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Macro Roundup Artcile

Headline: It is Time to Revisit the 2% Inflation Target

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Summary: When inflation is low, people and companies simply do not think about it and thus do not react to it. This was certainly the case pre-Covid. When it becomes higher, however, inflation becomes salient, wage and price decisions become more sensitive to it, and inflation expectations become more easily de-anchored. The question is, what rate of inflation leads to salience? A hint is given in a recent paper, which looks at Google searches for "inflation" as a function of the actual inflation rate. It found that, for the US, if inflation was around 3-4%, people simply did not pay attention. Above 3-4%, they did. Altogether, these arguments have led me to conclude that, while a higher inflation target is desirable, the right target for advanced economies such as the US might be closer to 3% than our original 4% proposal.

Primary Topic: Inflation

Topics: Inflation, Monetary Policy

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