



A Diligent Return to Price Stability

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Overview

- “Mester Presentation”
 1. Inflation anchor: Wobbly?
 2. Labor tightness vs. GDP output gap
 3. Monetary Policy: real interest, QT, FAIT
 4. Fiscal-Monetary Interaction
 5. International impact of US MoPo

Poll

1. An **inflation anchor** breaks
 - a. Smoothly/continuously
 - b. Discontinuously
2. **Labor market** tightness is due to
 - a. Temporary labor productivity shock
 - b. Permanent labor productivity shock
 - c. Change in workers' preferences
3. Desired to return to
 1. **2% inflation target**
 2. Flexible **average inflation target**
 3. **Higher** inflation target
4. **Inflation Reduction Act** will lower inflation
 - a. Yes
 - b. No

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Markus Brunnermeier

Inflation Anchor: Wobbly or not?

- When lost, then it's too late?
 - Threshold or continuous?
- Indicators:
 - Core is better predictor of inflation, ... but non-core better about anchor
 - Whose expectations?
 - Bond traders: 5y5y, infer tail risks from options
 - Households: survey
 - Firms: survey and pricing power

Tightness: Labor Market vs. GDP

- What to focus on? Output gap
- Labor market tight, but GDP less so
 - Price-wage spiral? Wage compression
 - Labor productivity decline?
 - Change in workers' preferences?
 - WfH
 - Good for welfare, bad for GDP
 - Learning to adjust work processes (temporary phenomenon)
- Is “White-collar recession” different?
- Labor supply will increase again as income effects from stimulus will fade?

Monetary Policy

- Increase in real interest rate (Taylor Principle)
 - At what maturity
 - Interaction btw action and communication
 - Lag of MoPo and persistence of rate rise
- QT
- Return to what regime?
 - Average Inflation Targeting
 - Asymmetric or not?
 - De-facto deviation from 2%
 - Pre- or post-great moderation

Fiscal-Monetary Interaction

- Policy makers “MMT Thinking”
- Inflation Reduction Act

- Interaction:
 - Fiscal, Monetary, Financial Dominance
 - Financial instability:
 - LDI's in US?

International Impact of US MoPo

- Relative size of spillovers and spillbacks
 - Repeat of 1980s Latin America?
- Exchange Rate
- Bank of Japan
 - Yield Curve Control
 - FX intervention
- Spillbacks?