

Macro Roundup Article

Headline: [How Quickly Do Prices Respond to Monetary Policy?](#)

Article Link: <https://www.frbsf.org/research-and-insights/publications/economic-letter/2024/04/how-quickly-do-prices-respond-to-monetary-policy/>

Author(s)	Leila Bengali and Zoë Arnaut
Publication	Federal Reserve Bank of San Francisco
Publication Date	April 09, 2024

Tweet: Above-target inflation is currently being driven by categories that are historically less reactive to interest rate changes, largely services, electricity, and housing. This implies more disinflation is coming.

Summary: Our analysis indicates that recent ups and downs of inflation have been focused in categories that are most sensitive to monetary policy. The inflation rate for this most responsive group of goods and services categories is now close to its pre-2020 rate. Our findings suggest that the Fed's rate hikes that began in March 2022 are exerting downward pressure on prices and will continue to do so in the near term. Rate cuts from 2019 to early 2020 could have contributed upward price pressures starting in mid- to late 2020 and thus could explain some of the rise in inflation over this period. The tightening cycle that began in March 2022 likely started putting downward pressure on prices in mid-2023 and will continue to do so in the near term. This is consistent with the view that the full effects of monetary policy tightening have yet to be felt. Finally, though inflation for the most responsive categories has been falling since mid-2022, the early part of this decline was likely to have been driven more by changes in prevailing economic conditions than by policy tightening, given estimated policy lags. Related: Fiscal Influences on Inflation in OECD Countries, 2020-2022 and How Fast Can the Fed Ease? The Private Sector Response to Easier Conditions Will Be a Key Factor and Macro Outlook 2024: The Hard Part Is Over

Primary Topic: Business Cycle

Topics: Business Cycle, GDP, Inflation, Monetary Policy, Op-Ed/Blog Post, Weekly

Permalink: <https://www.edwardconard.com/macro-roundup/above-target-inflation-is-currently-being-driven-by-categories-that-are-historically-less-reactive-to-interest-rate-changes-largely-services-electricity-and-housing-this-implies-more-disinflation?view=detail>

Featured Image Link: <https://www.edwardconard.com/wp-content/uploads/2024/04/Headline-Inflation-Contributions-and-the-FFR.png>