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Macro Roundup Artcile

Headline: To Fight Inflation, Fed Tightening Should Go Faster and Further

Article Link: https://www.wsj.com/articles/fed-tightening-should-go-faster-and-further-50-basis-points-rates-march-meeting-january-data-powell-e576d845

Author(s)	Jason Furman
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Tweet: .@jasonfurman argues that January's inflation data suggests the Fed should raise rates by 50bps at the next meeting and "shift expectations toward a terminal rate of around 6%."

Summary: Wage growth is currently running at an annual rate of about 5%. Sustaining such wage growth with 2% inflation would require a large increase in productivity growth or continually falling profit margins. I'd root for either outcome, but I wouldn't bet on them. Falling wage growth could bring down inflation, but in an economy with nearly two job openings for every person looking for work, don't expect it to happen. Instead, the most probable outcome is that if the unemployment rate doesn't rise, wages will continue to grow at that pace, which historically is associated with about 4% inflation. Monetary policy operates with long and variable lags. Given that most of the tightening in financial conditions was already in place 10 months ago and, if anything, the real economy and demand have strengthened in recent months, it would be foolish to sit and wait for the medicine to work. In fact, lags are precisely why the Fed should do more now —considering it will take months for whatever the central bank does next to have a meaningful effect on inflation.

Primary Topic: Inflation

Topics: GDP, Inflation, Monetary Policy, Op-Ed/Blog Post, Quote, Sell-by Date

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