# What's the right level of inflation?


## Colin Moore, Global Chief Investment Officer


Instinctively, people tend to think, "I would rather there's no inflation," but that is actually quite problematic for the economy.

Inflation is a very tricky topic because people think that it's a bad thing. And it's true if it's too high, it's a bad thing. But it is another one of those sort of Goldilocks scenarios where, you know, not too hot, not too cold, a little bit of inflation is a good thing.

So, imagine you're going to buy a house or a car. If you thought prices were declining, would you buy today or wait? You'd wait. So, the fear of declining prices generally puts a complete brake on the economy. It means everybody sits around waiting for the price to get lower, and purchases of goods and services tend to be delayed.

On the other hand, if you think there's going to be runaway inflation, then that's a problem as well because, you know, it's just the cost of things that's going to escalate so much that maybe you need to actually start saving more to compensate for that.

If the inflation rate is more in that sort of 2%, 3%, low single digit, that gives you comfort that if you buy a house, you'd expect the value of that house to appreciate over time at a modest rate, and that gives you more confidence about buying it. So, it's really a tricky thing.

And so, now, we've been hearing about central banks targeting inflation. They would say, "I would like inflation to be above 2%." And I think a lot of people say, "Well, why are they doing that? Why do they want prices to get higher?" But it's this balance of how it affects consumer behavior.

So, therefore, central banks tend to target an optimal level of inflation, which gives you confidence that the economy is growing normally, that wages will rise a little bit, so you'll have a little more to spend tomorrow, that your house will rise in value, and that generates the right type of economic behavior.

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