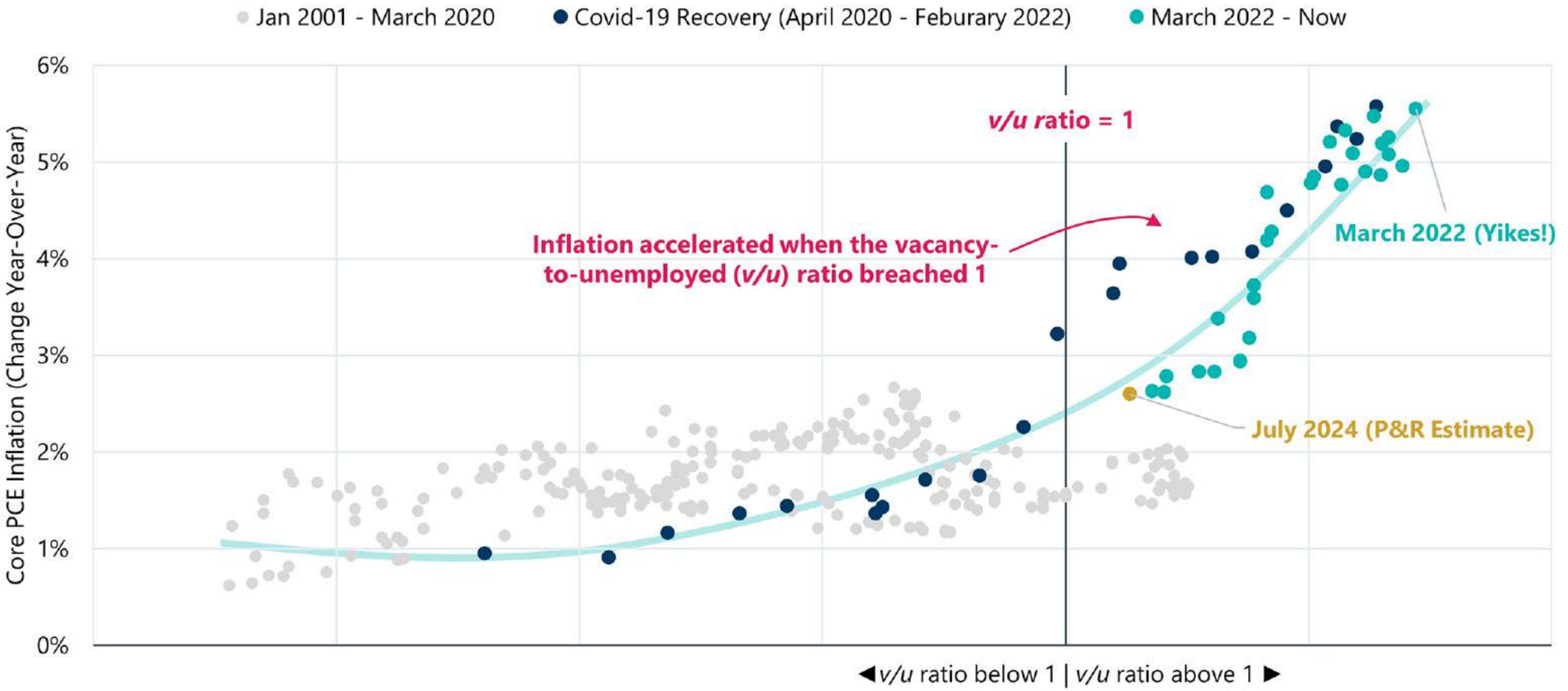
Payden&Rygel

Pivot Point

Core Inflation Versus Vacancy-To-Unemployed (*v/u*) Ratio*

For The Week Ending 08/30/2024



Sources: Bureau of Labor Statistics, Bureau of Economic Analysis, P. Benigno and G. Eggertsson. (2024) "Insights from the 2020s Inflation Surge: A Tale of Two Curves"

**The v/u ratio shown in log scale for the modified Phillips Curve measures job vacancies (v) versus unemployed workers (u)*

Core inflation, as measured by the core personal consumption expenditures (PCE) price index, increased just 2.6% in July compared to a year ago, down from its peak of 5.6% in February 2022. During remarks last week at the Jackson Hole Symposium, Fed Chair Powell celebrated the almost miraculous moderation of inflation without significant economic consequences. More interestingly, Powell cited a paper presented at the Symposium, suggesting that the Phillips Curve (which posits a positive relationship between economic activity and inflation) steepens when labor demand vastly outpaces labor supply. A labor shortage accompanied five of the six inflation outbreaks in the U.S. since 1913. Indeed, in 2021-2023, inflation accelerated once *v/u* shifted above 1. The *v/u* ratio could dip back to 1 this fall, at which point the labor market will no longer pose an inflationary threat. Consequently, in policymakers' minds, the softer labor market bolsters the case to cut rates—and any further softening would warrant faster rate cuts. If you haven't already, it's time to pivot.