

An Ongoing Threat: Inflation over the decades

You can count on inflation to always be around—as well as the possibility of rising prices eating away at the buying power of your retirement savings. Even in 2009, with the economy in deep recession, consumer prices rose by more than 2%.¹

Price Changes

The most widely used inflation measurement is the Consumer Price Index, or CPI. Government analysts tally each month what consumers pay for 80,000 different items, and results are published monthly.²

Track CPI data back to 1913 and you find that inflation over that long time span has averaged 3%. Only 11 times have consumer prices actually declined. The last decline was back in the recession year of 1954.¹

Highs and lows

Inflation has been at its worst when some major event has led to massive government spending. The highest inflation ever—over 20%—came during World War I. In 1946, after World War II, inflation was 18%. Inflation roared again in the 1970s,² when spending on the Vietnam War was followed by a surge in oil prices.

Most declines in the CPI have come when the economy was slumping. The CPI actually declined four times during the Great Depression of the 1930s.¹

Looking ahead

The Federal Reserve System is charged with keeping inflation at bay, but it will be years before we know how successful its efforts have been.

¹ Bureau of Labor Statistics, “Consumer Price Index for All Urban Consumers Historical Tables, 1913 to the Present,” as of March 2010. Declines measured December to December.

² Bureau of Labor Statistics, “Consumer Price Index Frequently Asked Questions.”