Is the Fed “behind the curve”?

James Bullard
St. Louis Fed
President & CEO

21. April 2022
Markus Brunnermeier
“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

Sources: IMF, World Economic Outlook; and IMF staff calculations.
Note: EMDE = Emerging market and developing economies.
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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