

## Macro Roundup Article

Headline: [Digesting Inflation](#)

Article Link: <https://www.briefingbook.info/p/digesting-inflation>

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**Tweet:** The recent relationship between inflation and consumer sentiment implies that, if inflation slows to 2.5%, consumer sentiment will improve by 8pp, putting it at the level of mid-2021 by Election Day. @weakinstrument @NealeMahoney

**Summary:** We find that the impact of inflation on consumer sentiment fades out with a decay rate of about 50% per year, with a 10% inflation shock reducing sentiment by 35 index points in the current year, 16 index points the following year, and 8 index points the year after. The estimates imply that current sentiment is being dragged down by 16 index points by the inflation we have experienced over the last 3 years, down 40 percent from the peak negative impact of 27 index points in June 2022. If inflation next year slows to 2.5%, the negative impact on consumer sentiment from inflation would decline by another 50% relative to the current value. Related: Asymmetric Amplification and the Consumer Sentiment Gap and The Economy Is Great. Why Are Americans in Such a Rotten Mood? and The Pandemic Has Broken a Closely Followed Survey of Sentiment

**Primary Topic:** Business Cycle

**Topics:** Business Cycle, GDP, Inflation, Op-Ed/Blog Post, Politics

**Permalink:** <https://www.edwardconard.com/macro-roundup/the-recent-relationship-between-inflation-and-consumer-sentiment-implies-that-if-inflation-slows-to-2-5-consumer-sentiment-will-improve-by-8pp-putting-it-at-the-level-of-mid-2021-by-election-day?view=detail>

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