Is Inflation Missing?

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Many commentators are expecting increased inflation in the coming months as Central Banks globally have ramped up their money creation efforts in response to the increased market volatility last March. There are different types of inflation, but most people have experienced price inflation, whereby excess demand is met by rising prices. The next round of anticipated inflation could be different than what most people are familiar with.

The societal lockdowns experienced globally because of Covid-19 throughout much of 2020, will eventually very likely be the trigger for future inflation stresses. The impact of these economic decisions is just now starting to work its way through the global economy and may eventually result in a supply shock inflation – something not seen since the 1970's. This type of inflation usually causes price increases - even if the economy is weak - due to shortages of goods and not because of surging consumer demand.

For example, in the oil fields of West Texas, there have been reports of a 75% decrease in the number of drill rigs producing shale oil. The production drop is largely the result of shutdowns due to Covid-related incidents amongst the work force. So far, oil prices haven't changed much since falling production has occurred simultaneously with declining oil demand, and any shortfalls have been met from oil inventories in storage. But at some point, the oil rigs will have to get back to full production capacity or else reduced oil production could impact a recovering global economy in terms of higher oil and energy prices.

Other areas include food production. Media reports have estimated that some 20% of US hog production capacity has been closed or eliminated since the Spring of 2020. Some of this may be permanent as hog farmers have been bought out by the US Government and/or taken early retirement. In addition, the US announced large sales of hogs to China over the summer to assist them with their impending food shortages (so much for a trade war) leaving even less future supply available to meet US and North American demand.

While official Government measurements are showing little inflation in the economy, it is very likely that consumers will face higher prices in some areas over the next few months to 18 months.

In a world facing rising price inflation due to supply shortages, and weak economic growth, many people will likely struggle to make ends meet. If this scenario comes true, it might be reminiscent of the 1970's Stagflation.

Call us today to review your personal situation [1] and cash flow and how best to respond to this coming inflationary episode.

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