



Inflation, et al.

To some extent, most of us are familiar with the concept of price inflation. We see its impact over the years as the prices of our purchases slowly increase. However, “inflation” is just one member of a whole family of terms. Here are some of the most important “-flation” words and what they mean for you and the economy.

Inflation: Inflation occurs when the cost of goods and services rises, resulting in a loss of purchasing power. This can be the result of more currency being circulated in an economy or an increasing pace of economic growth. In the United States, the Federal Reserve targets a 2 percent inflation rate to promote steady growth, easy borrowing and predictable pricing.

Deflation: Deflation is when the general cost of goods and services falls. It is typically caused by a slowing economy or a widespread drop in production costs. Unlike inflation, the Federal Reserve does not recognize deflation as part of a healthy economy and tries to avoid it. When people believe prices are going to fall, they delay their purchases until things become cheaper. If this behavior becomes routine, it can lead to a “deflationary spiral,” where postponed consumption slows the economy, lowers demand, and forces prices to continue falling. Notably, Japan has struggled with deflation repeatedly since the end of its economic boom in the early 1990s.

Stagflation: Coined during the Energy Crisis of the 1970s, stagflation is the uncommon event when an economy simultaneously experiences limited growth and rising prices. During that crisis, rapidly increasing oil prices both drove up the cost of goods (inflation) and forced consumers to make cuts to their spending (stagnation). While there are no benchmarks for when stagflation officially occurs, the Energy Crisis featured six fiscal quarters of shrinking GDP and a peak inflation rate of nearly 12 percent.

Shrinkflation: A type of sales marketing, shrinkflation occurs when the price of a product is kept the same but its size or content is decreased. A recent publicized example of this was the change to Toblerone chocolate bars in the UK. Much to the chagrin of consumers, the signature “mountainous triangles” were reduced by about 10 percent per package without any change to the candy’s resale price.

Hyperinflation: This refers to a period of extreme inflation when the money supply grows much faster than GDP, flooding the market with excess currency. A common litmus test for hyperinflation is when the inflation rate exceeds 50 percent in a month. One of the most famous examples of hyperinflation happened in Germany during World War I, when the German Papiermark was reduced to one trillionth of its former value in less than 10 years.

Disinflation/Reflation: This pair of terms is used to describe changes in the inflation rate. Disinflation indicates that the inflation rate is declining, while reflation indicates that the inflation rate is increasing. Disinflation should not be confused with deflation, since disinflation only indicates that prices are increasing less than before; however, disinflation could lead to deflation if it continues long enough to turn the growth rate negative.

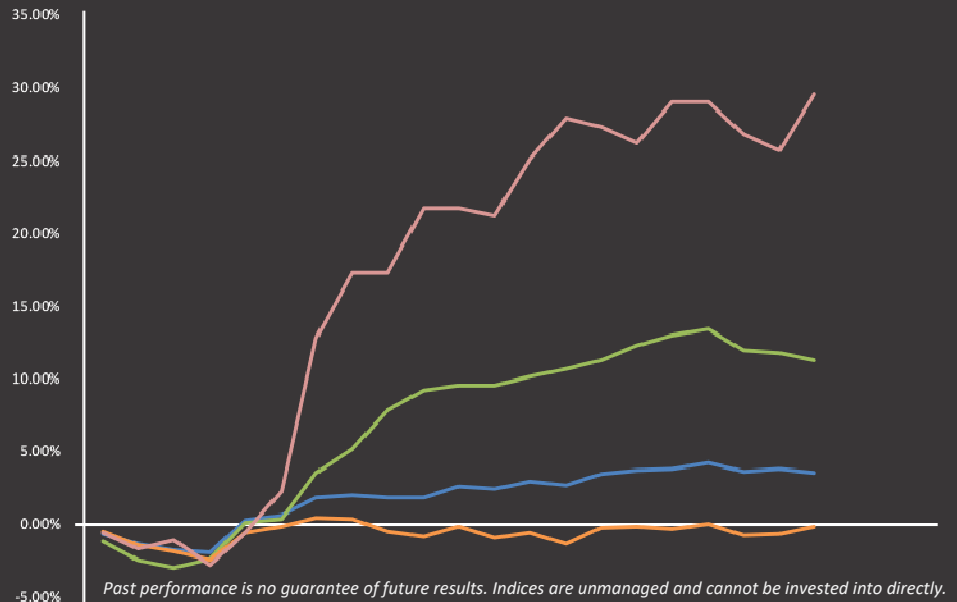
Biflation: Also known as “mixed inflation”, biflation is the simultaneous (and usually temporary) presence of both inflation and deflation in an economy. As seen in the Great Recession of 2008, this can occur when an economy attempts to recover from a downturn by putting stimulus money into circulation. Necessities, like food and gas, are always in demand and inflate with the increasing money supply. Long-term goods, on the other hand, must continue to cut prices until consumers are confident in the economic recovery.



the market at a glance

November

 U.S. Large Cap (S&P 500)	2,198.81 (3.42%) ▲
 U.S. Mid/Small (Russell 2000)	1,322.34 (10.99%) ▲
 International Large (NYSE International 100)	4,753.45 (-0.18%) ▼
 U.S. Treasuries (U.S. 10-Year Treasury Yield Rate)	2.37 (28.80%) ▲



The market in action

- The presidential election of Donald Trump, which defied most projections, sends shockwaves through the world economy as markets scramble to prepare for possible changes to America's fiscal, monetary and trade policies.
- The Dow Jones industrial average surpasses 19,000 for the first time on November 22.
- India's prime minister Narendra Modi unexpectedly declares the immediate abandonment of the existing 500 and 1,000 rupee banknotes, with new 500 and 2,000 rupee notes entering circulation a few days later. The surprise change was intended to help fight corruption and force offshore accounts to repatriate—and pay taxes—on their cash holdings.
- Automaker Volkswagen AG announces plans to cut 30,000 jobs (mostly in Germany) in an attempt to grow profitability following the \$15B fine issued by U.S. authorities for its emissions-cheating diesel engines.
- The World Trade Organization (WTO) rules that a tax break offered to Boeing Co. by the state of Washington is a prohibited subsidy. The complaint was originated by Boeing's European competitor, Airbus, which claims the tax subsidies give Boeing an unfair advantage in the development of new aircraft. The WTO had issued a similar ruling against Eurozone tax breaks for Airbus in September.
- Automaker Tesla Motors agrees to acquire solar energy company SolarCity. Controversy and suspicion surrounded the acquisition because it was proposed by Elon Musk—CEO of Tesla, chairman of SolarCity and the primary shareholder at both companies. Musk, however, declined to vote on the deal.
- Samsung Electronics issues a recall for 2.8M of its washing machines following complaints that major components can become detached during use. News of the recall comes just weeks after Samsung's highly publicized recall of its Galaxy Note 7 smartphones.
- Major U.S. banks ask the Supreme Court to provide a ruling that will prevent municipal governments from suing them for predatory lending during the housing bubble. The action comes in response a number of cities making the claim that subprime mortgages led to lost property tax revenue when home values collapsed.