Lakshman Achuthan: Immaculate Disinflation Debunked

February 16th, 2022

Erik: Joining me now is ECRI co-founder Lakshman Achuthan. As usual Lak prepared a terrific slide deck to accompany this week's interview. You'll find the download link in your research roundup email. If you don't have a research roundup email, it means you're not yet registered at macrovoices.com. Just go to our homepage, click the red button above Lak picture that says, looking for the downloads. Lak, It's great to have you back last time that we had you on I think last summer sometime, you had growing conviction toward a recession call. And it seemed that I that was my view at the time, too. It still seems to me like even though maybe we've got Jay Powell making a victory lap claiming that he is achieved some sort of soft landing. I'm not necessarily persuaded that there's still no recession coming. I think it's just taken a little bit longer than I expected. How do you see it? And what are the cycles telling you?

Lakshman: Erik, thank you so much for having me back. We do still have a recession call on that hasn't changed. And as you said, we did talk last summer, we were talking about how we were building that recession call. The conviction around that recession call. And if you'll recall, it was predicated on our leading indicators of major sectors of the economy and, and we had a strong downturn in the goods sector, in manufacturing and construction. And, you know, that's pretty much happening. That's that hasn't gone away. And on top of that, you get more aggressive fed tightening. I think most people's recession forecast that we saw last year, was built upon the kind of surprisingly aggressive fed. You know, quote, unquote, surprisingly aggressive fed starting around July when they started going 75 basis points per meeting and hiking. And that's very different than our recession call our recession calls not built on that.

And so, as you mentioned in the in the lead in with the Fed, approaching some sort of, you know, victory lap or whatever, and then the market kind of getting excited about the potential for that. There's the idea that there's a soft landing. Now, that may be possible if your entire recession call was predicated on the Fed tightening. But if, like ECRI (Economic Cycle Research Institute) that I don't think there's a lot of places like ECRI actually, that we're doing it based on the drivers of the cycle. Those are still cycling down. I mean, our analysis is different, because we've been doing this a very long time for several generations. And so there's a lot of advancements in how you monitor the drivers of the cycles. And watching those the recession call is in full effect. And we should get into that. I mean, I think that's an interesting part of our of our discussion that we could have today.

Erik: Let's talk about page Six and your slide deck because I remember this conversation specifically from last time we spoke, the phrase hiking rates into a global recession, and I kind of rolled my eyes and thought, oh, boy, here we go. The Fed is so focused on inflation, that they're hiking rates into an oncoming global recession, they're going to make it much worse, they're going to blow things up. Well, to my surprise, I mean, we've got lots and lots of rate hikes, they didn't really blow things up as much as I thought. And I suppose the counter argument would be now they seem to they haven't started easing yet. But it sounds like they're slowing down or almost done hiking, and it hasn't really blown everything up yet. I suppose it's understandable that Jay Powell thinks he's achieved a soft landing and everything's gonna be fine. So should we be less concerned now that they're not hiking rates as aggressively into this recession?

Lakshman: You know, in a word, No. I think you know, that the recession kind of train has left the station things have transpired or kind of unfolding and propagating through the economy that I don't think slowing down the pace of rate hikes, gives you a free pass on. So on page six, you're looking at, there's a lot of information on that chart. You have a 21 country long leading index that does not include share prices, which are a shorter leading indicator of the economy. And this is for the meat, you know, it's like over 80% of world GDP is anticipated. The cyclical direction is anticipated by that top line, the 21 country long leading index and as you can see, the come down in that index in 21 to 22 is in the average lead. There's You know, it's it is a long leading index, it's three quarters, or maybe sometimes a little more in some cases. And that decline there is a recessionary decline. We haven't seen, it's worse than a decline we saw around the COVID recession. We haven't seen it since the Great Recession, something this week, and the only reason the great recession was a little worse was because something broke, remember, you know, the financial markets seized up after Lehman collapsed. And so the long leading index took down a little bit further than it is now.

Here, as you say, without anything obvious, having broken, that the weakness in that index is just undeniable. What's really striking, and this is what gives me pause when the argument is that we'll have a soft landing or a mild recession, or whatever you want to call it a soft-ish recession. I've heard all kinds of phrases, somewhat tortured. But typically, you don't have the breadth of world Central Bank's raising rates that we have here. So we have a central bank policy diffusion index, on the bottom part of the chart on page six. And you could see it is just edge off of its all time, tightest highest reading, in terms of the diffusion of rate hikes by central banks around the world. And this may be inconvenient, but that stuff, those rate hikes act on the economy, on economic activity with long and variable lags. You know, if the markets are free to react instantly, but the economy itself, it acts with long and variable lags. And you might hope that the lag is shorter or whatnot, but I'm not sure that it is. And so the rate hikes that we've seen in say, the you know, since certainly since last summer, are only me be beginning to hit the economy now. And we had a recession call on before that based on the big cyclical components of the economy, which are cycling down pretty darn hard. So I don't know how severe this recession is ultimately going to be. But this would argue more for being more severe than then for it being mild. And one other component, which is kind of buried in this chart to consider is the global recessions tend to be more severe recessions. So you can think, I know 07-09, China barely dodged a recession, and then really put on the gas with with liquidity in 81-

82 is pretty broad recession. Those are international global, longer recessions there, they those in both of those instances, they lasted well over a year. So I'm not sure that this is a mild recession, maybe it is but I'm not sure that it is not.

Erik: Well your long leading index dropping down to where it is now. I mean, the only time at least this chart only goes back to 94. We don't see the 79 through 83 period, where there was a lot of economic weakness. But if I look at where we are now, it's only the depths the absolute depths of October 08 that's lower on this chart than where we are right now. That's a little bit concerning.

Lakshman: That's saying something, isn't it? I mean, that's why that's why I'm just not on the on the look, I'm always happy. But I don't think there we dodged a recession here. And we will recover. On the other side, mind you, these indicators help call recoveries too right? So in the depths of the 07-09 recession in April of 09 based on these indicators, we call the recovery. The recession to end in the middle of 09 when the G20 was talking about a global depression. And in April of 2020, we also saw these indicators really skyrocketing. So you can't pick the times you like to look at these. You know, these are particularly good indicators on the cyclical direction, and recessions and recoveries and they nailed the recovery calls. They've nailed these downturn calls. And right now they're telling us hey, you're looking at a broad based international recession. And we know by the way, we'll get to this in a bit but we know that China went in recession that's the first time China went into recession since 1989. Not a lot of people know that. I don't even think a lot of Chinese analysts know that. So the last recession in China was around Tiananmen Square in 1989. And and so they just popped out of one. And when they popped out of one, it's quite interesting because, you know, it's different. They're very different than the United States. But there's this kind of mechanistic pop and activity that you get when you open up the economy post lock downs and stuff. And so they've popped out on a kind of a mechanistic way out of out of recession. But it's unclear that they have a lot of cyclical follow through. And that's important when you want to build a, you know, a short to medium term kind of positive outlook, you want to see the cyclical drivers, which are going to kind of take the lead in the next quarter or two or three quarters. You want to see them starting to cycle to the upside in a in a in a virtuous way. And that hasn't clearly started. Yet. As far as we can see, even though they've left a recession on a mechanistic way.

Erik: Lak, your work focuses on growth cycles, business cycles, and inflation cycle. I definitely want to come back to inflation. But let's touch on the business cycle yet because I guess my question is, has this recession that we've been talking about now, since I don't know the last time I talked to you is, I think on August or something. Has it started yet and it's just a little bit shallower than we were expecting or is it not even started yet? And I guess you've got job losses on page eight, how does that fit into the story?

Lakshman: Yeah, I think jobs are the big issue, right on everybody's mind. Because when you when you get a 500 print, how could you be in a recession? And that's a reasonable question. Look, I get it. We had a mirror image of this, by the way, in during the early days of the Great Recession, the first six months of it, where jobs were negative in the beginning of the

Great Recession, and GDP was positive. So people kind of said oh, ignore the jobs, GDP is positive. Now, you know, GDP doesn't look so hot. And the no recession kind of Camp is starting to say, Well, don't look at that look at jobs. Now, when we get to jobs, and page eight is something that I don't think anyone really knows, gets into recessions and job losses. And the first thing to know is that during inflation, this is not related to the chart. But during inflationary periods, it's not unusual for employment downturns to begin months, after the start of recession, you can be inside a recession and still have jobs growth. We saw that in 73-75 and we saw that in the 1980 recession. 73 to 75 really stands out because it was eight months until jobs went negative inside the recession. And 88 was a couple of months of positive jobs growth and then they began to contract.

The thinking here, when we're looking at this is that it it may be because of the so called money illusion, during inflationary periods, you know, businesses are kind of enamored with their nominal revenues, which are holding up, even though they're selling less stuff, and their own costs are rising. And so they're like, hey, you know, we can, you know, it's not immediately clear that their margins are getting crushed, and that they're actually not profitable. That awareness arises a little later. And on top of that, in this recession, the approach to this recession, we're in the aftermath of COVID still, okay, we lost millions of people out of the workforce, we've had kind of erratic demand, first in the goods sector, and then swapped over to the services side, where you've had like skyrocketing demand. First, it was in goods, which is now on the downswing very clearly. And recently, and even currently, you have solid demand in the service sector side of things. And so now we come to this chart. So you have some labor hoarding, the punch line there is that you have labor hoarding, because you're like, hey, my nominal revenues look pretty goo and it was really hard to hire people. So I don't want to get rid of them right away. Maybe there's a soft landing, I shouldn't do it. All these things are the things managers are trying to think through right now.

And now get to this slide. So one thing that becomes apparent, so there's a zero line there. And below that are job losses, the share of recessionary job losses. And the blue part of the bar shows you that for a very long time, this is a chart covering 70 years, for a very long time, for the majority of the time. The good sector accounts for the majority of job losses, even though the service sector accounts for 85% of non-agricultural jobs. It's the goods producing sectors about 15% But it's the goods sector that's responsible for the lion's share of job losses during recessions. And this has been consistently the case through into the early 21st century. So job losses, the good sector job losses account for 77% to 134%, of total recessionary job losses. And the reason they can account for 134, which is kind of weird how, you know, how do you get that number, it's because service sector jobs can, on occasion grow during a recession doesn't immediately feel like that's possible. But that's the reality of how things work. So, to the right hand side of the chart, you have some interesting things where, where there's some red portions to the bar, which are service sector job losses. In the Great Recession, the 07-09 recession, we had job losses kind of evenly split between goods and service sectors. And the reason behind that is because of the financial crisis, which triggered a really unusually large number of financial service job losses, and of course, in 2020 with a COVID, quote, unquote COVID recession, look that was caused by shutting down everything that was people facing services. So of course, you're going to get a lot of services, job losses, I don't think that's like a new pattern. I hope not.

So as we return to normal, we're not in that kind of COVID craziness, right? The cyclically sensitive goods sector is going to punch far above its weight in driving recessionary job losses, even despite the post-COVID tight labor markets. And so, you know, our insight is that that's where, like typically normal, the job losses are going to eventually come as this recession takes hold, okay. And one last part on like are we there yet kind of thing? You know, my mentor, Jeffrey Moore, who was the father of leading indicators, counseled us that you'd be doing very well as a forecaster if you could recognize a recession, as it was starting. And so today, with the data in hand, forget about the markets for a second with the data and we have in hand, housing is in a downturn, real consumer spending is falling, and so is industrial production. Employment is still rising. But sometimes that happens inside of recession. So can you really be that sure about where we are in the business cycle? I mean, you're hoping for immaculate disinflation, you know, but it hasn't worked that way in the past. And, yes, we have an inflation cycle downturn. And it can turn down pretty hard at times, that happens with inflation cycles. But I have to tell you, that's typically in conjunction with a recession.

Erik: Lak, let's take a deeper dive on inflation and the inflation outlook, I can tell you quite authoritatively, that the most important thing to figure out in this macro economy is inflation. What the heck is going to happen next? I just don't know the answer. That's all. And boy, the number of smart people I've spoken to so many people saying, look this is a new secular trend. We're never going back to down to 2%. Of course, with COVID behind us, we'll come off a little bit. But, you know, we'll be lucky to get below 5%, maybe 4% if you're really lucky and there's a deep recession, but we're never going back to 2%. And then just two weeks ago, I had Alex Gurevich, who's a super smart guy saying no, no, we're going to like negative single digit percentages. On inflation, we're going way below 2%. And way below zero into outright deflation. So boy, so many different views. How do we make sense of this? And is there a way using your cycles work to maybe get away from the subjectivity of a lot of personal macro views and talk about what the data says?

Lakshman: Yeah, thank you. And I want to be I'm going to use a horrible kind of, not horrible. I'm like a dad. It's like a dad joke. We're monetarists but with an eye, right. We monitor the data and in looking at the slide, I think it's five is my slide on inflation. It's not about current inflation. It's about the 70s because that's part of the fear that you were you were talking about just now some structurally embedded inflation. And it this also on Powell's mind. Okay, so first and foremost, and then I appreciate you said Alex was on recently saying disinflation or deflation actually deflation, right? So I would I would go in between look, we're going to be in between the four in the in the negative on a cyclical basis, and it remains to be seen in what's going on structurally, the Fed has something to say about that. And, you know, external events have something to say about that, you know, the Fed doesn't control everything. So people like to think about the 70s in various ways, and the inflationary time and even about burns. And Arthur Burns, the Fed Chairman for part of the time and then Volcker, who came in after him and, quote, unquote, killed inflation. Now, so we're gonna look at it cyclically on this on this chart on page five. And first, I'd like to say about the current inflation cycle. It's totally intact, but it's cyclical. It's a cyclical downturn in inflation. And if mission accomplished for the Fed, and we were talking earlier in the call about a victory lap, and maybe getting ready for a victory lap. If mission accomplished for the Fed is simply a cyclical downturn in inflation, that's going to fall far short of securing Mr. Powell's legacy. And I think he has said, hey I'd rather be Volcker than Burns. He said some things to that effect.

And here, you can begin to see the reason why. So the chart goes from 67 to 83. So you see how inflation was before the 70s. And you see several inflation cycles evident just by CPI inflation going up and down and you see the recessions shaded in there as well. And as inflation's cycling down, during the 70s, there's a huge amount of pressure from politicians, you know, could either be in Congress or the White House on burns to back off. Okay, coming out of the 73, 74, 75 recession. I mean, it was no joke. There was some, there was some serious heat on Mr. Burns, and he did back off. And to give you a little sense, you know, the AFL CIO President George Meany, back then called him quote, unquote, a national disaster. And Senator Hubert Humphrey, compared him to Simon Lagree, who is of course, the villainous slave owner in Uncle Tom's Cabin. That's the kind of incoming fire that Burns was getting for not cutting rates fast enough. But you see that the cyclical troughs and inflation keep going up. Right? They're pretty low in 67, they're two-ish. In 72, they're tiny bit higher. In 76, now it's troughing out around 5%. And is in a clear cyclical upturn before the Iranian hostage event in 79, where we had inflation actually blow out approaching 15%. And then you see Volker comes in, after the 80 recession there and he eases, right? He has the same incoming fire the Burns had, and he eases in inflation. You could see it's sticky, it's elevated, it's structurally, the inflation mindset has taken hold okay. And it takes a severe tightening by the Fed in a severe recession to knock it all the way back below a three handle, which is ultimately what happened after the 81-82 recession. So by the time Volcker was there, the difference about his interaction with say the American psyche, is that people were sick and tired of inflation. So he didn't ultimately in that 81-82 recession, get the kind of push back on the sustained tightening. That was very different from the Burns experience.

So, in that respect, Volcker was a bit more lucky I guess, than Burns. So now today, what's Powell to do? He says, we got some disinflation in goods. And am I going to call that success? Then we're good to go. I mean, we haven't even touched on the structural things, onshoring, you know, geopolitical stuff going on, structural shifts in employment that is making employment tighter. All of those, oh, by the way, disastrous productivity growth. So all of those are inflationary in fairly significant ways right? So, if on a cyclical basis, you get an inflation cycle downturn, you know, that may not be enough. And in fact, I don't think it is enough to say okay job done, mission accomplished.

Erik: There's something that's particularly curious to me about this chart on page five Lak which is if I think about what I know conceptually about how inflation works and how recessions work. You would think just as you as you do see at the 1970 recession that will, what happens is inflation is kind of running out of control. When the recession starts, that's going to be when inflation is going to roll over. And of course, if that's your expectation, then we're seeing inflation rolling over right now. Maybe it's because the recession is starting, but then I look at 73-75. And it's like, wait a minute, for like a couple of years, inflation continued to increase during recession. And it didn't peak till the very end of that recession. Was that because of some policy or, you know, external factor?

Lakshman: You've got some oil embargo stuff in the middle of that.

Erik: Okay, so that's what's driving it. 73 Oil Embargo.

Lakshman: Yeah that is 73 Oil Embargo. In 79, you got the Iranian hostages stuff. So these are oil things. There's also to the left hand side of the chart, right? I'm talking in broad brushstrokes here, right. But the 60s into the early 70s. Yeah, you know, inflationary mindsets, a little bit of a new thing, right. And it's kind of invisible, you don't necessarily exactly see it, people don't think about it the way you and I think about it, when we watch the CPI this morning, you know, they don't think that way. But by the second half of the chart, boy oh boy, this is a pain in the ass. I can't excuse my French here, you know, I can't make ends meet, I've got to tighten my belt, I don't have enough money to pay for stuff. Even though in theory, I'm getting paid more on a nominal basis. So that's where and we put this red line there. That's literally 6.9% for the entire time of the 67 to 83. That's the average rate of inflation there just about 7%. That's actually if you are a Fed chairman or a policymaker, actually, I would say is also responsible to a degree, you know, to that's the real target. You don't want that thing getting elevated. Everybody says they wanted it 2%. That's a healthy one, or whatever. It started with Greenspan or so and then onwards from there, it's like, or maybe it was Bernanke who did the targeting, I can't think it's blurry. But Greenspan didn't targe so it was Bernanke or Yellen. And that's low. We're nowhere near that.

And you can see, the key thing from this chart is a cyclical downturn in inflation, even if it's from recession, which eventually kills inflation. And mind you, the trough in inflation isn't until after the recession is over. You see, the lower highs here are the problem. So if you don't, if you don't get to the really, really low readings, right, then you run the risk that this red line is moving up from two to three to four to five or higher percentage probably won't go to seven. But it could certainly go would be be well elevated from two. The longer term trend inflation rate. And we haven't talked about, look, we have structurally tight labor market, you've got geopolitical stuff going on. You've got it's not very short term, but medium term, you may have some onshoring stuff. You've got some fiscal spending, right? So, there's plenty of things out there that can that can longer term elevate inflation, on top of which there are cycles.

Erik: You mentioned the geopolitical aspect. Let's talk about that next because I don't know if you think about this in cycles, but it feels like a very long term cycle to me that there are periods of history when governments around the world are mostly focused on globalization and making money through free trade. And you know, we're going to move our a lot of our manufacturing over to China, let them do it, because they can do it cheaper. Everybody's making money and everybody's happy. You get other periods like the Cold War, where there's just an appetite for some reason, among geopolitical leaders for a state of war or a state of Cold War, you know, anticipation of war and a lot of preparation for war. It feels to me like the cycle has shifted. I don't think this Ukraine thing has very much to do with Ukraine, there's no way the United States sends upwards of 100 billion with a B dollars of aid for the sake of the independence of, you know, the Donetsk region of Ukraine. That's not what's going on. This is a proxy war that has to do with a new appetite for conflict between the world's major superpowers. The United States, China and Russia. And it feels to me like it's just the beginning. I think that Ukraine is the first proxy war in a new cycle, but I can't figure out what the cycle is. Can you help me?

Lakshman: Well, I'm not a geopolitical expert. I could say that. I think one thing we should notice is that China hasn't been in recession since Tiananmen Square, and Tiananmen Square freaked out the Chinese government, right? Because of that level of protest. So now they just had a recession. You know, that's not comfortable areas for them at all. And Russia as a commodity, I mean, if you get down to the economy, if you will, it's a commodity kind of base situation for them. And we've got a pretty strong global industrial growth downturn related to the global recession. So, you know, you've seen oil prices, I know, it was well I think last year, a lot of Wall Street houses were forecasting kind of sky high energy prices, based on a number of things. So it wasn't just this. But the cyclical weakness in demand growth, as energy prices staying well below, kind of what was feared that that hurts, hurts them. So how do you distract from, you know, maybe not having great economic policies. I don't know, you know, you've got to say, hey look over here, and someone else's the problem. And when you look at, you know, if you come to the US, there's obviously deficit and fiscal spending issues. And either you have kind of taxing and spending and like, that's where the debate is. And we rely on the Fed to kind of give liquidity or tighten up every once in a while, to some sort of economic policy, these are insufficient, right? Because in the really big picture, and then this goes back, probably like three or four or five, MacroVoices interviews Erik.

But in the really big picture, the fundamental problem is a long term decline in trend growth. And that's built on weak productivity growth, and declining workforce population. So if your workforce population is declining, and you don't have good productivity growth, your long term trend growth of GDP is diminishing. And every single thing about policy or budgets, or interest rates, or whatever is all built off of your long term trend growth rate, which is going in the wrong direction. Now, the US is not, we didn't dodge this, we're totally in this too. But relatively speaking, we're a little better off. Russia and China are on those scores of demographic growth and productivity growth are really bad. And most developed, nations are hurting, and even the developing nations are hurting. I think you've got some productivity growth and some decent demographic growth, maybe for Africa and for India. And that's not going to pull the world along, right. So with some version of kind of slow failure in long term trend growth, maybe these conflicts are, you know, where you kind of point the attention or you pay the attention. I don't have a stronger kind of cyclical angle on that however.

Erik: Let's move on then to another dimension of this that I've been thinking about, which is, it seems to me that all this cycles work is based on the basic concepts of, you know, growth, and inflation, and jobs and so forth. It's the relationship of labor and productivity and commerce and so forth. It's all based on, you know, the way things have been for hundreds of years. But then we've got this new trend of AI, Artificial Intelligence, it seems that this chatGPT tool, which is still just a prototype, was conceived for the purpose of replacing millions of jobs. You know, customer service wouldn't need to exist if you had the ability to talk to an AI chat bot instead of a human being when you're trying to get your Amazon order that didn't show up resolved. Frankly, I'm not looking forward to that future. Now, I'd rather deal with the human being despite their shortcomings. But at times, I think okay, this is a game changer for the role of labor in the economy. And then I catch myself and I say, well wait a minute, is it really a game changer or is it just an extension of industrialization because we used to do everything by hand, and now we've got machinery that that does most things that people used to do by hand. So is this really something different or is it just the next chapter of industrialization?

Lakshman: Well look, it has the potential to be a structural change in the dynamics the the labor and inflation and growth dynamics. Maybe it's coming at a good time in the in the sense that we've got record lows in unemployment, right? There's not enough people to work. So even though this is like how out of whack it is, right? So even though the construction sector is in a cyclical downturn, it's contracting. Activity is contracting in the constructions, you know, both residential non-residential construction. The really big cycle is contracting and the unemployment rate there is well below half a percent. I think it might be like 0.3%, something crazy, right? So that's totally out of whack. Now, you can't get an AI to do construction, right. But most people, and that's going to go up now. But most people work in the service sector, 85% lot of that could be people facing services, I don't know how the AI is going to do the one-on-one physical interactions with people. But for stuff like writing and different customer service things online, by all means it could it could do that. The problem is, right, the payment, like you still have to pay your workforce, you want productivity growth to be going on, let's say in theory, a huge chunk of people are replaced by AI, and then are out of work, you'll have unemployment rise, you'll have productivity, as we measure it by what were people doing go down. Unless you factor in some AI productivity, you may have to I think somebody maybe it was gates, or somebody said, you know, you're going to have to tax the robots. Right? the AI, I don't know, there's going to be all kinds of structural shifts going on.

But I also want to point out something else, which is that we've seen cycles, right? Since the dawning, really of the industrial revolution has been most clear. And then we went from, so we went from kind of agrarian to industrial revolution to service sector to information services are something that we are now focused. And in all of those structural shifts that have occurred in the way people work, the majority of people work, we still have cycles, we still have the up swings and down swings. For a large hunk of time, say post-WWII through the Great Recession, you had those cycles start to soften out, the amplitude went down. And so everybody predicted oh well, you know, the business cycle has been tamed or something like that. And then you had the great recession right? And then we had the COVID recession, which is slightly different. And here, we are kind of going back to the hope the markets are going back to the hope that it's going to be a mild recession, if at all. Even though all this craziness is kind of going on in terms of the intense demand for houses and then the drop in that demand, the intense demand for goods and then the collapse in the demand for goods. But somehow, we're still going to get out of this with a mild recession. Doesn't seem to work that way. I don't know, ultimately, how this and maybe COVID kind of accelerated some of the AI stuff. But now we're maybe pausing to kind of digest some of that. And to see how we can actually put it to good work. I think it's an interesting kind of challenge for businesses as they navigate this recession and look to the next recovery. Remember now, when your demand is falling, your unit sales are going down, right? So the even though the nominal prices are holding up, the real activity is slipping. Now, you've got to figure out how to be profitable in that environment and maybe AI is part of that answer.

Erik: Lak, final question. I know you deal with a lot of clients at equity, who were probably focused more, not so much on the esoterics were talking about, but okay, what does all this cycle stuff mean, in terms of what the market does next. What do you tell them?

Lakshman: Well yeah, absolutely. Because they're looking at like that institutional memory, hey, it looks like a recession. We understand your analysis but the markets going up. And the Fed is, you know, starting to slow down or something, you know, are we missing something? And one of the things to understand is that such rallies are pretty much par for the course. We've had 10% plus, S&P rallies around the beginning of many, many recessions, including 73-75, 1980 recession, 2001 recession, and the 07, the Great Recession, the 07-09 recession, same one. And the really big one, just to put a pin in this, okay, was a seven week rally at the beginning of 2001, the beginning of the 2001 recession, it began in March of 01. And at the time, there was a 19% rally from early April through the latter part of May, in the belief that we dodged the recession. And then, of course, stock prices turned back down. So what we do is we manage, we help our clients manage cycle risk. And the reason I say that quickly, but it's really important that the reason we're able to do that is really those generations of cycle research that I'm mentioning, and we cover 22 economies around the world, we can see some very interesting patterns. Getting the recession call is important, but so is getting the recovery call. And we just have a very good real time track record. It's not perfect, but I'm confident in saying it's unrivaled.

Erik: Well Lak, I can't thank you enough for a terrific interview. Before I let you go just tell our listeners who may be interested in those services that you offer at ECRI. How they can contact you and find out more about what you do.

Lakshman: Great. Well in these post-COVID days, I'd love to meet you. Come to Bryant Park, we're at 505th Avenue. But you can give us a call. Go to businesscycle.com. We're on Twitter, it's @businesscycle. We're on LinkedIn, Economic Cycle Research Institute. And I need to give a shout out to everybody at ECRI who makes me sound intelligent. I have a very, very good team of researchers with me.

Erik: Patrick Ceresna, Nick Galarnyk, and I will be back as MacroVoices continues right here at macrovoices.com