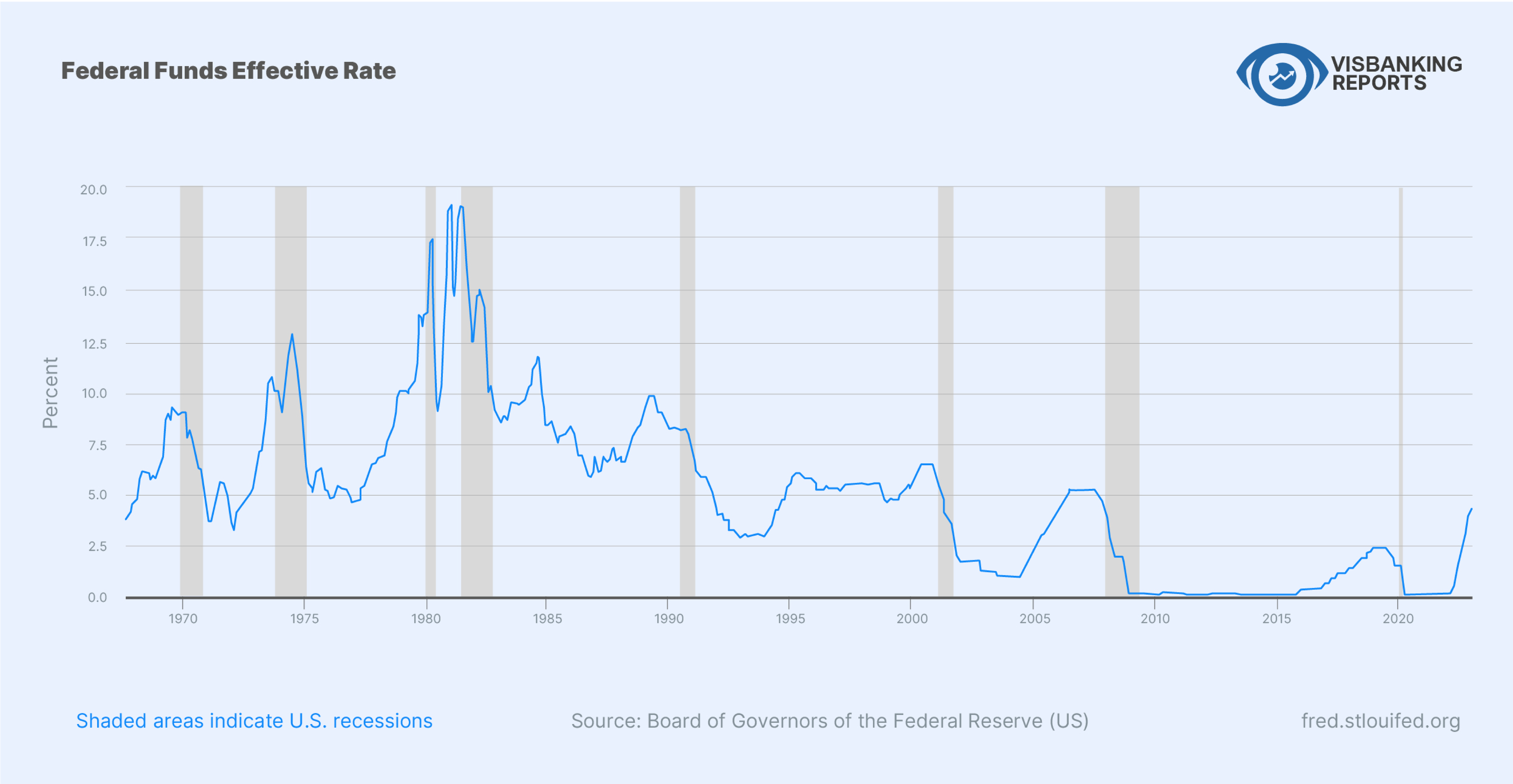
Interest rates are climbing at historic rates. Are we heading toward a 1970's Stagflation repeat?

1970s gas lines

Let’s look at 7 key indicators and see what they show.

Keep in mind as we look at these that the economic impact of COVID shutdowns skews recent data. We’ll look more at how ‘21 and ‘22 have demonstrated a rebound from ‘20.

Federal Funds Effective Rate



Stagflation ('77 - '80): 5.54, 7.93, 11.19, 13.36

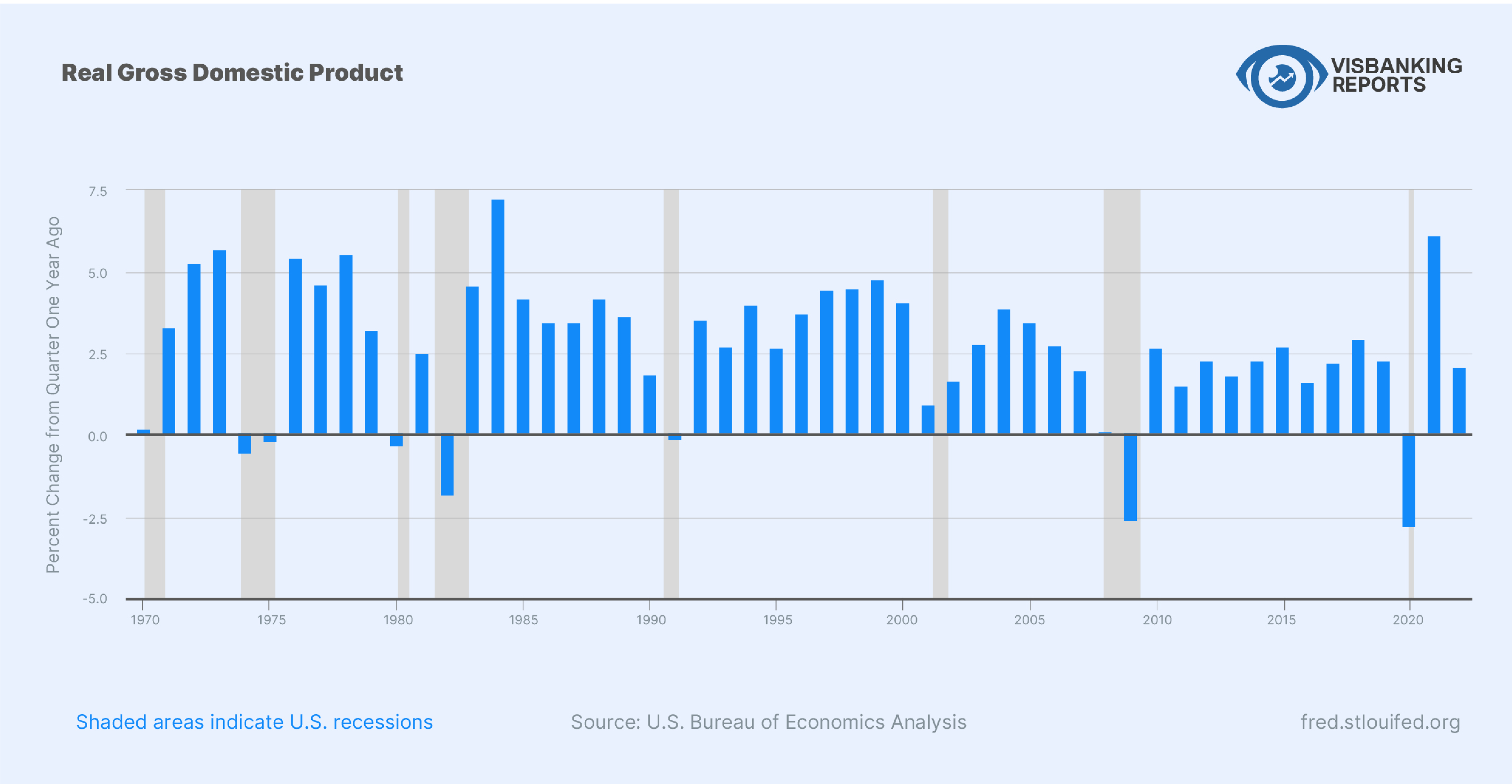
Current ('20 - '22): 0.38, 0.8, 1.68

Federal Funds Effective Rate

Stagflation: It's scary how fast interest rates increased to fight inflation during Stagflation. But due to these being annual averages, the mayhem at the end isn't captured. Rates peaked at 17.61% in April '80 and then an attempt was made to slash rates down to 9% by July after inflation peaked. This effort failed and rates shot back up to 19% by January. It wasn't until August '81 that rates began to come down for good.

Current: Again, annual averages don't show the full picture. '22 started at 0.08% and ended at 4.10%, marking the largest, and fastest climb since Carter's presidency. The most recent increase indicates that this may be coming to an end, but there are still talks of further increases if we manage to avoid a full-blown recession.

GDP - Gross Domestic Product (% Change YoY)



Stagflation: 4.6, 5.5, 3.2, -0.3

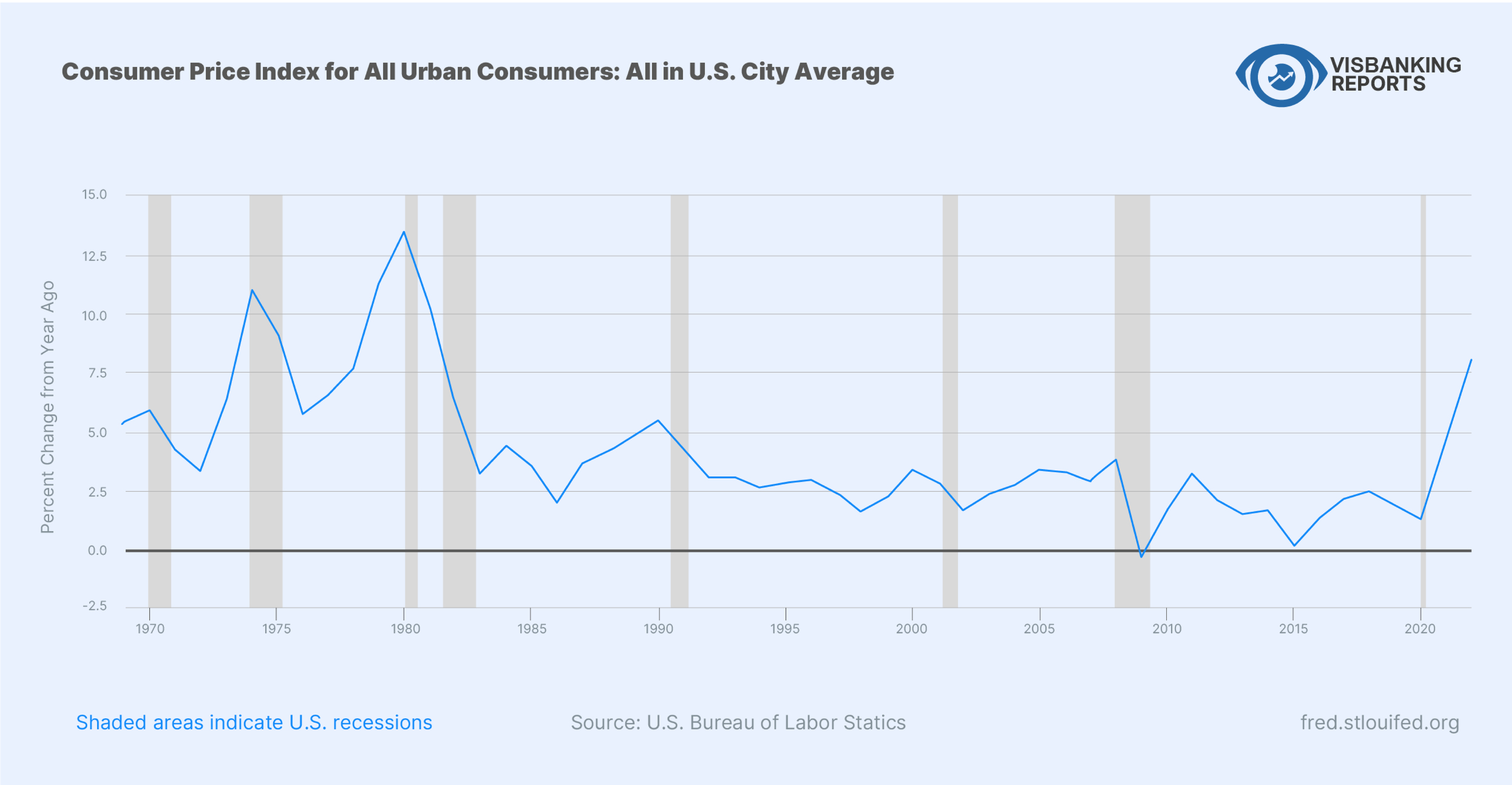
Current: -2.8, 6.1, 2.1

GDP

Stagflation: Honestly, these numbers aren't horrible. But the final drop shows that the methods used to maintain GDP growth were ultimately unsustainable. Largely fueled by rate hikes, the economy crashed and entered into a recession in 1980.

Current: These numbers are all over the place, but 2021’s 6.1 made up for the loss in 2020. 2022 was much more normal at 2.1, showing that we have may have returned to normal GDP growth rates. However, it is worth noting that GDP growth is expected to slow in 2023.

CPI - Consumer Price Index (% Change YoY)



Stagflation: 6.47, 7.63, 11.25, 13.50

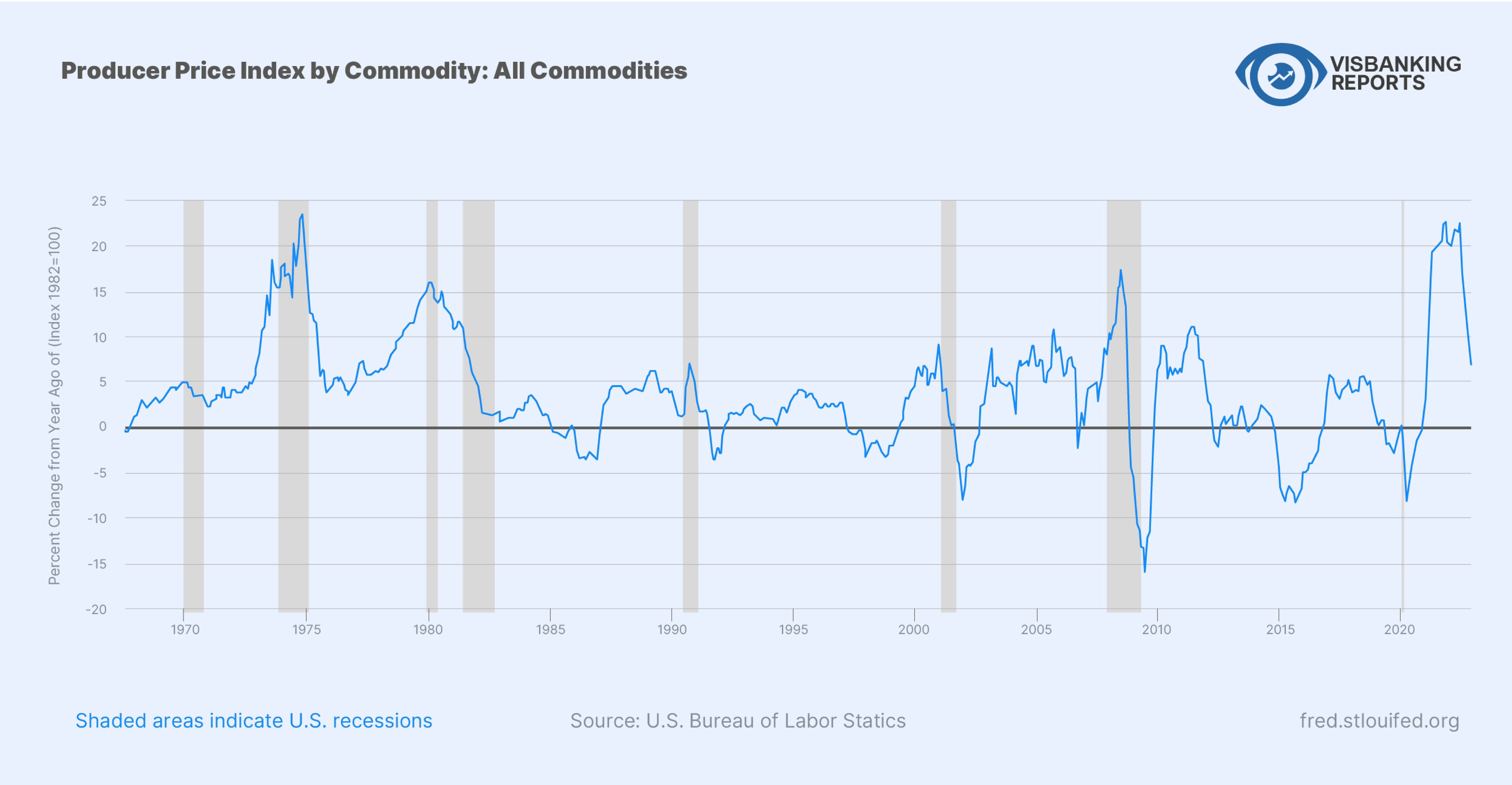
Current: 1.25, 4.69, 8

CPI

Stagflation: Inflation rose relentlessly during Stagflation, and consumers paid the cost. This was the consequence of increased rates used to fight inflation. Not to mention that soaring gas prices played a significant role in this increase.

Current: These numbers are lower, but the rate of change is higher. The good news is that when we look at this on a monthly basis, we appear to have reached a plateau and are now heading back down. However, it is likely that we will see additional rate hikes to avoid inflation increasing yet again. This will be one to keep an eye on.

PPI - Producer Price Index (% Change YoY)



Stagflation: 6.12, 7.81, 12.56, 14.08

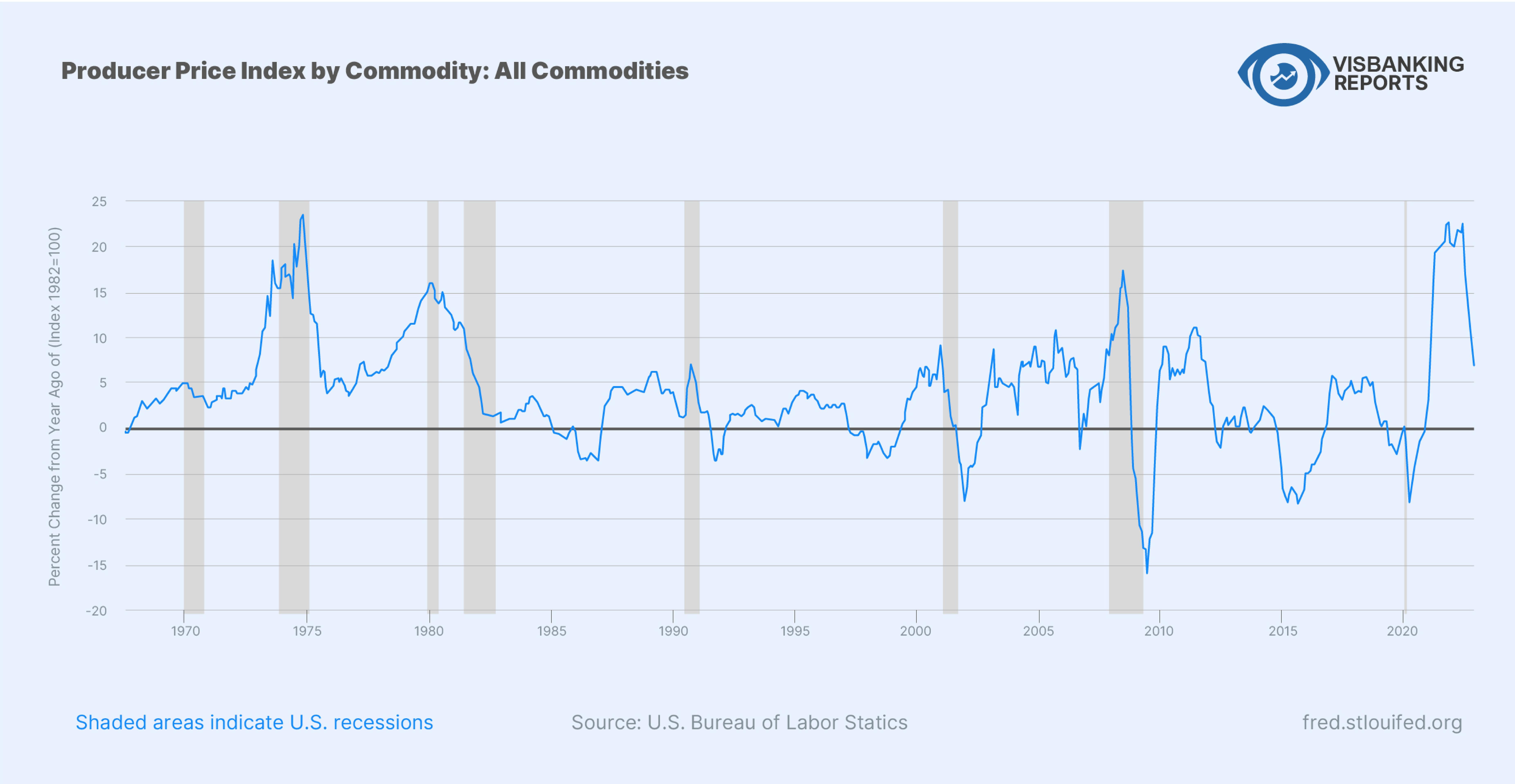
Current: -2.74, 16.96, 16.35

PPI

Stagflation: Producers saw how bad stagflation was getting and drove their prices higher to compensate. This stayed relatively parallel to CPI, meaning that producers weren't price gouging.

Current: This is shocking. You've probably heard that much of your increased costs over the last 2 years are going to corporate profits. This proves it. There is almost no correlation with CPI, meaning that commodity producers are blaming higher prices on inflation, when in reality, they're price gouging to line their own pockets. The good news is this isn't sustainable and when looking at monthly reports, December '22 was already back down to 6.94. This absurd PPI appears to be coming to an end.

Gas price inflation (% Change YoY)



Stagflation: 5.78, 4.30, 35.34, 38.97

Current: -16.32, 36.00, 31.71

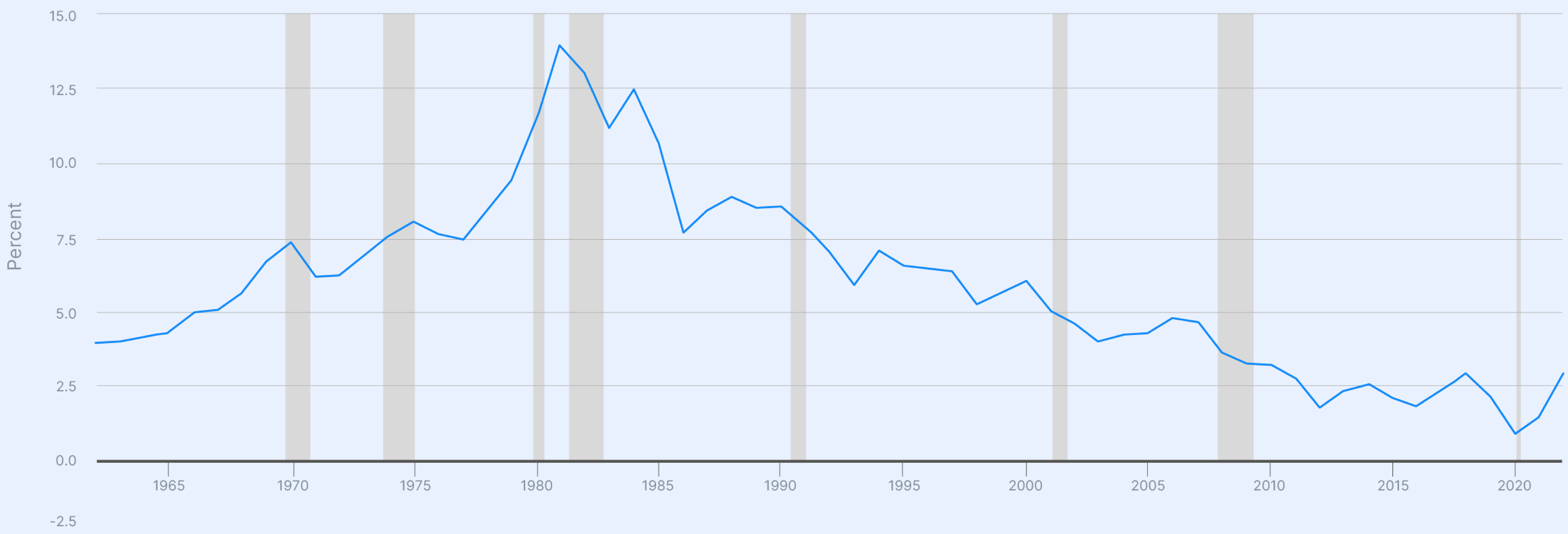
Gas price inflation

Stagflation: The end of Stagflation was marked by an oil crisis caused by war in the middle east. It led to major shortages and long gas lines. This is in large part the reason for such a tumultuous economy during Stagflation.

Current: Not dissimilar to Carter's presidency, gas supply has been stunted by the war in Ukraine. Thankfully, shortages aren't as much of a problem, but price increases have been just as drastic.

10-year Treasury Bill (Market Yield)

Maket Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis



Shaded areas indicate U.S. recessions

Source: Board of Governors of the Federal Reserve System (US)

fred.stlouifed.org

Stagflation: 7.42, 8.41, 9.43, 11.43

Current: 0.89, 1.45, 2.59

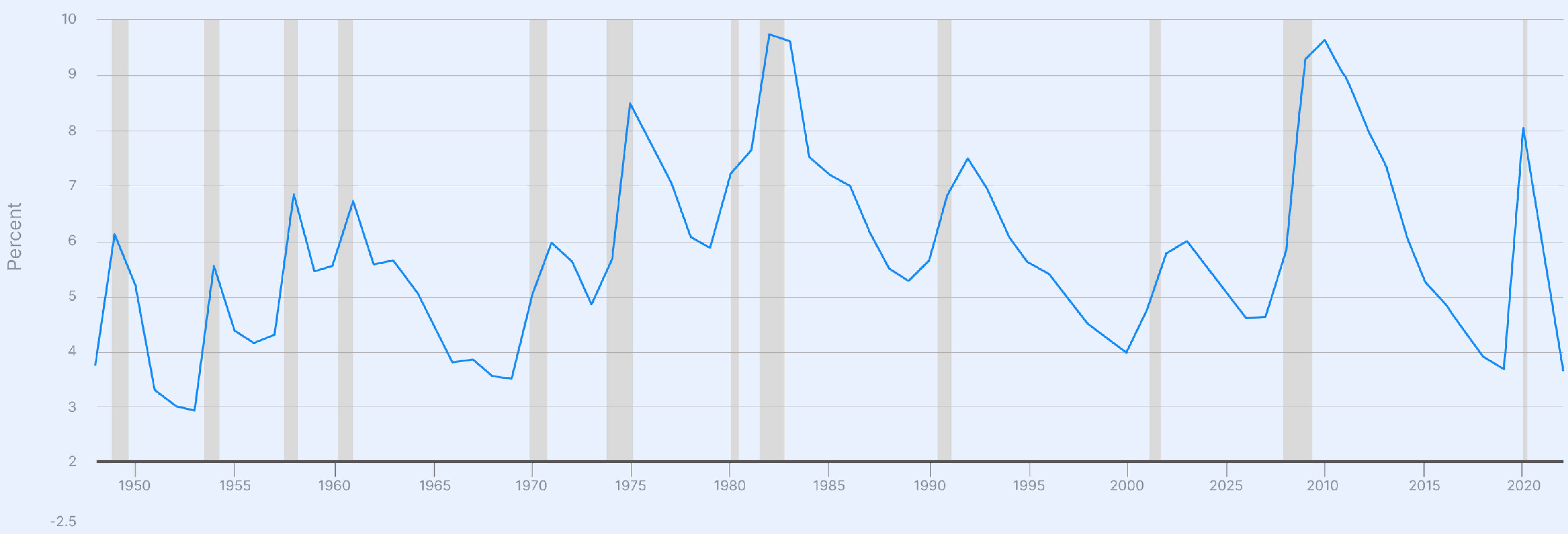
10-year Treasury Bill

Stagflation: This a great mark for inflation. Higher yield means investors require more return on their bonds in order to account for inflation risk. The increases during Stagflation are the highest on record.

Current: These are very moderate yield increases, showing that there is some concern for inflation, but it pales in comparison to the risk during Jimmy Carter's term. Yields peaked in Q4 2022 at 4.2% and are now back down to 3.8%. Again, not Carter-era, but the highest since 2009.

Unemployment (Annual Average)

Unemployment Rate



Shaded areas indicate U.S. recessions

Source: Bureau of Labor Statics

fred.stlouifed.org

Stagflation: 7.1, 6.1, 5.9, 7.2

Current: 8.1, 5.4, 3.6

Unemployment (Annual Average)

Stagflation: Reducing unemployment was the #1 goal during Stagflation. Some success was found through he employment training programs that were created, but ultimately the oil embargo diminished these efforts.

Current: What these numbers don’t show is that April 2020 had the highest rate of unemployment ever recorded at 14.7. This number subsequently nosedived back down to pre-COVID levels by early 2022. The new rate around 3.5% appears to be holding steady.

So What's The Verdict??

All of these comparisons point to the fact that while we may be experiencing a spike in interest rates, the underlying economic and political conditions are considerably different than they were during Stagflation.

At the very worst, we're not quite there yet.

Things seem to be stabilizing, but between the war in Ukraine and an increasingly polarized political climate, a change of course could happen very quickly.