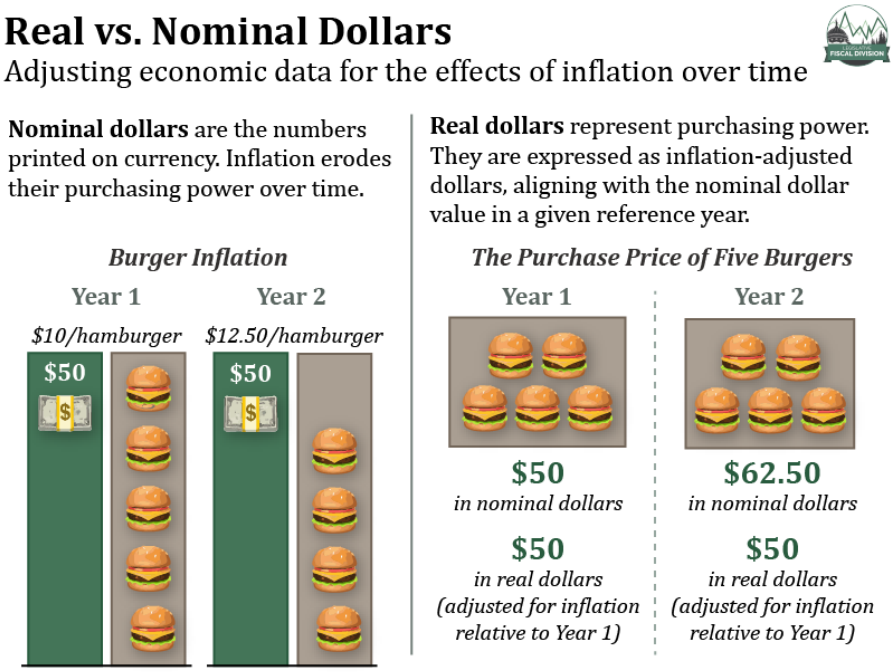

Reports and charts published by LFD occasionally adjust historic dollar amounts to compensate for the effects of inflation over time, presenting figures in terms of real dollars instead of nominal dollars.

Nominal dollars are the numbers printed on currency and price tags. However, inflation means the purchasing power of nominal dollars typically declines over time. In the hypothetical example "Burger Inflation," inflation between Year 1 and Year 2 increases the price of a hamburger from $10 to $12.50, reducing the number a customer can buy with $50 from five to four.

Economists and budget analysts commonly want to be able to filter out the effects of inflation to look at long-term trends in terms of purchasing power. Real dollars provide a way to do that by adjusting amounts to align with the purchasing power of nominal dollars in a given base year. Put another way, real dollar amounts put things in terms of the "real" items purchased.

For example, adjusting the cost of five hamburgers to Year 1 dollars provides a constant real dollar price of $50 across both years. Similarly, adjusting the cost to Year 2 dollars provides a constant real dollar price of $62.50, reflecting the lower purchasing power of Year 2 dollars. That sort of adjustment can be helpful for exploring economic trends such as how average personal income has changed in Montana over time.

Appropriations in the state budget are defined in nominal dollar terms, as are the dollar figures in most state budget reports published by LFD. Another approach to contextualizing inflation, commonly used by LFD, is to compare nominal dollar trends in revenues or spending to an index line that reflects the effects of inflation.

More information about this and other concepts helpful for understanding the state budget is available on the publications section of the LFD website.