

Solutions video transcript

What is Stagflation?

You may be hearing the term “stagflation” more and more these days. But what does it mean?

It’s the melding of two words. Stagnation and inflation.

Typically, inflation is caused by an economy operating at full capacity. With higher demand, companies can charge more for products.

And with a tight labour market, employees can expect higher wage growth.

On the other hand, stagflation occurs when prices increase but economic output drops. These two factors rarely happen in tandem, which makes stagflation the boogeyman of economics.

So why is it happening now?

Central banks around the world are raising interest rates to cool inflationary pressures.

This would have the desired effect of slowing down the economy.

But lasting effects from the covid 19 pandemic as well as geopolitical events are causing the price of oil and consumer staples to rise.

So, we have slower growth from rising central bank rates and higher prices from commodities and food, creating an environment that could result in stagflation..

Only time will tell if economic conditions fully develop for stagflation.

But for now, the specter of it is enough to cause turmoil and uncertainty in the markets.

Speak to your advisor to learn more.



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