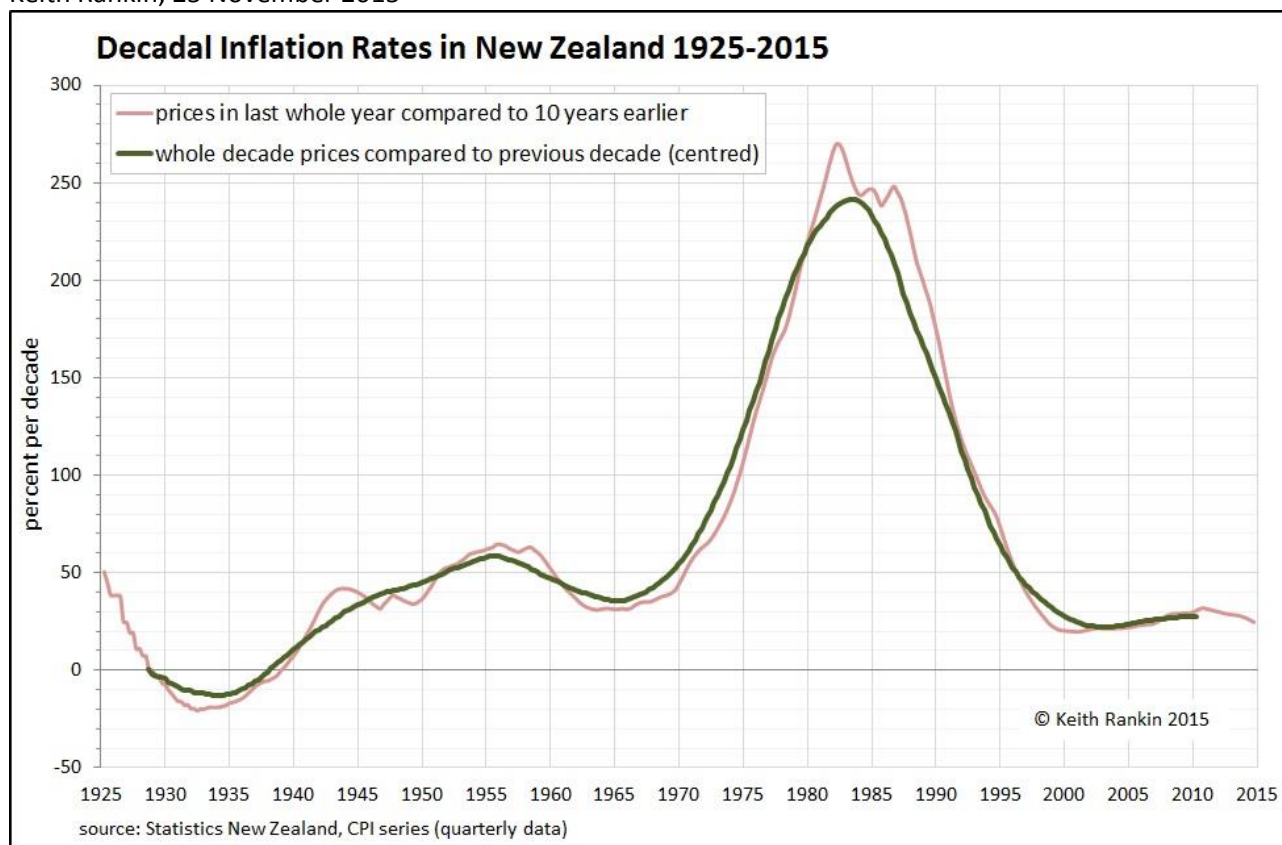


Chart for this Week: Decadal Inflation in New Zealand 1925-2015

Keith Rankin, 25 November 2015



[Inflation in Context](#)

This week's chart looks at decadal rather than annual inflation. With Statistics New Zealand last year celebrating the centenary of the Consumers Price Index (CPI), a more broad-brush and historical approach to the inflation-spectre that still drives much of our macroeconomic policy is timely.

The light-red plot shows – for each quarter – average prices in the previous four quarters (1 year) compared to average prices in twelve-quarters (3 years) ten years earlier. The reason for comparing a 1-year average with a three year average is that it assures us that turning points in the plot reflect the most recent period, and not any blips that were happening ten years earlier.

The dark-green plot shows 40-quarter averages (10 years) compared to the previous 40-quarters. It shows the decadal pattern unblemished by short term blips in the data. It is centred, meaning that the most recent (2010) plot represents average prices from Dec-2005 to Sep-2015 compared to average prices from Dec-1995 to Sep 2005.

In the big picture we can easily see what is appropriately called the Great Inflation of the 1970s and early 1980s. It is important to emphasise that – like the Great Depression of the 1930s – this was a global economic event that affected New Zealand. It was not a New Zealand specific event. This contrasts with the German hyperinflation of 1923, and the Zimbabwe hyperinflation in the early years of this century, which were country-specific events. Indeed in New Zealand we see that prices were lower in 1930 than in 1920, quite unlike the German experience.

In New Zealand we worried about inflation in the 1910s, in World War 2 (1940s), and in the 1950s. But decadal inflation of about 50 percent in these times was clearly dwarfed by decadal inflation that peaked in New Zealand in 1982, at 270 percent. This means that, in New Zealand (similar to most western countries), New Zealand prices were 3.7 times higher in 1982 than in 1972.

(A 100% inflation rate means prices have become two-times what they were previously; a doubling. A 200% inflation means a trebling of prices. A 900% increase represents a ten-fold increase of prices.)

The decline in inflation rates (disinflation) in New Zealand clearly began with the 1982 price and wage freeze. Inflation was briefly reignited in 1985 following the 1984 devaluation and the big public sector pay hikes. An apparent surge in inflation in 1987 was in fact due to the introduction of GST; not to underlying inflation. The Reserve Bank Act of 1989 – ostensibly the creation of a monetary-policy mandate and arsenal to fight inflation – was introduced well after the inflation problem had abated. The high GST-boosted inflation rate almost certainly served as part of the pretext for the Reserve Bank Act, an act that essentially interpreted the already-waning inflation as a national rather than as a global phenomenon.

We see that from the 1990s, inflation has been close to its twentieth-century norms. The Great Inflation was clearly an exceptional period of global macroeconomic history. Policymaking centred on the inflation issue has become an anachronism. While the battle of the world's central banks is now to fight deflation, they really have no more clue about how to do this than they did in the 1930s. (Switzerland currently has interest rates of -0.75% and annual inflation at -1.4%. Japan has both interest rates and annual inflation at 0.00%!)

Negative decadal inflation peaked in New Zealand in the year 1932, at -20 percent for the ten years commencing 1922. We are in for more of this deflation – again a global phenomenon – unless, that is, World War 3 breaks out.
