When Has Inflation Fallen This Fast?

By **Harlan Green**, Special to *VOICE*

WHEN WAS THE LAST TIME inflation rates declined this quickly? You guessed right if you said the Great Recession.

Calculated Risk's colorful graph of various inflation indicators (blue-gray bars are recessions) shows the history of Core CPI (red line) and Core PCE (green line) inflation from January 1990 among others. Core prices are without volatile food and energy prices.

What does that tell us about the current drop in inflation? Maybe there's a danger of it falling too far, too fast as well, fulfilling the prophecies of some that still see a looming recession. This inflation surge was worse than during the Great Recession (thickest blue bar) because of the COVID pandemic, per this graphic picture.

Only the 1980-81 recessions caused a sharper inflation decline. But that was because then Fed Chair Paul Volcker raised interest rates into the double digits to combat double-digit inflation caused by the 1970's oil crisis-fed stagflationary spiral.

Economic VOICE By Harlan Green

In fact, we are already in the Fed's two percent target range. The Personal Consumption Expenditure Price (PCE) Index is already at 1.9 percent and Core CPI Prices at 2.0 percent over the past six months.

And what Fed officials seldom admit is the two percent inflation target isn't a reliable target. Why? Because no one really knows what the true inflation rate is! Yes, there is no measure among the vari-colored measures above that is an accurate indicator of inflation as economists such as former Fed Chairman Ben Bernanke have admitted. It could have already hit zero percent in some sectors of our economy. Hence economists consult many different indexes to arrive at a mean value.

And consumers may already believe this, since the most recent inflation assessment coming from the New York Fed says their expectations are declining fast as well.

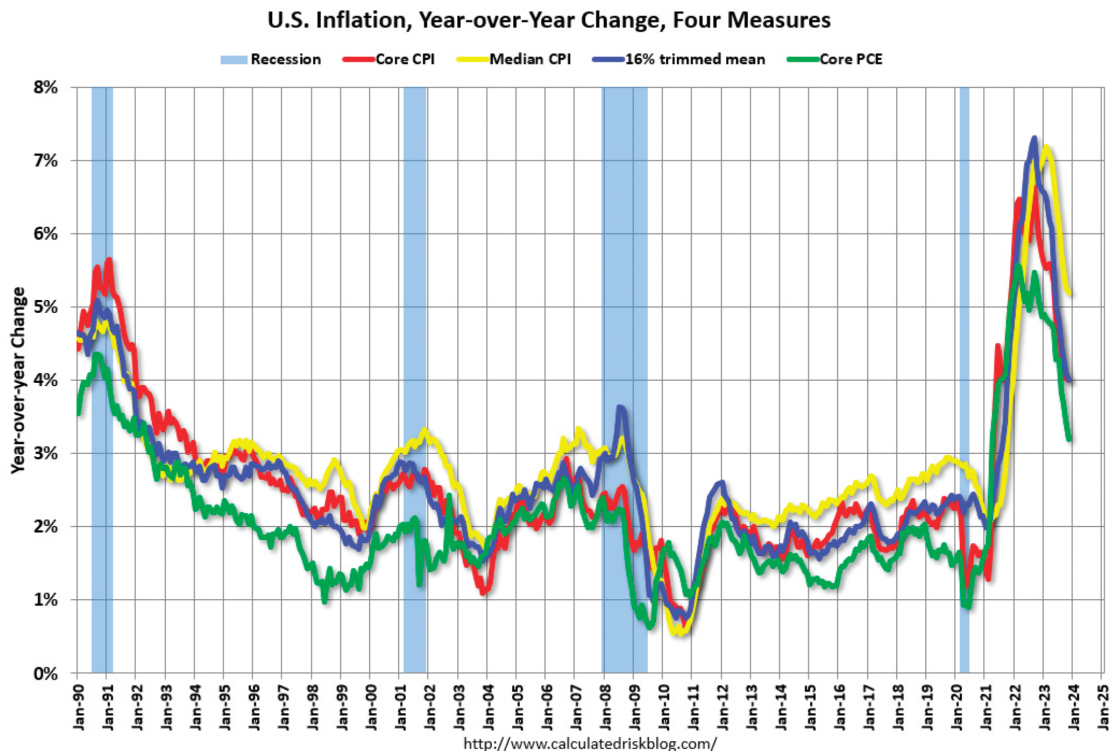
Consumers expect the inflation rate to fall to three percent, according to the Federal Reserve Bank of New York. That's the lowest anticipated one-year ahead inflation rate since January 2021, in the NY Fed's ongoing survey of consumer expectations.

Median inflation expectations declined at all horizons, falling to 3.0 percent from 3.4 percent at the one-year ahead horizon, to 2.6 percent from 3.0 percent at the three-year ahead horizon, and to 2.5 percent from 2.7 percent at the five-year ahead horizon.

Maybe some Fed Governors, such as Michele Bowman are beginning to believe this as well who have studied the history of inflation.

Energy and food prices are falling, for starters. The U.S. is even outproducing the OPEC countries and Russia, which may not be the best way to win the inflation war. But it could convince the Fed to begin to lower short term rates sooner and preserve this recovery.

No one really wants to cause another recession, right?



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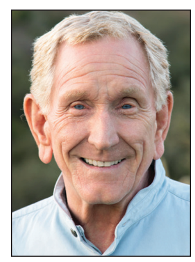

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