BLOG POST
Deflation to Stagflation
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Central bankers have confidence in their ability to manage inflation, yet deflation and stagflation can be a thorn in their side. Deflation is noted by a fall in overall prices and total demand, while stagflation is persistent high inflation, unemployment, and stagnant demand. Economists at the recent Strategic Investment Conference postulated that the U.S. is likely to face deflation followed by stagflation. Deflation is a vicious cycle of consumers not purchasing products, producers lowering prices, profits decreasing, wages decreasing, unemployment increasing, etc. Furthermore, fixed debt for households, companies, and the government carries a greater burden as a result of wages and prices falling. This is likely to persist until rates begin to go up. Inflation can become difficult to take shape when growth is muted, as the vicious cycle continues to repeat itself.

- The Federal Reserve is likely to keep rates low, if not implement a zero rate policy or negative rates to inspire economic growth.
- The BLS chart of Consumer Price Index, an indication of deflation and inflation, show falling prices.
- The chart shows prices approaching negative territory in April 2020.
- The only other time CPI turned negative the past 20 years was during the Global Financial Crisis of 2008 (Bureau of Labor Statistics).