

Inflation and its effect

From hawker food to aviation fuel, consumer and wholesale good prices have been rising. What does it mean for investors and businesses?

BY SHARON SEE



Singapore dollar

When external inflation rises, the Monetary Authority of Singapore's mandate is to keep domestic inflation stable, which means it has to allow the Singapore dollar to strengthen. Doing so moderates the cost of imports, helping to cool domestic inflationary pressures.



Economic growth

Inflation can be both good and bad for economic growth - the key question is the extent. For example, inflation, which theoretically means a higher money supply, can spur spending and investing. This is why a moderate amount of inflation is generally considered a sign of a healthy economy. However, high rates of inflation can signal an overheated economy while increasing uncertainty, causing the economy to slow down and unemployment to increase.



Goods and services

Where aggregate demand outstrips aggregate supply in a situation commonly described as "too much money chasing too few goods", their prices go up, leading to inflation. This could eventually result in a rise in cost of living.



Interest rates, savings and loans

In general, inflation and interest rates have an inverse relationship. When interest rates are low, people and businesses are able to borrow more to spend, leading to a higher money supply and thus, inflation. This also means that when inflation is too high, central banks could raise interest rates to manage growth.



Fixed-income bonds

When inflation leads to higher interest rates, this can have a negative impact on fixed-income assets. This is because the interest payments from existing assets would be lower than newer fixed-income bonds with a higher rate, which would cause the prices of existing assets to fall.



Equities

In the long run, investors could use shares to hedge against inflation when the monetary value of a stock appreciates. But in the short run, equities could become less attractive when inflation increases, as purchasing power falls and dividends tend not to keep up with inflation levels.



Property and gold

Demand tends to go up for both asset classes in an inflationary environment as they are favoured as hedges against rising prices.