

Macro Roundup Article

Headline: [The Disappearance of Inflation: Were Rate Hikes Necessary?](https://blog.rangvid.com/2024/02/04/the-disappearance-of-inflation-were-rate-hikes-necessary/)

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Tweet: Jesper Rangvid argues that inflation was not transitory, and without tighter monetary conditions stronger economic growth would have driven higher inflation. He credits the Fed with keeping expectations anchored.

Summary: Figure 2 shows that inflation expectations rose just as much or even more than inflation itself during the two inflation waves in the 1970s. Higher inflation expectations fuelled inflation and made it more difficult to bring it down. The contrast with today's inflation episode is striking. Today, inflation has also skyrocketed, to 8%. However, inflation expectations have remained anchored. At their peak at the end of 2022, inflation expectations were 3%, while inflation itself was at the aforementioned 8%. The fact that inflation expectations have remained low even though inflation has shot up is an important reason why inflation has fallen again. Moreover, the economy would probably have been even stronger and inflation even higher if there had been no rate hikes. Ultimately, this was not just a temporary supply-driven event. Central banks had to raise interest rates. Past experiences with alternative monetary policy responses have proved disastrous.

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Primary Topic: Inflation

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

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