

US Macroeconomics

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Joseph Lavorgna, Chief US Economist | 212.893.1528 | joseph.lavorgna@smbcnikko-si.com

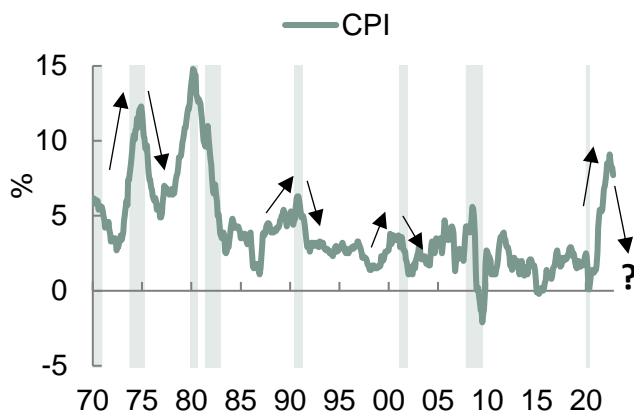
Past Peak Prices

Headline and core consumer prices (CPI) each meaningfully surprised to the downside, providing more evidence the economy is past peak inflation. The former was up 0.438% while the latter rose 0.272%. The gain in the latter was the smallest since August 2021 (0.184%) when year-over-year core inflation was running at 4.0%. The October figures show a further moderation in year-over-year inflation albeit at still elevated rate. The headline CPI is up 7.7% compared to 8.2% in September while the core CPI is up 6.3% vs. 6.6%. Weakness in the report was concentrated in three sectors: apparel (-0.7% vs. 0.3% in September), medical care services (-0.6% vs. 1.0%) and used motor vehicles (-2.4% vs. -1.1%) all fell. Additionally, the growth rate in owners' equivalent rents slowed from 0.8% to 0.6%.

As our research has demonstrated, when the rate of inflation moderates, it tends to do so at the same rate as the acceleration. This is evident from the chart below where we can see a symmetrical nature in the behavior of inflation. The speed of the rise is matched an equally sized speed of the decline. Arithmetically, this is shown in the table below. From the business cycles between 1940 to 2008, the average slope of the rise in inflation was 0.44 which was mirror image of the average slope of the decline in inflation that followed at -0.44. There was one notable exception, but it was a long time ago and related to the retooling of the manufacturing sector following WWII. The slope of the inflation upswing was 1.61 but the slope of inflation downswing was just -0.66.

It is interesting to note in the last three cycles, inflation fell more than its rise. In other words, the rate of inflation was below where it was before its ascent. Given the likely recession ahead and what this implies for inflation, monetary policymakers should consider halting interest rate hikes. While the Fed remains on track to hike 50 bps next month, 2023 rate hikes are in doubt. Stay tuned.

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



Sources: BLS, Haver, SMBC

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
May 2020 to Jun 2020	0.38	Jun 2020 to ?	?
Average 1940-2008	0.44	Average 1940-2008	-0.44

Sources: BLS, Haver, SMBC

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