

US Macroeconomics

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Fast Rise, Fast Decline

The consumer price index rose just 0.1% last month, which had the effect of lowering its year-over-year rate by one full percentage point to 5.0%. This is down massively from last June's peak of 9.1% and places current price growth back to where it was in November 2021 just before the Fed pivoted to a hawkish stance. The good news is that **the current CPI deceleration is likely to persist**. And if the economy goes into recession later this year as we expect, the inflation rate may even fall to uncomfortably low readings next year.

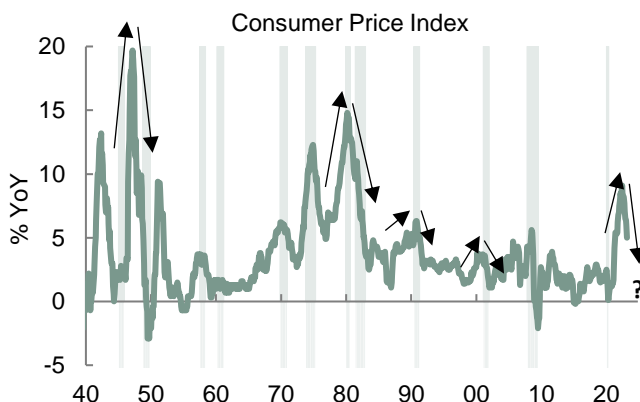
Current inflation behavior is consistent with its historical pattern. As shown in the lefthand side chart below, **during inflationary episodes the inflation rate is always trending either up or down**. It does not go sideways or plateau at an elevated reading. Inflation peaks are pointy and short-lived. Observe the 1942, 1947, 1951, 1975, 1980, 1990 and 2008 price spikes. Inflation soared but when it ultimately made a top, it soon reversed. We are seeing the same development happening again.

Furthermore, it must be noted that **the behavior of inflation is symmetric**. Importantly, the slowdown in the inflation rate mirrors the acceleration in the inflation rate. Stated differently, the slope of the inflation rate is the same on the way up as it is on the way down as highlighted in the righthand side table below. The average upswing and downswing slopes are 0.44 and -0.44, respectively. The pattern is repeating for the current business cycle.

Since the peak in the CPI last June, the slope of the inflation downshift is -0.42%, which is slightly more than the +0.38% in the nine months preceding last year's pinnacle. This moderation has taken place against the backdrop of sub-1% real GDP — the economy expanded 0.9% in Q4 2022 compared to four quarters earlier. But if the economy slows further, thus pushing up unemployment, inflation pressures should moderate even more.

Lastly, it is interesting to note that in the last three business cycles, the rate of inflation was lower at the start of the next business cycle than where it was at the beginning of the previous business cycle. We do not rule out the possibility that the inflation backdrop looks like what it did pre-covid. If so, today's inflation worries will eventually give way to tomorrow's deflation concerns.

History Says the Rise in the Inflation Rate Is Matched by an Equally Large Decline in the Inflation Rate



Sources: BLS, Haver, SMBC Nikko

Inflation Upswing	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
Sep 2021 to Jun 2022	0.38	Jun 2022 to March 2023	-0.42
Average 1940-2008	0.44	Average 1940-2008	-0.44

Sources: BLS, Haver, SMBC Nikko

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