Macro Roundup Artcile

Headline: The Fed Can Take Its Time Taming Inflation

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Tweet: Estimating underlying inflation in the 2.5-3% range @jasonfurman argues the Fed should be cautious on rate cuts. “The last mile of disinflation could be the hardest and cuts risk undermining the Fed's credibility.”

Summary: Wage growth and price growth feed into each other, and both of those are running 1 to 1.5 percentage points higher than before Covid. Shorter-term measures of inflation expectations are also elevated. While this may not be a full-blown wage-price spiral, wage-price persistence will keep inflation higher until something pushes it in a different direction. There is reason to expect inflation to continue falling. The labor-market loosening will work with a lag, and wages and prices appear to be in a diminishing dynamic. I believe underlying inflation is in the 2.5% to 3% range. Getting it much below that could be hard and may not even be needed. But there is a meaningful risk, maybe 1 in 3, that if demand stays strong inflation could stay above 3%, which would be a big blow to the credibility that has helped make Jerome Powell’s task so much easier than Volcker’s. Given strong U.S. job growth, the Fed can afford to spend several more months assessing just how big the reflation risk is.

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Primary Topic: Inflation

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

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