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Inflation – On the road to nowhere?

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Du bist nicht allein.



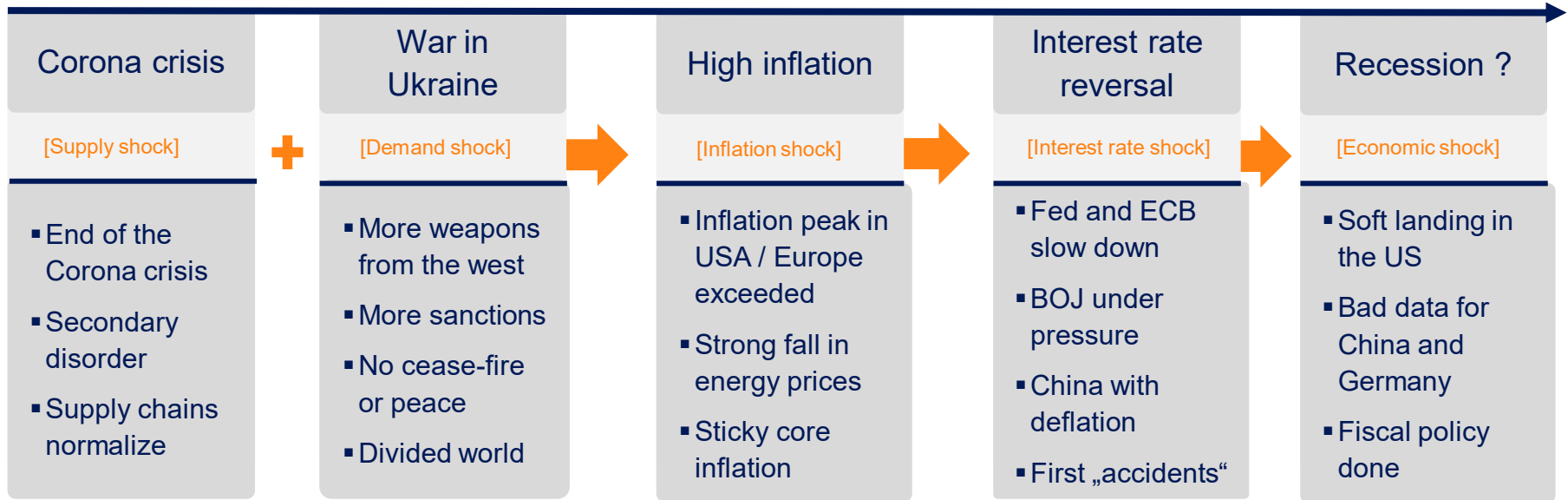
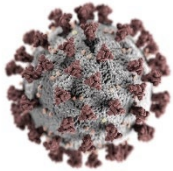
Road to Nowhere



„Well we know where we're goin'
But we don't know where we've been
And we know what we're knowin'
But we can't say what we've seen

David Byrne, 1985

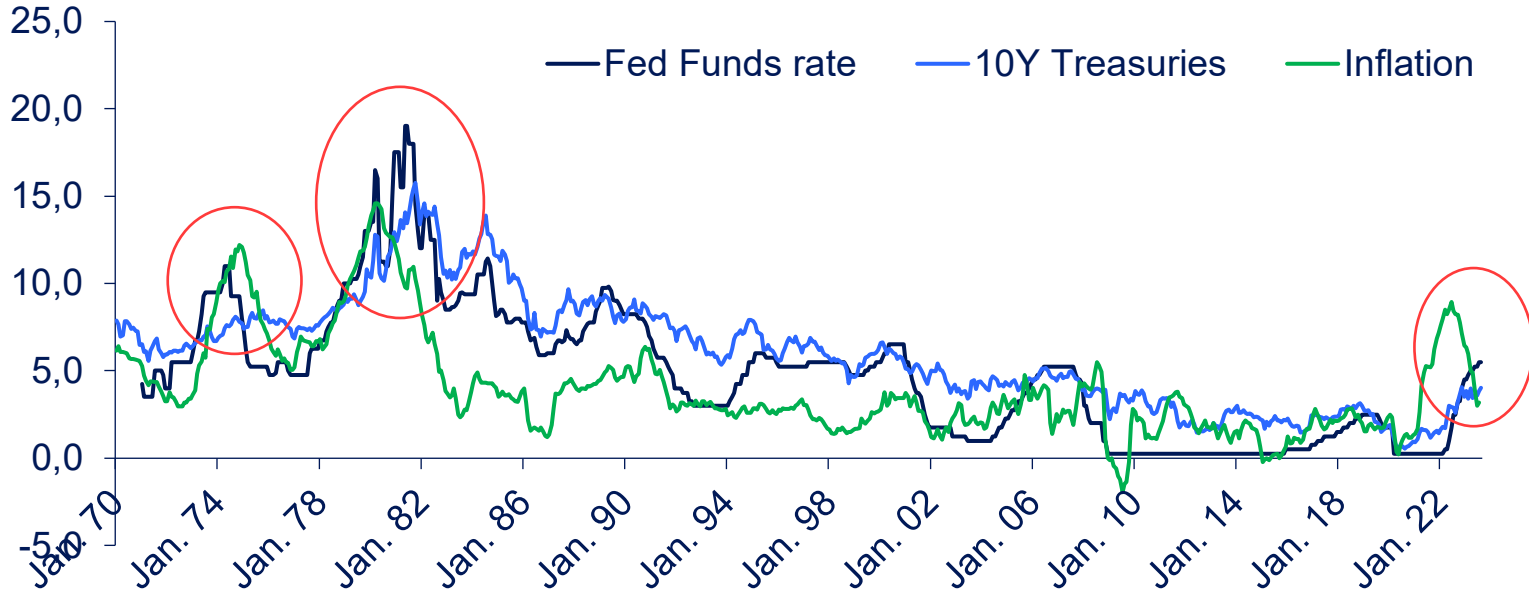
How we see the world



1974 or 1979 ?

US interest rates

in %



The era of Paul Volcker



1979

Revolution in
Iran

Severe
turbulence in
the oil markets



1979

Second Oil
crisis

Oil prices triple



1979

Inflation
and wage
pressure

Stagflation



R. VOLCKER

1979

Interest rates
spike

Volcker
becomes Fed
President;
strong interest
rate hikes



Recession

USA / world
economy
plunge into
recession

And then came Ronald Reagan



New economic policy

Reagan becomes President; star wars; Laffer curve



LatAm Debt Crisis

Mexico default 1982; 16 countries reschedule debt; Brady bonds



Plaza Accord

USD depreciation and JPY/DEM appreciation



Louvre Accord

USD appreciation and JPY/DEM depreciation



Savings & Loans - Crisis

Over-investment in junk bonds and real estate
1/3 insolvent

Lessons of the 1980s

| | 1980s | 2020s |
|-----------------|---|---|
| Monetary Policy | Positive real interest rate for years | Perhaps |
| Fiscal Policy | (i) Increasing debt for easing recession, but not only by tax cuts (ii) Reducing public debt by growth | (i) Yes, but debt increase more through spending (ii) Perhaps reduction later on |
| Wage Policy | (i) Avoiding the wage-price spiral (ii) High temporary unemployment | (i) Perhaps (ii) No, labor shortages |
| Currency policy | Policy coordination failed | Yes, free exchange rates |
| Economic policy | Liberalization, deregulation, privatization | No, de-globalization, re-regulation, belief in the state |





Conclusion

- We are NOT on the road to nowhere.
- But be careful with statements at this extraordinary time. We come from the Great Moderation, zero interest rates and fiscal dominance.
- In addition to theory, economic history can help to understand developments.
- Basically, I'm optimistic because central banks know how to deal with inflation. They didn't know how to fight deflation.
- Fighting inflation goes beyond central banks.
- The normalization is not over yet.

Thank you for listening !



R+V Forecasts 2023-25

| | | 2022 | 2023e | 2024e | 2025e |
|---|---------------------|-------|-------|-------|-------|
|  | GDP-Growth (y/y) | 3,50% | 0,25% | 1,25% | 1,50% |
| | Inflation (y/y) | 8,40% | 5,75% | 3,25% | 2,50% |
| | Prime rate | 2,50% | 4,50% | 3,75% | 2,75% |
| | 10Y Bund | 2,60% | 3,00% | 3,00% | 2,75% |
| | EUR-USD | 1,10 | 1,10 | 1,12 | 1,12 |
|  | GDP-Growth (y/y) | 1,75% | 1,50% | 1,00% | 2,25% |
| | Inflation (y/y) | 8,00% | 4,50% | 2,75% | 2,75% |
| | Fed funds rate | 4,50% | 5,75% | 4,50% | 4,00% |
| | 10Y Treasuries | 3,90% | 4,00% | 4,00% | 3,75% |

By July 2023