Duke professor of finance Campbell Harvey says one of the most visible places we are seeing inflation is at the gas pump. (Photo: Victoria Wresilo)

'Be prepared for a recession': Finance expert advises caution as inflation surge continues

WAKE COUNTY, N.C. — In the U.S. inflation is at a 40-year high with the Federal Reserve increasing interest rates by 0.75%. It's the largest single increase since 1994.
The Fed increased interest rates in hopes of slowing down surging prices, but some people don't think that's going to work.

Duke University professor of finance Campbell Harvey says ultimately this could lead us into a recession, and he wants people to be prepared.

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Customers are seeing inflation's impacts on food, fuel and other staples. Harvey says there are multiple causes for it.

Harvey says the surge in gas prices is due to several things: Underinvesting in oil exploration, oil companies moving toward renewables, shortages due to the pandemic and the Russian invasion in Ukraine. Plus getting more oil is a long and difficult process.

"It's very difficult to turn a knob or press a button and production all the sudden goes up," Harvey said. "To drill a new well, extract the oil, get it refined, get it to the gas stations ... that takes a long time."

Another reason for inflation is that during the pandemic, the Fed was printing more money at an unprecedented rate to help rescue the economy.

"Even though unemployment was initially high, it started to decrease. And the stock market went to all-time highs," Harvey said. "And yet the Fed continued doing what it was doing, increasing the money supply and keeping interest rates at zero."
He says all of these warning signs point to a recession, and he is warning people and businesses be cautious right now.

"It's very important that the average person be prepared for that," Harvey said. "This is not the time to take that expensive vacation to Disney and finance it with your credit card. This is the time to be conservative and to be ready for the worst. Given our policy-makers have messed up, it is a responsibility of every citizen to be prepared for a recession."

Harvey says he wants the Fed to figure out the sources of inflation in regard to the Consumer Price Index.

"I would assign the 400 Ph.D. economists at the Fed to actually investigate each of these components and come back with some recommendations as to what could be done to alleviate inflation," Harvey said. "My recommendation is a bottom-up approach. Rather than this really crude blunt instrument of just raising interest rates by 50 or 75 basis points and thinking that's going to solve all of these issues."
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