society faces both financial and psychological pressure due to inflation. The following findings tell us how inflation affects middle-class people in the economy.

#### ➤ Decline in Purchasing Power

The most visible and common effect on the middle class is the reduction of their purchasing power. As the prices of basic commodities such as food, fuel, and electricity increase, but the income remains the same, they will get fewer products to buy for the same amount of money they spent earlier. Even when the small changes in the day-to-day life expenses add up, they affect monthly/weekly budgets. Due to this, the middle class is forced either to reduce consumption/desires or to buy low-quality products. As a result, middle-class families face problems to maintain their living standards.

#### ➤ Rising Cost of Living

The living costs for the middle class increase just because their income levels do not grow at the same pace as inflation. The major portion of the incomes of the middle class is spent on school/college fees, Rent, transport and healthcare, etc. So, whenever the cost of these things increases, the middle class have to compromise, they have to sacrifice their desires, entertainment, travel, etc. Due to this shift, living standards and overall well-being of the family are

reduced, and additionally, demand for some sectors also reduces that rely more on the consumption of the middle class.

➤ *Reduction in Savings and Investments*

A very important part of financial stability for the middle class is savings. It is because they save for their future home, bike, children's fees, retirement, etc. However, due to high inflation, their ability to save money for their future is limited. While families are able to save money, over time, the real value of such savings decreases because inflation diminishes money's purchasing power. This leads to a vicious circle of financial instability.

➤ *Burden of Debt and Loans*

For big and important expenses like home, car, and education, middle-class families often depend upon

borrowing money. During inflation times, to regulate price level, central banks generally increase interest rates. Due to these extremely high interest rates, loan repayments become more difficult than before as borrowing costs are now increased. These kinds of situations create additional pressure and financial stress, especially on families who belong to the middle class.

➤ *Inequality Widens*

At last, the main impact of inflation is that it widens the gap between the middle class and the upper class. Rich people safeguard themselves by investing in stocks, real estate and gold, and their value increases almost every time when inflation hits. While the middle class commonly depend on fixed income, like salaries, etc or small savings, which makes it difficult for them to reduce the gap between them and richer people.

Table 1 The Impact of Inflation on Middle Class Family v/s Wealthy Family.

| CATEGORY                                      | MIDDLE-CLASS FAMILY<br>(₹10,00,000 INCOME)               | WEALTHY FAMILY<br>(₹1,00,00,000 INCOME)      |
|---|--|--|
| ANNUAL INCOME                                 | ₹10,00,000   | ₹1,00,00,000                                 |
| HOUSING COSTS                                 | ₹3,50,000  | ₹15,00,000                                   |
| FOOD & UTILITIES                              | ₹2,50,000  | ₹9,00,000                                    |
| HEALTHCARE & EDUCATION                        | ₹1,50,000  | ₹12,00,000                                   |
| TOTAL NECESSITIES<br>(ESSENTIALS)             | ₹7,50,000 (75% of income)                                | ₹36,00,000 (36% of income)                   |
| DISCRETIONARY INCOME                          | ₹2,50,000  | ₹64,00,000                                   |
| INFLATION RATE                                | 8%   | 8%   |
| IMPACT ON ESSENTIALS                          | ₹7,50,000 x 8% = ₹60,000                                 | ₹36,00,000 x 8% = ₹2,88,000                  |
| NEW TOTAL COST OF ESSENTIALS                  | ₹7,50,000 + ₹60,000 = ₹8,10,000                          | ₹36,00,000 + ₹2,88,000 = ₹38,88,000          |
| REMAINING DISCRETIONARY INCOME POST-INFLATION | ₹2,50,000 - ₹60,000 = ₹1,90,000                          | ₹64,00,000 - ₹2,88,000 = ₹61,12,000          |
| FINANCIAL STRAIN                              | Significant (Reduced savings and discretionary spending) | Minimal (Large discretionary income cushion) |

This table shows the impact of inflation on middle class family v/s wealthy family.

## VI. SUGGESTIONS TO CONTROL INFLATION

➤ *Tight Monetary Policy*

- Interest rates should be raised by central banks during inflation, as it will reduce borrowing and encourage people to save more.

- Credit supply should be regulated carefully to keep the circulation of money balanced.

➤ *Fiscal Discipline*

- The government should avoid excessive debt, and budgetary deficits should be limited.

- The main focus should be on the effective and productive industries rather than providing subsidies or any other useless spending.

➤ *Strengthening Supply Chains*

- Shortage of necessities can be prevented by investing more in distribution and transport facilities.
- Stable prices and fewer delays can be achieved via excellent supply chains.

➤ *Boosting Agricultural and Industrial Output*

- Modern farming practices, like the latest technology and new farming techniques, should be implemented, and fair prices should be given to the farmers to increase food supply.
- Dependence should be reduced on imports, and domestic industries should be mainly promoted, by which production costs will be stabilised to a great extent.

➤ *Public Awareness*

- People can avoid buying in a panic by learning about saving as well as consuming practices.
- In times of inflation, financial literacy programs should be organised.

## VII. CONCLUSION

Inflation is one of the most dangerous problems that a middle-class family has to face. It directly and negatively impacts their purchasing power and affects their budget management. It's not that other sections of society do not get affected; it is the middle class that bears an unnecessary burden, as most of their income goes directly into meeting the basic needs like food, shelter, etc. According to all the findings, inflation, along with reducing savings and investment, creates a burden that is both financial and psychological. But as the middle class plays a very important role in the economy, to avoid long-term economic disturbances, it is crucial to maintain their stability. Many suggestions are given in this paper that can diminish inflationary pressures to a great extent and protect the financial well-being of the middle-class group.

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