

## Macro Roundup Article

Headline: [Managing Disinflations](#)

Article Link: <https://www.chicagobooth.edu/research/igm/USMPF/USMPF%20Paper>

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Publication	Chicago Booth Working Paper
Publication Date	March 01, 2023

**Tweet:** A new @ChicagoBooth paper suggests that “raising the inflation target today would be a serious mistake.” The authors estimate that sustaining a disinflation will require unemployment to rise to 5% from January’s 3.4%.

**Summary:** We start by analyzing the large disinflations that occurred since 1950 in the United States and several other major economies. We estimate and simulate a standard model over several time periods, using various linear and nonlinear measures of labor market slack. We draw three main lessons from the analysis: (1) there is no post-1950 precedent for a sizable central-bank-induced disinflation that does not entail substantial economic sacrifice or recession; (2) regardless of the Phillips curve specification, models estimated over a historical period that includes episodes of high and variable inflation do a better job of predicting the post-pandemic inflation surge than those estimated over the stable inflation period from 1985 to 2019; and (3) simulations of our baseline model suggest that the Fed will need to tighten policy significantly further to achieve its inflation objective by the end of 2025. We see that the model using the full historical period (1962-2022; red line in the graphic above,) implies that inflation will fall only gradually to 3.7 percent by the end of 2025. By contrast, the model estimated over the stable inflation period (1985-2019; blue line in the graphic above,) has inflation falling quickly to the 2 percent target in the first quarter of 2024.

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