

Inflation vs deflation: Which is better?

BP 7-3-2019 5

KOTA KINABALU: Some recent reports have highlighted that Malaysia recorded deflation, first time after 10 years since 2009.

Dr Rafiq Idris, an economist and senior lecturer from the Financial Economics Program, in the Faculty of Business, Economics and Accountancy, at University Malaysia Sabah (UMS) stated that inflation refers to the increase in general price level in an economy while deflation refers to the decrease in general price level in an economy.

He said products being taken into account are generally products typically used by consumers in an economy.

According to him, inflation and deflation rate are being derived by computing the change in consumer price index.

In sum, inflation or deflation rate signals the change in cost of living. Inflation implies increase in cost of living while deflation indicates a decrease in cost of living, he stated and presented the question as to whether inflation or deflation is good for the economy.

"Some may think inflation or deflation is better than the other.

Inflation is said to be good because it contributes to the nominal



Rafiq

macroeconomic indicator of a country such as GDP. Some may think it is bad because purchasing power will be affected. On the other hand, some argue deflation is good because it indicates a general decrease in price level, hence good for consumers where there is a decline in cost of living, hence, improvement in purchasing power."

Inflation or deflation is fine as long as the changes in consumer price index is not a

persistent sharp change, he opined, adding that it is not the

idea that it is good for the country to achieve deflation or inflation.

"What matters to us is the stability in price level," he stated.

Small change is acceptable regardless whether it is inflation or deflation, he said, adding that whether inflation or deflation good or bad; it is also important to look at the root cause of it.

"It can happen due to increase or decrease in supply or demand of any products," he stated.

"With regard to recent development where there is a deflation, some may think it is good. In my opinion, we have to wait and look at trend, whether it is persistent or not? whether there will be a further sharp decline in price level or not? If that is so, it might not be good. In addition, is fall in demand of products cause this to happen? If this is the case, it is not a good signal."

"Moreover, recent deflation does not really reflect what happen on the ground. As a matter of fact, many consumers including myself do not feel any reduction in the cost of living or reduction in many prices of consumer products that we regularly use."