Inflation

Money

What it does to money that is not growing, in numbers rather than adjectives.

A general rise in prices over time, so each unit of currency buys less. Cash sitting still does not lose digits — it loses purchasing power, which is harder to notice and just as real.

COMMON TARGET	DOUBLING AT 2%	DOUBLING AT 5%
~2%	~36 yrs	~14 yrs

- Many central banks target around 2% a year.
- At 2%, prices double in about 36 years.
- At 5%, they double in about 14 years.
- Real return = nominal return − inflation.
- A 3% savings account during 5% inflation is a real return of −2%.
- Wages, rents and debts are all affected, but not at the same rate.

LOOK FOR IT

£100 under a mattress for 20 years at 3% inflation has the buying power of about £55.

Inflation is the reason 'safe' and 'no risk' are not the same thing.