

ARE WE HEADED FOR AN AUTUMN RECESSION? AN UPDATE ON THE CARL LEWIS EFFECT

- RECENT DATA RELEASES from G7 economies broadly confirm the course we anticipated in our [November 2022 report](#), namely that in G7 economies
 - Headline inflation continues falling
 - Core inflation is, however, proving to be sticky
 - Despite some recent softening in job markets, in response to the sharp tightening of monetary policy by central banks, there is as yet not much sign of an imminent sharp rise in unemployment, nor of downward pressure on wages; on the contrary, real wages continue to rise, as we anticipated would be the case
 - Recent reports on consumer confidence and saving suggest an imminent softening in demand, leading some economists to predict a recession; however, should the job market remain relatively strong, it will provide a floor under demand, making recessions in developed economies either less likely or, where they occur, likely short and shallow.
- Markets continue to price in imminent interest-rate cuts in response to the perceived softening in developed economies. We maintain that there is little to justify an expectation of such cuts.
 - Headline inflation has now begun to fall below core inflation, as cyclical disinflation occurs. However, we expect the headline inflation rate to rebound later in the year as it converges with a core inflation rate that will continue to fall more slowly
 - As a result, while central banks may be near the peak of their tightening cycles, we see no factors that would support an imminent loosening in policy; furthermore, as central banks continue the ‘quantitative tightening’ whereby they steadily withdraw some of the huge supply of money they injected into the economy amid the pandemic, upward pressure on bond yields will continue
 - We expect these higher rates to be the new normal, and do not expect significant declines in interest rates for the foreseeable future

Seaford Macro Update
September 2023

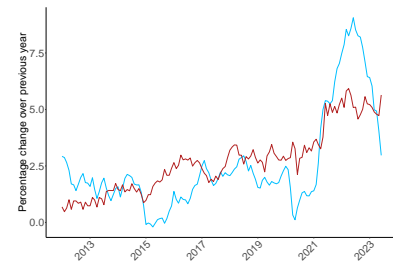


Figure 1: Headline inflation and manufacturing wages in USA. In this, and all following plots, headline inflation is shown in blue, while wage growth is shown in red. As you can see, wage growth now outpaces inflation, as it does in Canada and Japan.

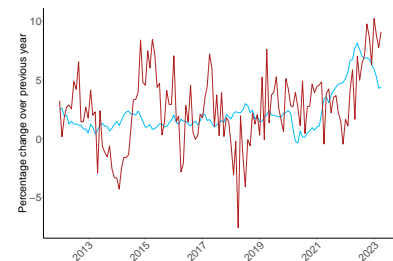


Figure 2: Headline inflation and wages in Canada

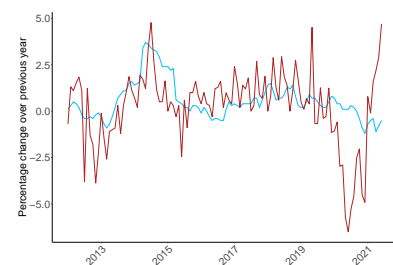


Figure 3: Headline inflation and wages in Japan

- As awareness grows that interest rates will stay elevated for the foreseeable future, a repricing of assets is likely to occur
- Much of the commentary in the business media continues to attribute the persistence of inflation to strength in job markets. While we expect strong wage growth amid weak productivity to provide a floor under inflation, we maintain the fundamental driver of inflation lies elsewhere:
 - To a considerable extent, the rise in labour costs merely reflects a catch-up after years of erosion in real earnings, as workers cope with the rising cost of assets—in particular, of housing
 - We find little evidence of a wage-push spiral; we note that disinflation has occurred even as real wages have risen—and moreover, that the disinflation is strongest where wage gains have been greatest
 - Instead, we note that disinflation has occurred amid real declines in profits and prices on shares, bonds and real estate
- This latter finding would support calls for further attention to be paid to the effect of profits and asset prices on inflation; accordingly, we at Seaford Macro have begun researching the impact of asset prices on inflation, and will be producing reports in due course.

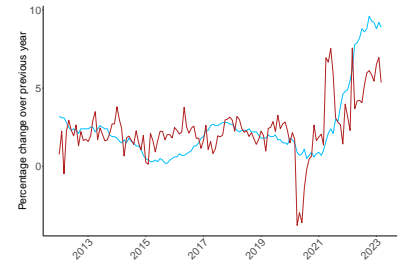


Figure 4: Headline inflation and wages in the UK

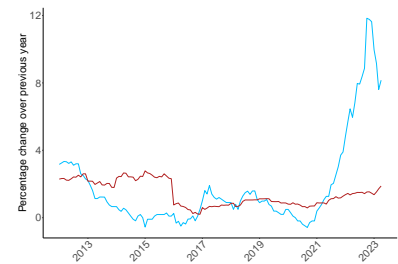


Figure 5: Headline inflation and wages in Italy

At Seaford Macro, we explore currents deep within the global political economy to better interpret the movements at the surface. To hear more about our ongoing research projects and future investigations, contact us at info@seafordmacro.com or go to <http://www.seafordmacro.com>.

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