

## US Macroeconomics

June 7, 2023

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### The Inflation Rate is Following Historical Script

The Cleveland Fed and the consensus of forecasters is predicting a 0.2% increase in the headline consumer price index (CPI) for May, which is released Tuesday. If this estimate is on the mark, the year-over-year inflation rate will fall from 4.9% in April to 4.1% in May. While this is still double the Fed's target, price appreciation is rapidly slowing, which is fully in line with history.

Last June, headline prices peaked at a 9.1% year-over-year rate. Based on history, price inflation will continue to moderate. This is evident from the left-hand side below. **Steep runups in inflation are followed by steep slowdowns in inflation. Put another way, the increase in the inflation rate is mirrored by the decrease in the inflation.**

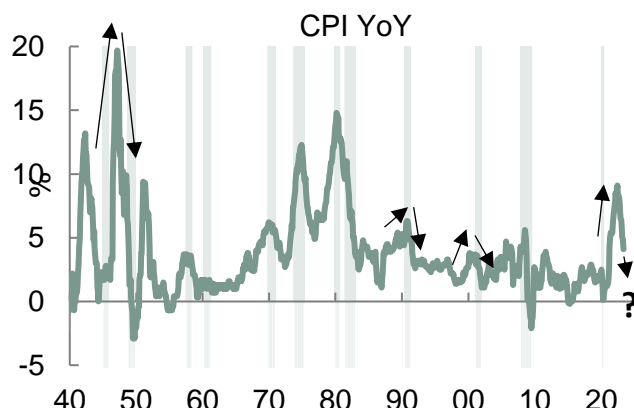
Observe the 1942, 1947, 1951, 1975, 1980, 1990 and 2008 price spikes. Inflation soared but when it ultimately made a top, it soon reversed. We are seeing the same development happening again.

For example, in the right-hand side table, we show previous inflation upswings and downswings. The fact that the slopes in both directions are generally the same reflects this inflation symmetry. **If May's estimate matches expectations, the slowdown in inflation will be even faster than in the past.**

In the 11 months since last June's peak, the slope of inflation's downswing (assuming a 0.2% May increase) falls to -0.44% (from -0.42%). This compares to an upslope of 0.37% in the 11 months leading up to June 2022. This matters to the Fed because headline prices impact inflation expectations which remain well anchored. And the slowdown in headline CPI is partially related to lower energy prices. They will eventually work to lower core prices too.

**The bottom line is that the inflation environment is rapidly improving.** If the economy slows further, leading to a more meaningful rise in the unemployment rate, then Fed policymakers and investors will be more confident in lower price appreciation. And that includes the core CPI as well. Stay tuned.

#### Inflation Trending Sharply Lower Just as History Suggests



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
Jul 2021 to Jun 2022	0.37	Jun 2022 to May 2023	-0.44
<b>Average 1940-2008</b>	<b>0.44</b>	<b>Average 1940-2008</b>	<b>-0.44</b>

Sources: BLS, Haver, SMBC Nikko

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