



Pulling the ripcord

Recessions are the cost of avoiding a higher inflation regime

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Persistent inflation pressures

Inflation data have remained problematic, continuing to broaden and surprising to the upside for far longer than generally expected. Yet, the reasons for this remain unclear, with many of the touted explanations not appearing to fit the facts all that well.

Fearing regime change

This uncertainty is a source of concern for central bankers. They fear getting trapped in a regime in which high inflation becomes self-perpetuating. This helps explain their increased urgency to hike rates and their apparent disregard for rising recession risks.

A hesitant policy pivot

Policy rates are likely to rise until evidence of a material slowdown, if not recession, comes through. We appear to be getting closer to that point. But central banks might prove reluctant to ease until there are clear signs that inflation is in retreat.

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[‘Is a recession already upon us?’](#), Absolute Insight, 6th July 2022

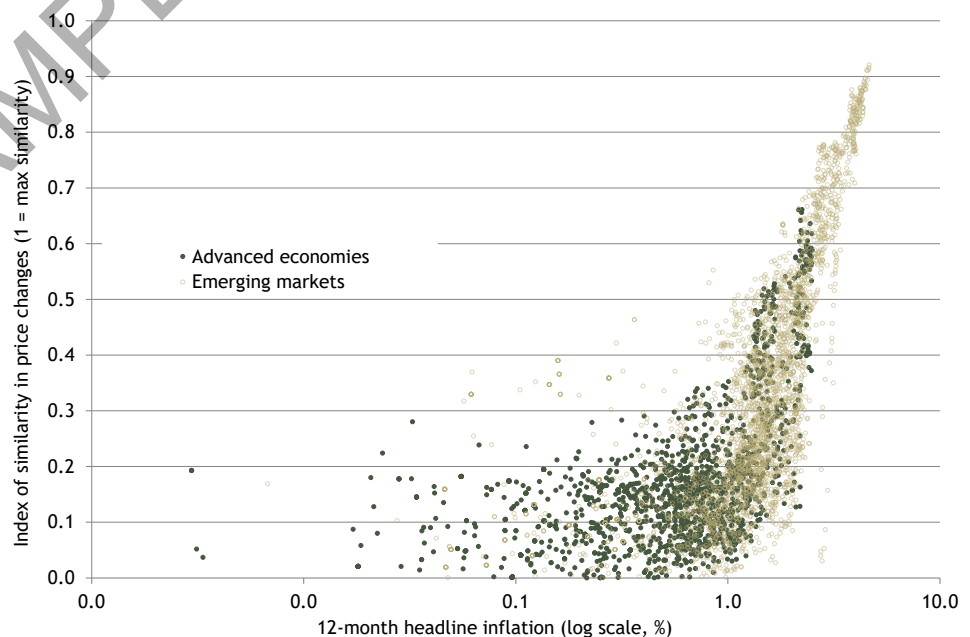
[‘Rolling recessions lie ahead’](#), Economics Weekly, 31st May 2022

[‘Why has US wage growth slowed?’](#), Economics Weekly, 24th May 2022

[‘Rising rates ... and recession risks?’](#), Economics Weekly, 5th Apr 2022

[‘Gauging eurozone recession risk’](#), Economics Weekly, 12th April 2022

Key chart: Central banks fear getting stuck in a higher inflation regime



Source: ASR Ltd. / BIS