

# US Macroeconomics

December 14, 2022

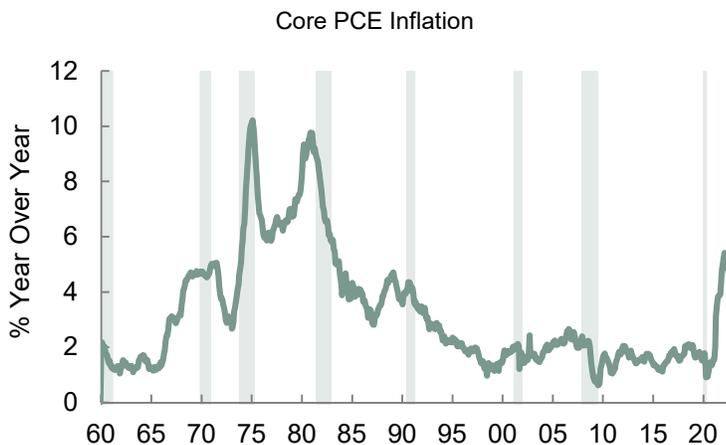
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## How Much Will Inflation Fall if There Is a Recession?

The core personal consumption expenditures (PCE) deflator is the Fed's preferred inflation metric. The series peaked at 5.4% in February 2022, the highest reading since April 1983 (5.5%). **Growth in the core PCE slowed to 5% in October 2022 and should slow to 4.6% in November based on the latest CPI report.** If the economy goes into recession next year, inflation rate will fall much further.

A full history of the core PCE and a table dating the inflation peak and troughs are shown below. Inflation rises before recessions (gray bars) and falls around recessions. While the magnitudes vary, inflation is always lower. **The average decline in core inflation is 291 basis points** (bps). However, there is substantial variability among business cycles. For example, core inflation fell 700 bps following the 1981-82 downturn but only 70 bps after the 2001 downturn. But this is because the economy was already at price stability during the latter period when recession struck. Analyzing the percentage decline in inflation is arguably more accurate.

According to our calculations, the rate of core inflation falls by over half from its cyclical peak. Hence, **recession next year suggests core PCE will slow to 2.4%**. To be sure, our analysis does not account for the depth of the downturn relative to the economy's underlying, non-inflationary potential. In theory, a deep recession would push inflation even lower. At present, investors care predominantly about the inflation inflection point which we are past. Where inflation ultimately bottoms is a topic for another day.



Inflation Cycles			
Peak	Trough	Bps	Percentage
Feb-60	Nov-61	-110	-50%
2.2	1.1		
Dec-69	Jan-73	-210	-44%
4.8	2.7		
Feb-75	Jul-76	-430	-42%
10.2	5.9		
Jan-81	Mar-87	-700	-71%
9.8	2.8		
Aug-90	Jun-98	-340	-77%
4.4	1.0		
Jul-01	Jan-02	-70	-33%
2.1	1.4		
Dec-07	Jul-09	-180	-75%
2.4	0.6		
Average >		-291	-56%

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