OECD, G-20: Global Inflation Eases

Declining Rates Fuel Concerns for Central Bankers

By Paul Hannon

Updated April 1, 2014 6:09 a.m. ET

Consumer-price growth in the world's largest economies slowed for the third straight month in February, fueling concerns that too little inflation, rather than too much, could threaten the global economy's fragile recovery.

The Organization for Economic Cooperation and Development on Tuesday said the annual rate of inflation in its 34 members fell to 1.4% from 1.7% in January, while in the Group of 20 leading industrial and developing nations it fell for a third straight month, to 2.3% from 2.6%. The G-20 accounts for 90% of global economic activity.

The continuing decline in the rate of inflation across developed countries will worry central bankers, since many regard annual price rises of 2% as consistent with healthy economic growth. The decline in the inflation rate was driven by lower energy prices, while the core rate of inflation in the OECD—excluding energy and food—was unchanged at 1.6%.

When inflation is low, companies, households and even governments have a harder time cutting their debt loads, a particular problem for a number of highly indebted nations in the euro zone.

When prices start to fall, consumers can postpone purchases in the expectation that they will get better value for their money in the future. That can in turn weaken economic activity, and create further deflationary pressures. Following the difficulties Japan has experienced in getting out of its long period of deflation, central banks in other countries are anxious to avoid a similar struggle.

The OECD said six of its members experienced a decline in prices over the 12 months to February—all being in Europe.

The threat of low inflation, and the possibility that prices may start to fall, is most pressing for the European Central Bank, whose governing council meets on Thursday. Figures released on Monday showed consumer prices rose in the euro zone by 0.5% in the 12 months to March, a decline in the annual rate of inflation from 0.7% in February.

But the euro zone is far from alone in confronting a period of uncomfortably weak inflationary pressures. In the U.S., the annual rate of inflation fell to 1.1% in February from 1.6%, while in Canada it dropped to 1.1% from 1.5%.

There were also significant declines in large developing economies that have in recent years driven global economic growth and have been the leading source of inflationary pressures. The annual rate of inflation fell to 2.0% from 2.5% in China, and to 6.7% from 7.2% in India.

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