



Inflation and Related Terms

INFLATION AND RELATED TERMS

INFLATION

- Rise in goods/services prices; corresponding decline in purchasing power
 - **Creeping Inflation:** Mild/moderate inflation where price level persistently rises over a period of time at a mild rate (single digit inflation rate)
 - **Galloping Inflation:** Occurs when mild inflation is not checked/controlled (inflation in double/triple digits - 20/100/ 200% annually)
 - **Hyperinflation:** Prices rise a million or even a trillion percent annually (witnessed by Germany in 1920s)

CORE INFLATION

- Change in costs of goods/services but **excluding those from food/energy sectors** (due to price volatility)

HEADLINE INFLATION

- **Headline Inflation** - Change in value of all goods in the basket (including food and energy)

Core = Headline - Food & fuel items

STAGFLATION

- When **inflation, unemployment and economic stagnation/recession** occur simultaneously; **most difficult type of inflation** to manage
 - Witnessed by developed countries in the **1970s** (US, UK) when world oil prices rose dramatically

DEFLATION

- **Reverse of inflation** - a sustained decline in price of goods/services
 - Here, **annual inflation rate falls below 0%** resulting in an increase in the real value of money (Japan suffered for almost a decade in **1990s**)
 - **Can worsen into recession/depression**; hence, more dangerous than inflation

DISINFLATION

- When inflation rate decelerates
 - Implies that prices are rising (**inflation is happening**) but at a **slower rate** each passing month

Deflation is decline in prices, whereas disinflation is a decline in inflation rate



REFLATION

- Typically **follows deflation**
 - Policymakers try to **stimulate economic activity by producing inflation** (more govt spending, reduced interest rates etc.)

SKREWFLATION

- **Skewness of inflation** among different sectors of the economy - **some sectors facing huge inflation** while some **none** and some even deflation

GREEDFLATION

- Where (corporate) **greed** is fuelling inflation; **companies increasing their prices beyond just covering costs** to maximise profits

SHRINKFLATION

- **Hidden form of inflation**; often leads to **customer frustration/dissatisfaction**
 - Practice of **reducing the size of a product** while maintaining its sticker price



