

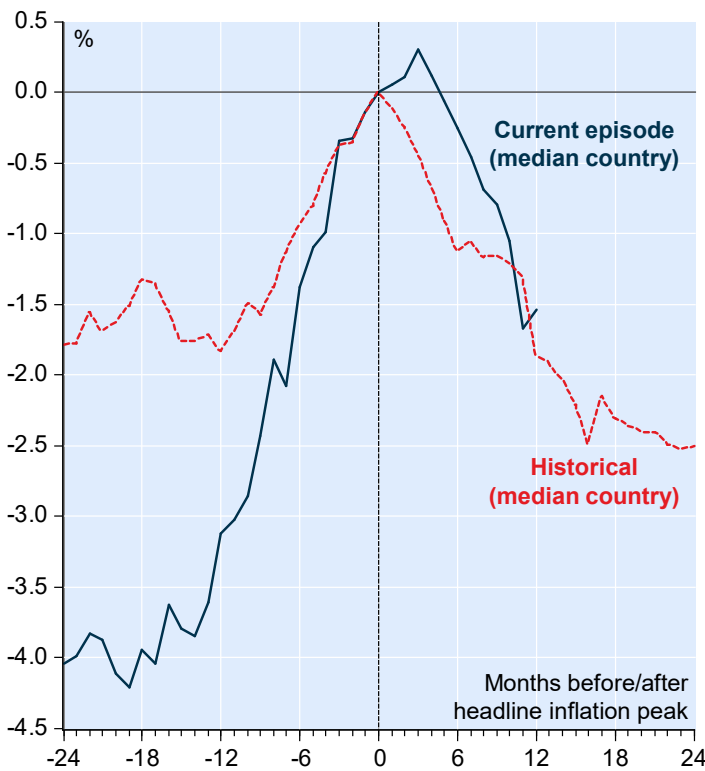
World Watch

By Jocelyn Paquet

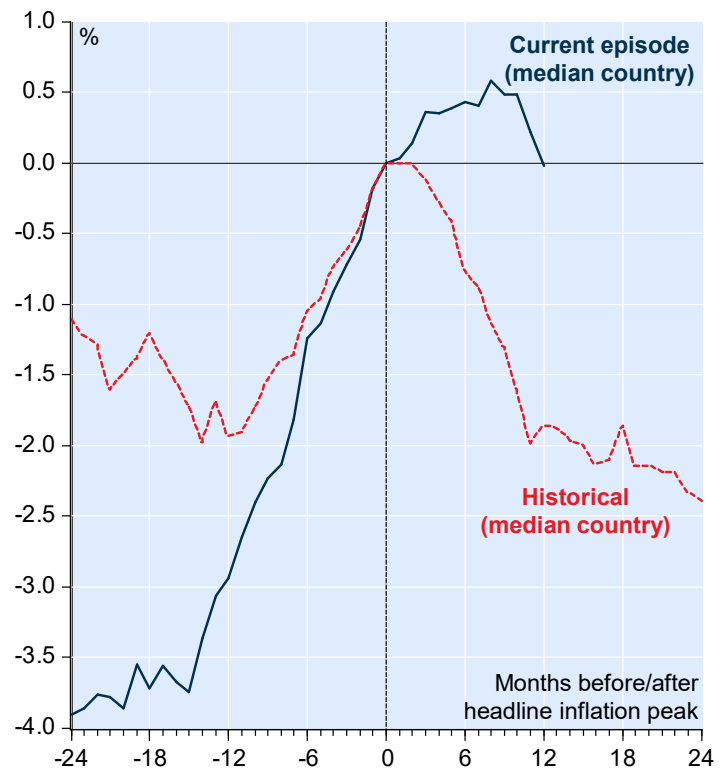
Whether central banks will achieve a soft landing of the world's economy is certainly one of the most important questions facing market participants right now. The data published in the second half of 2023 seems to have convinced several economists that an "immaculate disinflation" was possible, as the sharp fall in inflation recorded in several countries in that period has not been accompanied by an increase in the unemployment rate. But more recently, doubts have begun to emerge again about the ability of central banks to bring inflation back to target *on a sustainable basis*. Above-consensus CPI prints in the U.S. and elsewhere have indeed led market participants to postpone the expected timing of the first rate cuts and may also have been partly responsible for a surge in the price of gold, which traditionally serves as an inflation edge. We think investors are right to be worried. Recent disinflation has been extremely dependent on the goods sector, which has benefited from a notable loosening of supply chain constraints which cannot be repeated going forward. Services inflation meanwhile, has come down much more slowly than it had in other disinflationary episodes in the past, as today's Hot Chart makes clear. Vigorous wage growth is certainly to blame here, which begs the following question: will a further slowdown in the job market be necessary to allow inflation to return to the 2% target? Although the historical correlation between the unemployment rate and inflation has been extremely weak in recent months, we think it is still too early to proclaim the death of the Phillips curve. The last mile might yet prove the hardest in the fight to bring inflation back under control.

World: Sticky services inflation suggest Phillips curve might not be dead

Evolution of goods inflation around inflation peaks*



Evolution of services inflation around inflation peaks*



*Month = 0 is when the actual headline inflation value is at the highest during that particular episode. Includes data for 21 advanced economies and 18 emerging economies.

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