



Is the Fed “behind the curve”?

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21. April 2022

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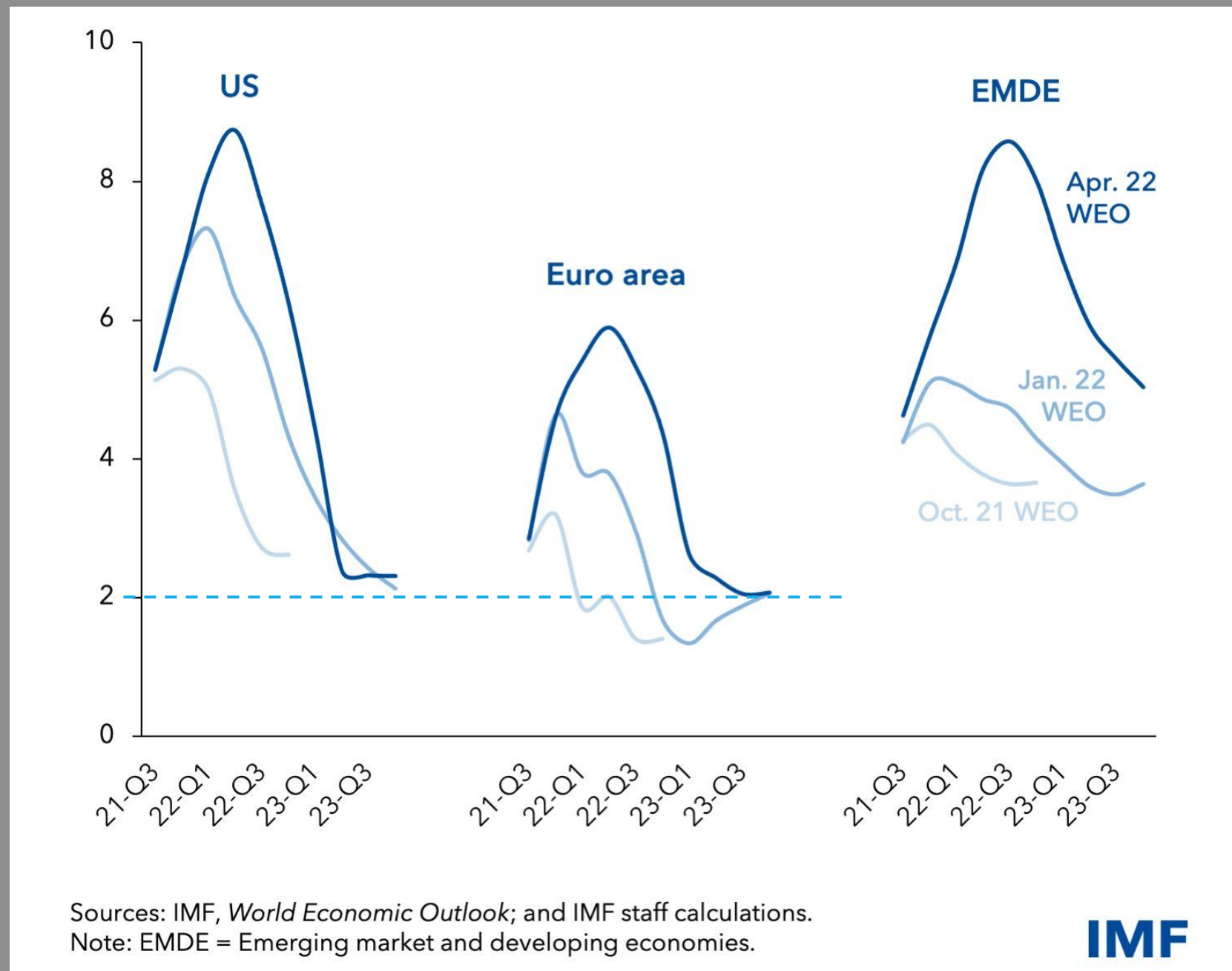
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“Inflation webinars” ... since Jan 2020

- Charles Goodhart inflation threat
- Jay Powell policy
- Krugman vs. Summers I + II debate
- Emi Nakamura flat Phillips’ curve
- Alberto Cavallo online prices
- Mervyn King central banking
- Alan Blinder soft landing
- Yuriy Gorodnichenko expectations
- Ricardo Reis options
- Drechsler + Savov investment

IMF's headline inflation projections

- **Transitory:** April 2022, Jan. 2022, Oct. 2021



Tensions: MoPo's Reaction time

- Delayed impact of MoPo on real economy
 - MoPo has to be forward looking
 - Given up in new 2020-Fed Framework
- versus
- Future rate hikes are already priced in
 - MoPo works via communication
 - Depends on the credibility of reaction function
 - Forward guidance
 - Delphian vs. Odyssian

Swift smaller vs. slow but ultimate larger rate increase

- One stitch in time saves nine!
 - Act swift and less extreme
 - Act slowly but ultimately costs more
- Fiscal/financial dominance
 - Act slowly as rate rise can lead to sovereign debt/financial market dislocations
- Soft vs. hard landing
 - Soft landing (Blinder webinar)
 - Early 1990s: soft for real economy, but hard on bond market
 - Hard landing (Summers)
 - Super-tight labor market \Rightarrow wage inflation

Inflation Anchor and MoPo Framework

- Anchor in inflation expectations is key
 - Depend on salient prices like gas prices
 - ... but also more flexible prices (not part of core inflation)
- Depends on credibility of CB's reaction function
 - Spine to fight inflation at a cost
- Is the new Flexible Average Inflation Target framework of 2020 still alive?
 - Average: Push inflation below target?
 - Not forward looking, more labor market focussed

Poll

1. Is the Fed behind the curve?
 - a. Yes
 - b. No
2. Is the ECB behind the curve?
 - a. Yes
 - b. No
3. What interest rate impacts economic behavior the most?
 - a. Short rate
 - b. Mortgage rate
 - c. Corporate loan rate
4. What landing do you expect in economic growth?
 - a. Hard
 - b. Soft

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