

# Inflation Roadmap

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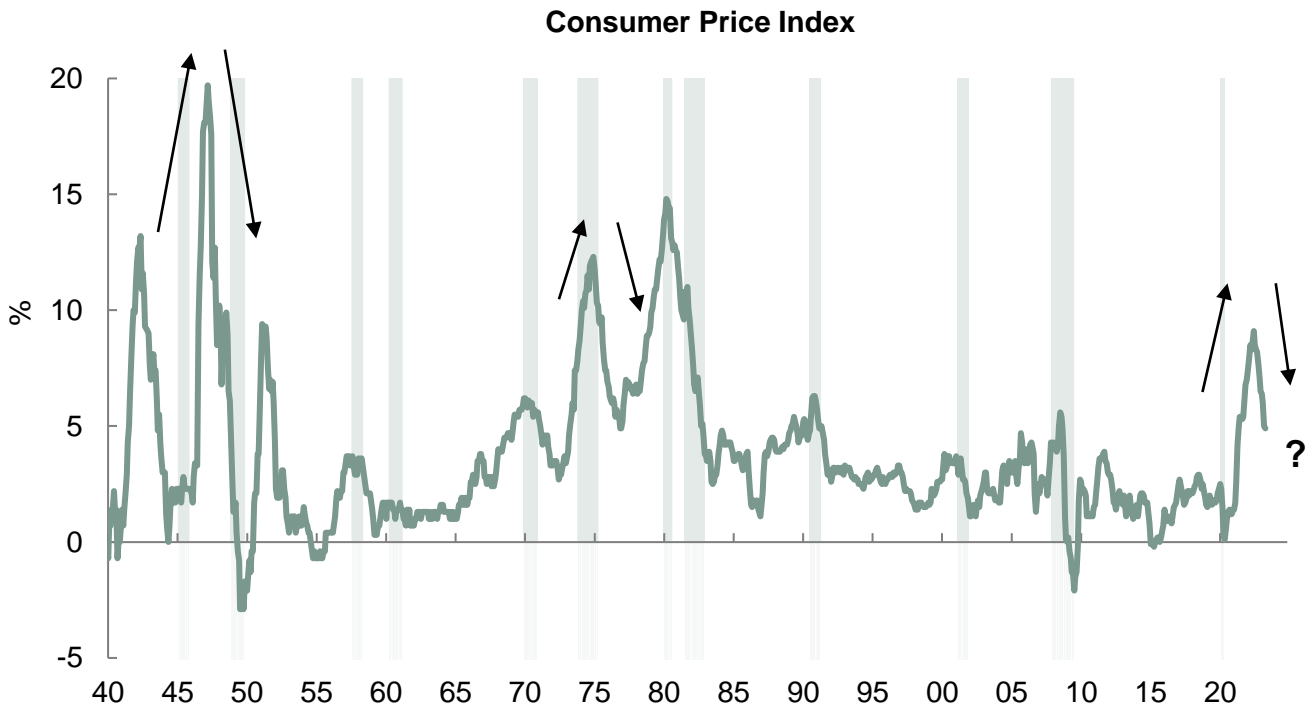
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# Pointy Tops

The current inflationary cycle looks just like past ones where prices spike and then come down rapidly. The inflation rate never plateaus at a high level. This time is not different. History is repeating.



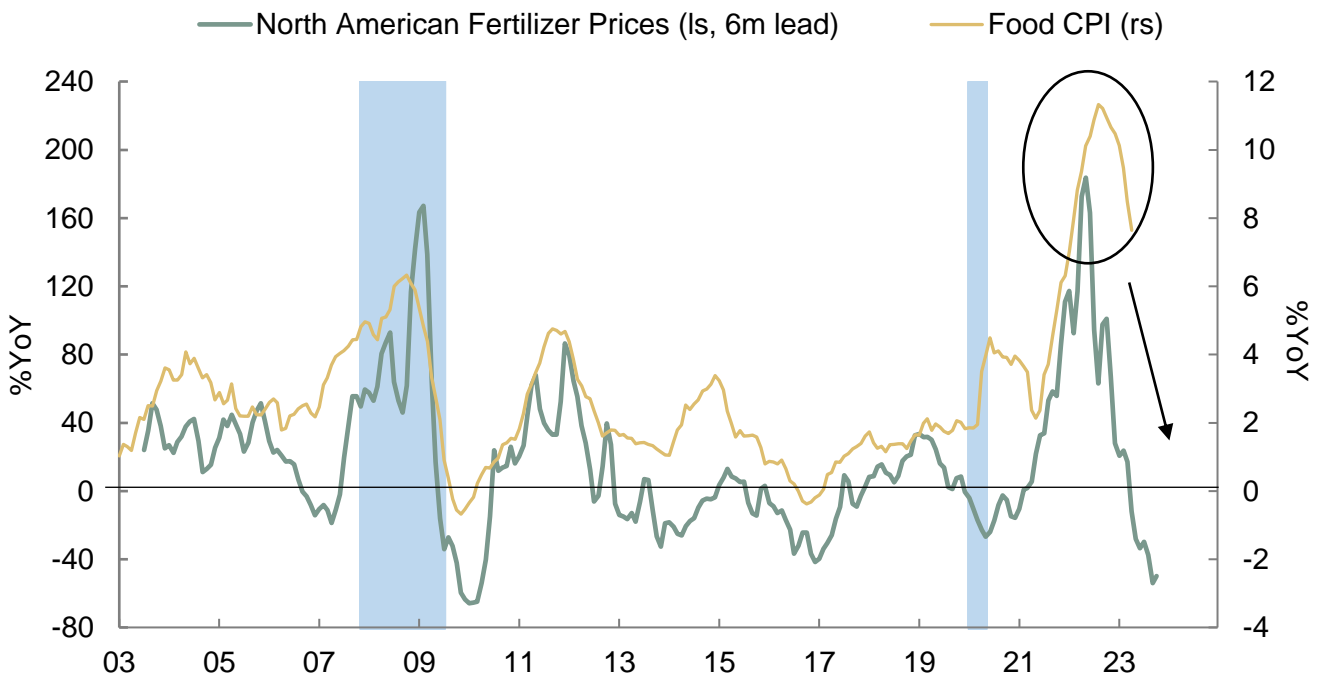
## Big Gains Followed by Big Declines

The table shows the slope of inflation upswings versus inflation downswings. Notice the symmetry. What goes up quickly, falls quickly and by a nearly identical amount. The current downslope is the inverse of the upslope. Why is the Fed still so hawkish?

Inflation Upwing	Slope	Inflation Downwing	Slope
Sep 1940 to May 1942	0.35	May 1942 to May 1944	-0.47
Feb 1946 - Mar 1947	1.61	Mar 1947 to Apr 1949	-0.66
Jul 1949 - Feb 1951	0.58	Feb 1951 to Oct 1954	-0.21
May 1967 - Dec 1969	0.12	Dec 1969 - Jun 1972	-0.12
Jun 1972 to Dec 1974	0.37	Dec 1974 to Nov 1976	-0.31
Nov 1976 to Mar 1980	0.22	Mar 1980 to Jun 1983	-0.31
Jun 1986 to Sep 1990	0.07	Sep 1990 to Jan 1992	-0.25
Aug 2007 to Jul 2008	0.22	July 2008 to Dec 2008	-1.19
May 2020 to Jun 2022	0.38	Jun 2022 to ?	
<b>Average 1940-2008</b>	<b>0.44</b>	<b>Average 1940-2008</b>	<b>-0.44</b>

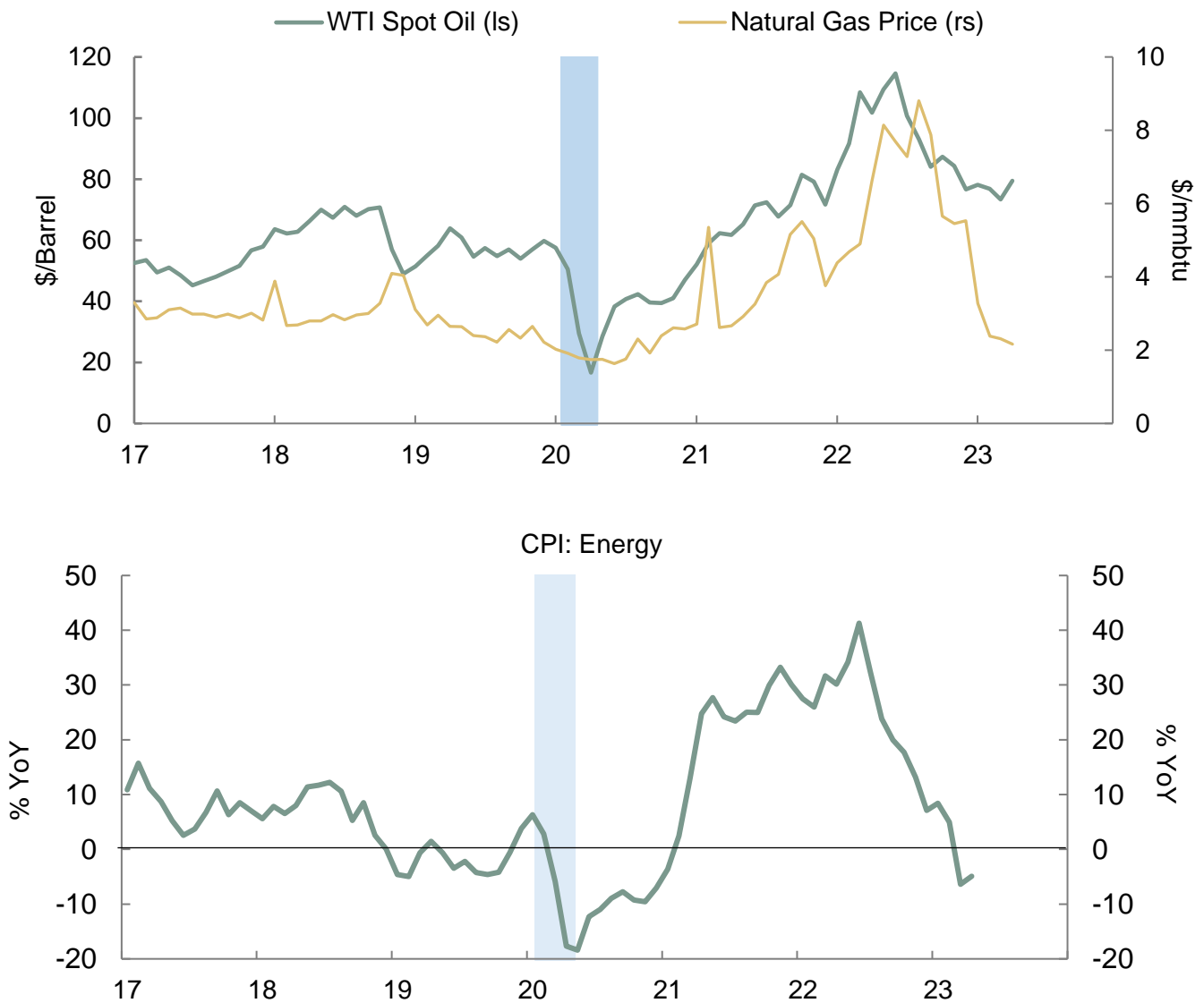
## Rapid Slowing Ahead

Food has the second highest weight (13.4%) in the consumer price index behind owners' equivalent rent (25.4%). Fertilizer prices lead the food component by six months. The huge decline in the former suggests meaningful moderation in food prices going forward.



# Falling Energy

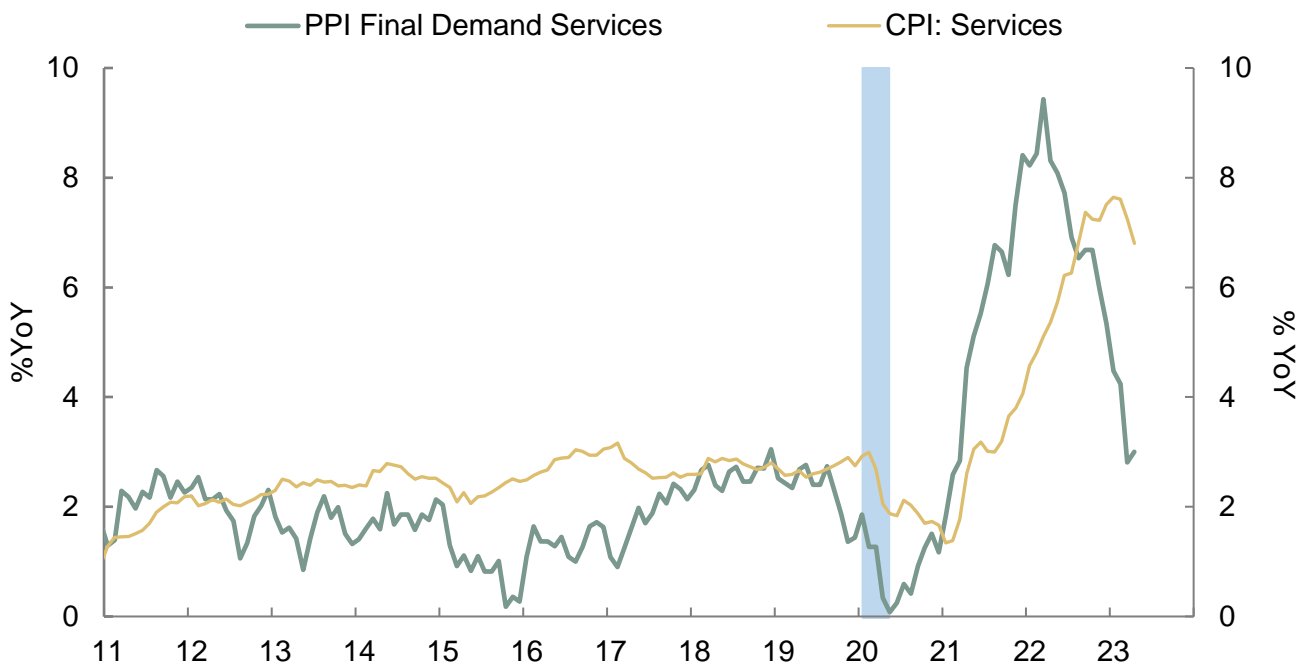
Energy accounts for another 7% of headline CPI. The declines in oil and natural gas prices are weighing on energy inflation, which is down on a year-over-year basis. If the economy enters recession, energy costs are set to weaken substantially further in the face of lower business and consumer demand.



Sources: EIA, BLS, NBER, Haver, SMBC Nikko

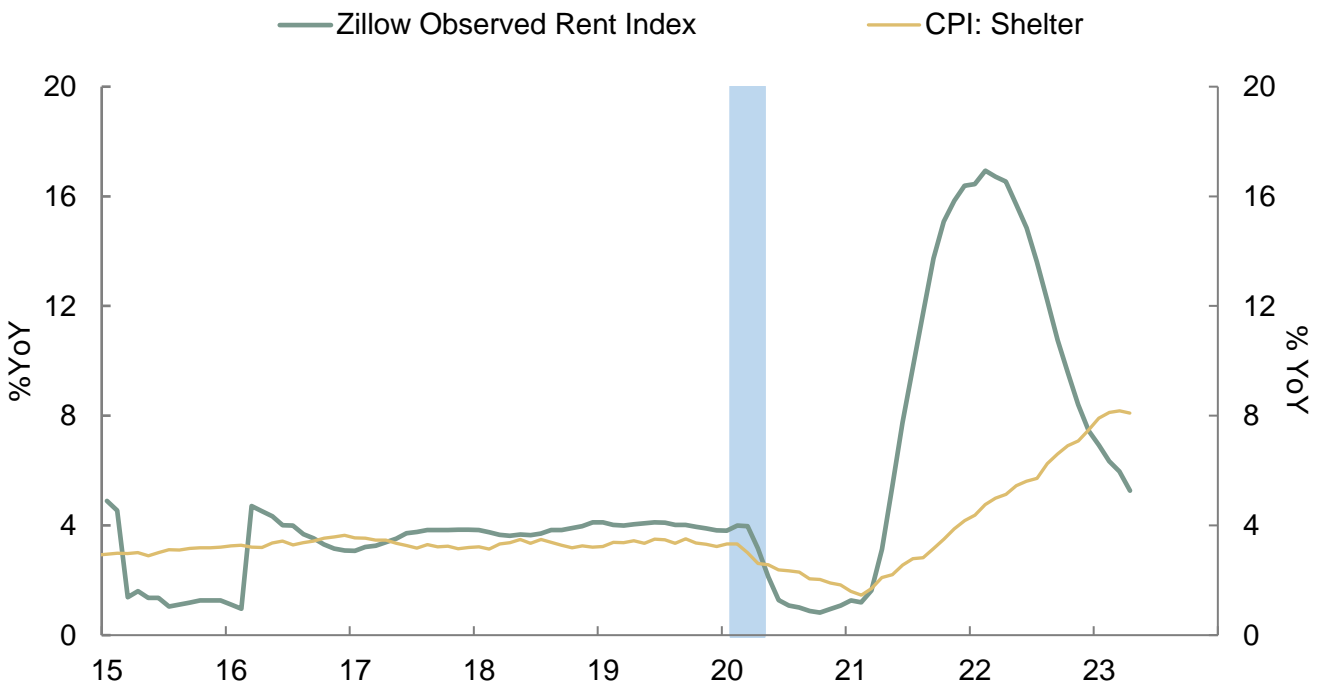
## Plunging Services

Producer prices capture inflation at the wholesale level and lead the trend in consumer inflation. Over the past year, producer prices in the services sector have collapsed, thus pointing to a sharp deceleration in CPI services. This should alleviate concerns of “sticky” prices.



# Peak Rents

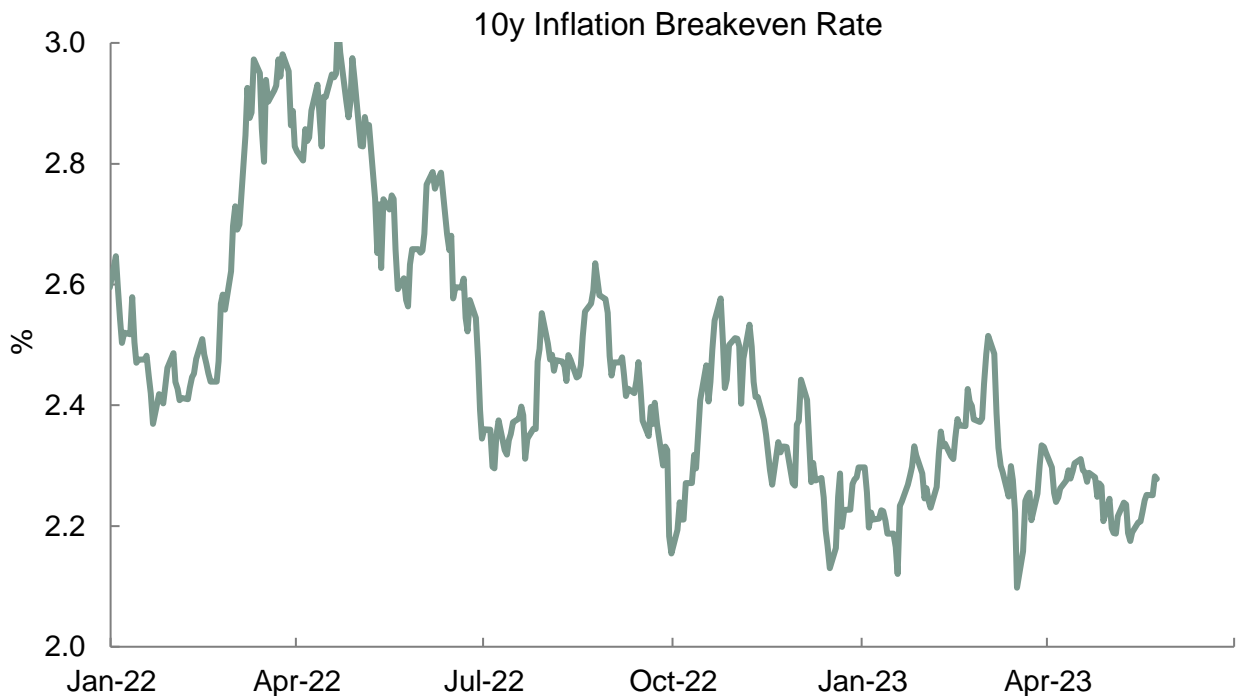
The growth rate in nationwide rents is quickly slowly. However, this has not yet registered in the CPI data because of how the Bureau of Labor Statistics measures rents, but rest assured, it will.



## Low and Stable Expectations

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Despite elevated inflation, the underlying price dynamics are bond market friendly. Arguably this is best captured in the 10-year breakeven inflation rate which is down sharply from last June, and currently, is consistent with price stability since the Fed's preferred inflation metric (PCE deflator) runs 30 to 40 basis points above the CPI.





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