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Headline: The Monetary Policy Transmission Mechanism Takes 12 to 18 Months

Article Link: https://apolloacademy.com/the-monetary-policy-transmission-mechanism-takes-12-to-18-months/

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Tweet: Torsten Sløk @apolloglobal argues that the impact of monetary policy will peak in Q3 of next year.

Summary: The Fed has raised the Fed funds rate to 5%, and the lagged effects of Fed hikes will continue to drag down growth over the coming 12 months. See chart above, which shows a simulation with the impact of a 5% increase in the Fed funds rate on the level of GDP done on a variant of the Fed’s FR/BUS model of the US economy. In other words, the transmission mechanism of monetary policy takes time, and the drag on growth from lagged Fed hikes over the coming year will be significant. That is why a recession is a more likely outcome than a soft landing, no matter what happens to inflation.

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