

INFLATION

There are several ways in which inflation can be measured. The most common is by reference to a *consumer price index* (CPI) which measures the changes in prices of a basket of goods and services purchased by a representative set of households. The CPI is a narrow measure of inflation and does not measure changes in the prices of other goods and services, such as those used for intermediate consumption or the prices of capital products. A much broader indicator of inflation is provided by the GDP deflator, and this is the inflation measure shown here.

Definition

The GDP deflator is an implicit, not an explicit deflator. It is derived by dividing the GDP measured in current prices by GDP measured in constant prices. It is therefore a weighted average of the price indices of:

- goods and services consumed by households;
- expenditure by government on goods, services and salaries;
- fixed capital assets;
- changes in inventories;
- exports of goods and services;
- imports of goods and services (minus).

Long-term trends

Taking the period 1992-2005 as a whole, inflation in the OECD area fell to a record low of 1.2% in 1999. It then gradually increased and, between 2001 and 2005, it remained stable at 2.2%. Since 1996, member countries of the Euro area have generally averaged lower inflation than other EU countries.

The graph shows that inflation rates averaged over the period were mostly well below 5% per year for all countries except Greece, Mexico and Turkey and the four new OECD countries from Central Europe. All seven high-inflation countries have, however, drastically reduced inflation rates over the period with particularly sharp falls in Poland, the Czech Republic and Turkey. At the other extreme, Japan, Switzerland, Germany, Austria and France, recorded inflation rates well below the OECD average.

Several countries, including Finland, France, Germany, Norway and Switzerland, recorded deflation for one or more years, but Japan is the only country where the long-term average was negative. The volatile inflation rates for Norway partly reflect fluctuations in export prices for petroleum.

While the CPI measures the price changes of goods and services consumed by households, the GDP deflator measures the price changes of the goods and services produced by a country. Hence, the treatment of exports and imports merits special attention. The GDP deflator will go up, indicating more inflation, if the prices of exports rise; although higher inflation is usually thought of as a bad thing, it may actually be beneficial to a country if the prices of its exports rise, since it is non-residents who pay the higher prices. At the same time, an increase in the price of imports is subtracted from the GDP deflator, although an increase in import prices may still give rise to inflation when the higher-priced imports are incorporated into domestically produced goods.

Comparability

The comparability of the inflation rates shown here depends on the methods used to calculate in volume terms the expenditure components of GDP. Most countries use similar methods for consumer goods and imports and exports, but there are clear differences in the methods used to derive volume estimates for government consumption.

Some countries calculate their volume estimates of government consumption by deflating their current price estimates using representative input price indexes, while others weight together output indicators for services provided by hospitals, schools, etc.

Source

- OECD (2005), *National Accounts of OECD Countries*, OECD, Paris.

Further information

Analytical publications

- OECD (2007), *OECD Economic Outlook: December No. 80 – Volume 2006 Issue 2*, OECD, Paris.


Websites

- Inflation Measures: Too High-Too Low – Internationally Comparable? Documents for the meeting held at the OECD, 21-22 June 2005, www.oecd.org/std/price-indices.
- OECD Purchasing Power Parities, www.oecd.org/std/ppp.

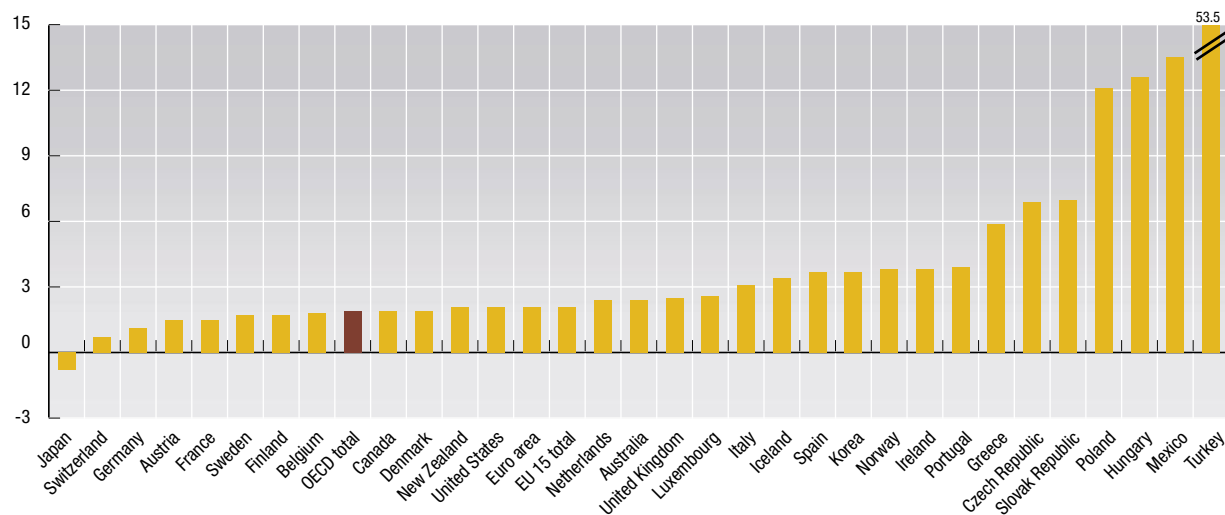
GDP deflator

Annual growth in percentage

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	1.4	0.9	1.2	2.3	1.3	1.3	0.1	2.1	4.8	2.9	3.0	3.3	3.9	4.8
Austria	3.6	2.7	2.7	1.9	1.0	-	0.3	0.6	1.8	1.8	1.4	1.3	1.7	1.9
Belgium	3.4	4.0	2.1	1.2	0.6	1.2	1.8	0.7	1.7	1.8	1.8	1.7	2.3	2.2
Canada	1.3	1.4	1.1	2.3	1.6	1.2	-0.4	1.7	4.1	1.1	1.1	3.4	3.0	3.2
Czech Republic	12.4	21.0	13.4	10.2	10.3	8.4	11.1	2.8	1.5	4.9	2.8	0.9	3.5	0.7
Denmark	1.7	0.7	1.5	1.3	2.0	2.0	1.2	1.7	3.0	2.5	2.3	1.9	2.2	2.8
Finland	0.7	2.0	1.4	4.8	-0.2	2.2	3.4	0.9	2.6	3.0	1.3	-0.4	0.6	0.6
France	2.1	1.9	1.5	1.2	1.7	1.1	0.9	-0.1	1.4	2.0	2.4	1.9	1.7	1.9
Germany	5.0	3.7	2.4	1.9	0.5	0.3	0.6	0.4	-0.7	1.2	1.4	1.0	0.9	0.6
Greece	14.8	14.4	11.2	9.8	7.4	6.8	5.2	3.0	3.4	2.7	3.7	3.6	3.3	3.4
Hungary	21.5	21.3	19.5	26.7	21.2	18.5	12.6	8.4	9.9	8.4	7.9	5.7	4.3	2.0
Iceland	3.5	1.8	2.6	3.0	2.5	2.9	5.0	3.2	3.6	8.6	5.6	0.5	2.4	2.9
Ireland	2.8	5.2	1.7	3.0	2.2	3.6	6.5	4.0	5.5	5.5	5.0	2.5	1.8	3.5
Italy	4.4	3.9	3.6	5.0	5.2	2.5	2.6	1.3	2.0	3.0	3.4	3.1	2.9	2.1
Japan	1.6	0.5	0.1	-0.5	-0.7	0.5	-0.1	-1.3	-1.7	-1.2	-1.6	-1.6	-1.2	-1.3
Korea	7.6	6.3	7.8	7.4	5.1	4.6	5.8	-0.1	0.7	3.5	2.8	2.7	2.7	-0.4
Luxembourg	3.7	6.0	3.5	2.3	3.0	-1.9	-0.4	5.3	2.0	0.1	2.7	4.9	1.7	4.7
Mexico	14.4	9.5	8.3	37.9	30.7	17.7	15.4	15.1	12.1	5.8	7.0	8.5	7.4	5.4
Netherlands	2.3	1.9	2.3	2.0	1.3	2.6	1.9	1.8	4.1	5.1	3.8	2.2	0.7	1.7
New Zealand	2.1	1.6	1.8	2.0	1.3	2.2	1.4	0.7	3.5	3.4	0.2	2.7	3.1	3.0
Norway	-0.6	2.3	-0.1	2.9	4.1	2.9	-0.7	6.6	15.9	1.1	-1.6	2.6	5.6	8.4
Poland	38.6	30.6	37.2	28.0	17.9	13.9	11.1	6.1	7.3	3.5	2.2	0.4	4.0	2.8
Portugal	11.4	7.4	7.3	3.4	2.6	3.8	3.7	3.3	3.0	3.7	3.9	2.7	3.1	2.6
Slovak Republic	..	15.4	13.4	9.9	5.4	5.8	4.6	6.3	8.3	5.0	4.6	4.7	6.0	2.3
Spain	6.7	4.5	3.9	4.9	3.5	2.4	2.5	2.6	3.5	4.2	4.3	4.1	4.0	4.1
Sweden	1.0	3.0	2.7	3.6	1.0	1.7	0.6	0.9	1.4	2.1	1.6	2.0	0.2	1.2
Switzerland	2.2	2.4	1.5	0.8	-0.1	-0.1	-0.3	0.7	0.8	0.6	1.6	1.2	0.6	-0.1
Turkey	63.7	67.8	106.5	87.2	77.8	81.5	75.7	55.6	49.9	54.8	44.1	22.5	9.9	5.4
United Kingdom	4.0	2.7	1.6	2.7	3.5	2.9	2.7	2.2	1.3	2.2	3.1	3.1	2.6	2.2
United States	2.3	2.3	2.1	2.0	1.9	1.7	1.1	1.4	2.2	2.4	1.8	2.1	2.8	3.0
Euro area	4.4	3.6	2.8	2.7	2.0	1.5	1.6	0.9	1.4	2.4	2.6	2.1	1.9	1.9
EU 15 total	4.1	3.3	2.5	2.7	2.2	1.7	1.7	1.2	1.4	2.4	2.6	2.3	2.0	1.9
OECD total	2.7	2.1	1.8	2.1	1.7	1.7	1.4	1.2	1.8	2.2	2.1	2.2	2.3	2.2
Brazil	..	..	..	..	..	..	..	..	8.4	7.4	10.2	15.0	8.2	7.2

 StatLink  <http://dx.doi.org/10.1787/120883822882>
GDP deflator

Average annual growth in percentage, 1992-2005


 StatLink  <http://dx.doi.org/10.1787/462255827344>