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Global disinflation fears rock markets: here are three new ways to track inflation

Lower inflation could threaten global economies, and set investors on edge. Are there better ways to supply information on the crucial variable, ahead of government agencies?

By Peter Spence
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Understanding inflation - the average rate at which prices rise - is crucial to economists and investors alike.

Now a lack of it - inflation has been falling across the US, UK, and eurozone - coupled with meagre economic growth has put fear into traders.

The panic has triggered a huge sell-off in global markets, as the UK's leading index, the FTSE 100, **has fallen into correction territory**.

The degree to which markets forecasts of eurozone inflation have slumped "is now somewhat alarming", Andrew Cates, economist at UBS, told clients in a note sent to clients.

"Inflation – at the global level – is too low, excess capacity is too acute and global growth is – at present - too slow to suggest otherwise", said Mr Cates.

But measuring this important variable has historically been a costly and time consuming process. Most of us rely on national statisticians - the Office for National Statistics (ONS) in the UK - to collect and compile the necessary data.

The UK's main gauge of price growth - the Consumer Price Index (CPI) - attempts to measure the speed at which the prices of goods and services bought by households rise or fall.

But the task cannot be accomplished overnight. This means that the data is released with a lag. The ONS published price statistics for September with a two week delay, on October 14.

In other economies, inflation data are often less complete than we would like. Investors often talk about "data gaps" in assessing African economies, for example.

“It’s become almost fashionable to say that this is probably the biggest hurdle to investment in the region”, said Razia Khan, of Standard Chartered.

“We’re not quite sure that that is true”, she added. But “the need for investors to get much more granular data has been rising”.

So how can economists do better, and what is the private sector already doing to provide solutions to these problems?

Google it

Online shopping offers a lot of things at just the click of a button. Enterprising economists have found a way to use it to produce inflation data too.

Together, Price Stats and State Street publish inflation data scraped from websites every day for a number of countries. And the output seems to line up well with official measures of inflation - while being available earlier.

There are some reasons to prefer online prices to those displayed in physical stores. “It is generally easier and less costly for retailers to adjust prices on their website than in all of their physical stores. This may lead online prices to react faster to shocks than offline prices”, according to PriceStats’ website.

And as “online retailing is much more competitive in terms of price comparisons than physical stores … when inflationary pressures arise, stores tend to change online prices relatively quickly”.

Some have now stopped using the official Argentine inflation data, in favour of using the State Street PriceStats series for the country.

Crowdsource the answer

An even smarter way was unveiled by Standard Chartered last week. They’re now relying on people on the ground - genuine shoppers - to collect price data across three of Nigeria’s largest cities in real time.

How? With smartphones. In return for some mobile credit, more than 350 people armed with the devices have been snapping pictures of all kinds of produce, so that economists can gauge price movements.

“Nigerian data didn’t quite provide the amount of information content that investors were looking for”, said Ms Khan.

“Even the current official CPI release was based on a 2003/04 household survey. A lot has changed in the Nigerian economy since then”.

What is most fun about this option is that the data can roll in in real time, and as the phones support geotagging, Standard Chartered can get a sense of regional trends in inflation.

The tracker could allow entrepreneurs to respond more quickly to regional shortages of certain goods, so that they can act sooner to increase supply in affected areas.

Black market solutions

For countries suffering, or at risk of, hyperinflation - the problem of sluggish traditional inflation data collection is multiplied.

Steve H. Hanke, a senior fellow at the Cato Institute and professor of applied economics at Johns Hopkins, manages the **Troubled Currencies Project**, to deal with the problem of obtaining "timely, reliable exchange rate and inflation data for countries with troubled currencies".

Using collected data on black market exchange rates "a reliable estimate of an inflation rate can be determined", Mr Hanke writes.

Zimbabwe has experienced the world's second worst hyperinflation, according to Mr Hanke's research, peaking at 7.96bn pc in November 2008.

But the government had stopped publishing data in July of that year, when inflation was just 2,600pc - 30m times lower than the eventual peak.