What Is Stagflation - Inflation Overview

Becoming more of a topic throughout the financial media is stagflation, characterized as an environment with minimal economic growth, inflation, and elevated unemployment. The last time the U.S. experienced stagflation was in the late 1970's and early 1980's, with only a small portion of consumers remembering what it was like.

Many economists believe that the inflation we are experiencing today is driven by supply constraints and not driven by heightened consumer demand. Traditional periods of inflation have always evolved from excessive consumer demand supported by expanding wages. Currently, wages are not keeping up with inflation, thus producing diminishing incomes and consumer purchasing power.

Should wages fail to keep up with inflation, and economic growth begin to falter, then the risk of stagflation increases. Unemployment may increase concurrently should companies decide to reduce staff and cut positions as an economic slowdown sets in.

Source: Federal Reserve Bank of Kansas City