

INFLATION AND THE FED'S RESPONSE

March 31, 2022

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FEDERAL RESERVE BANK
OF MINNEAPOLIS

DISCLAIMER

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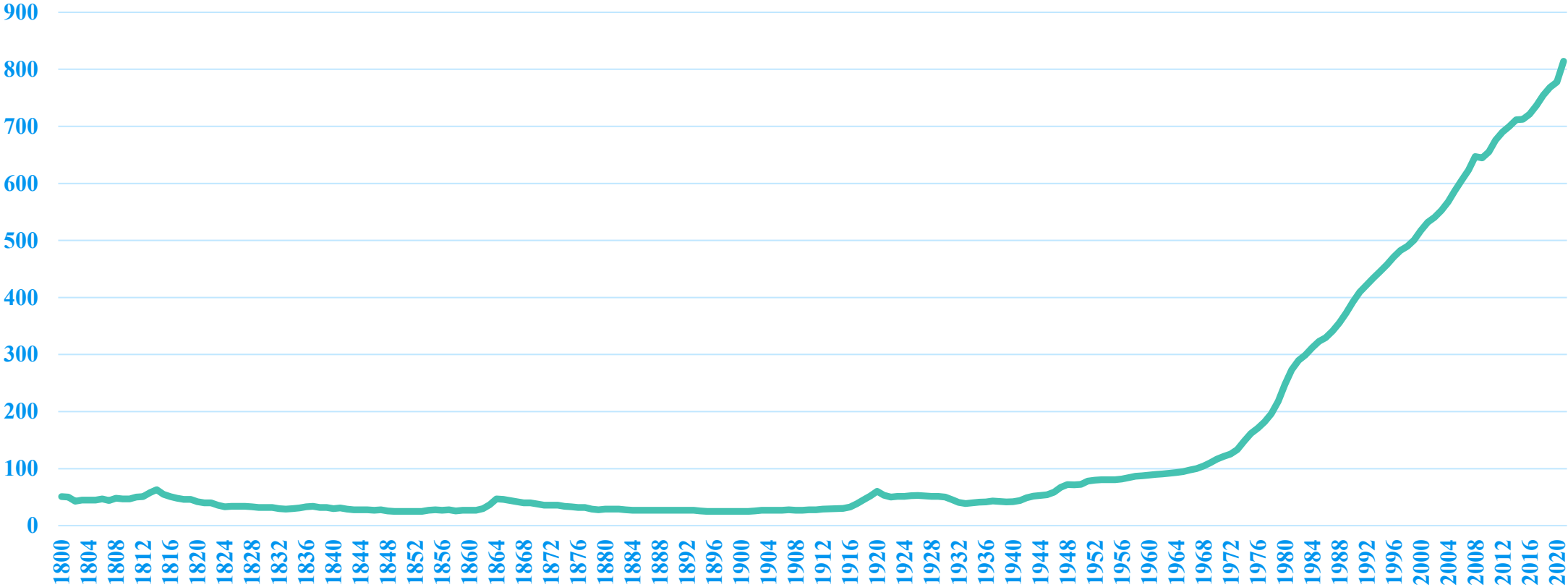
TODAY'S PRESENTATION

- What is inflation?
 - Some history
 - How it's measured
 - What's been happening recently
- What is the Fed doing about recent high inflation?
 - Policy tools
 - Market response



HISTORICAL INFLATION SINCE 1800

Consumer Price Index* *Annual, 1967=100*



Source: Bureau of Labor Statistics

*Values prior to 1913 are estimates from historical data series

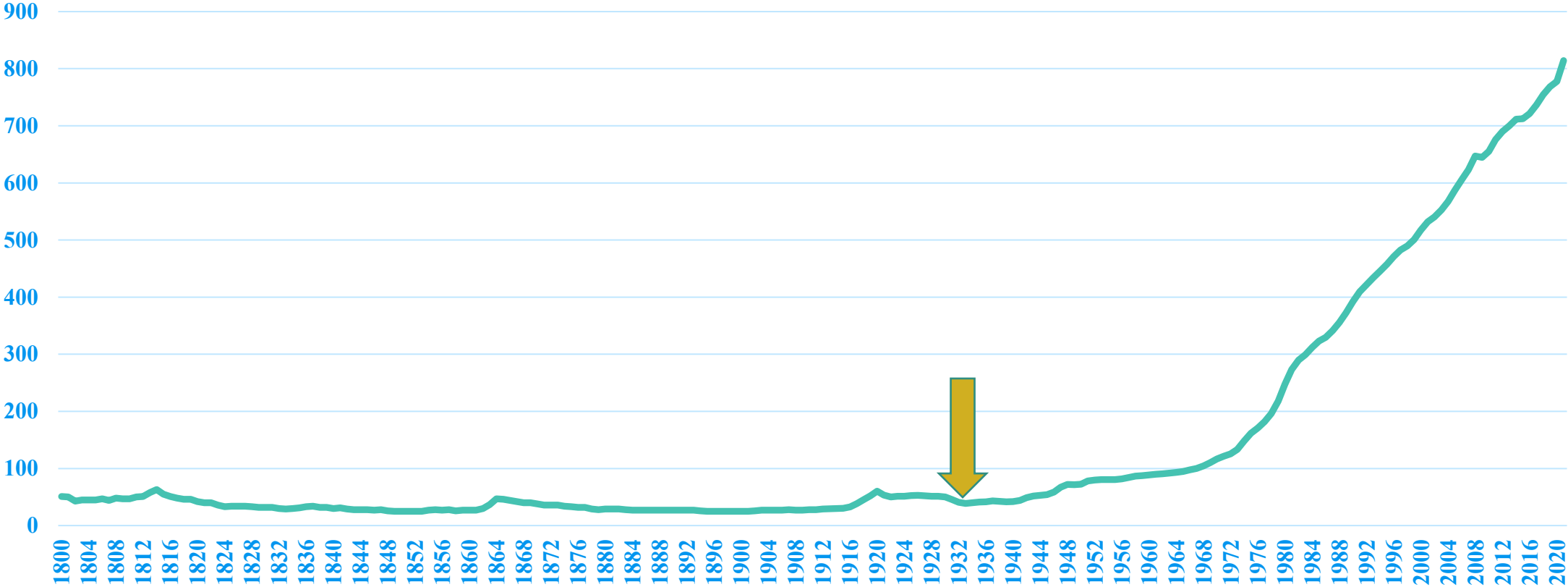


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HISTORICAL INFLATION SINCE 1800



Consumer Price Index* *Annual, 1967=100*



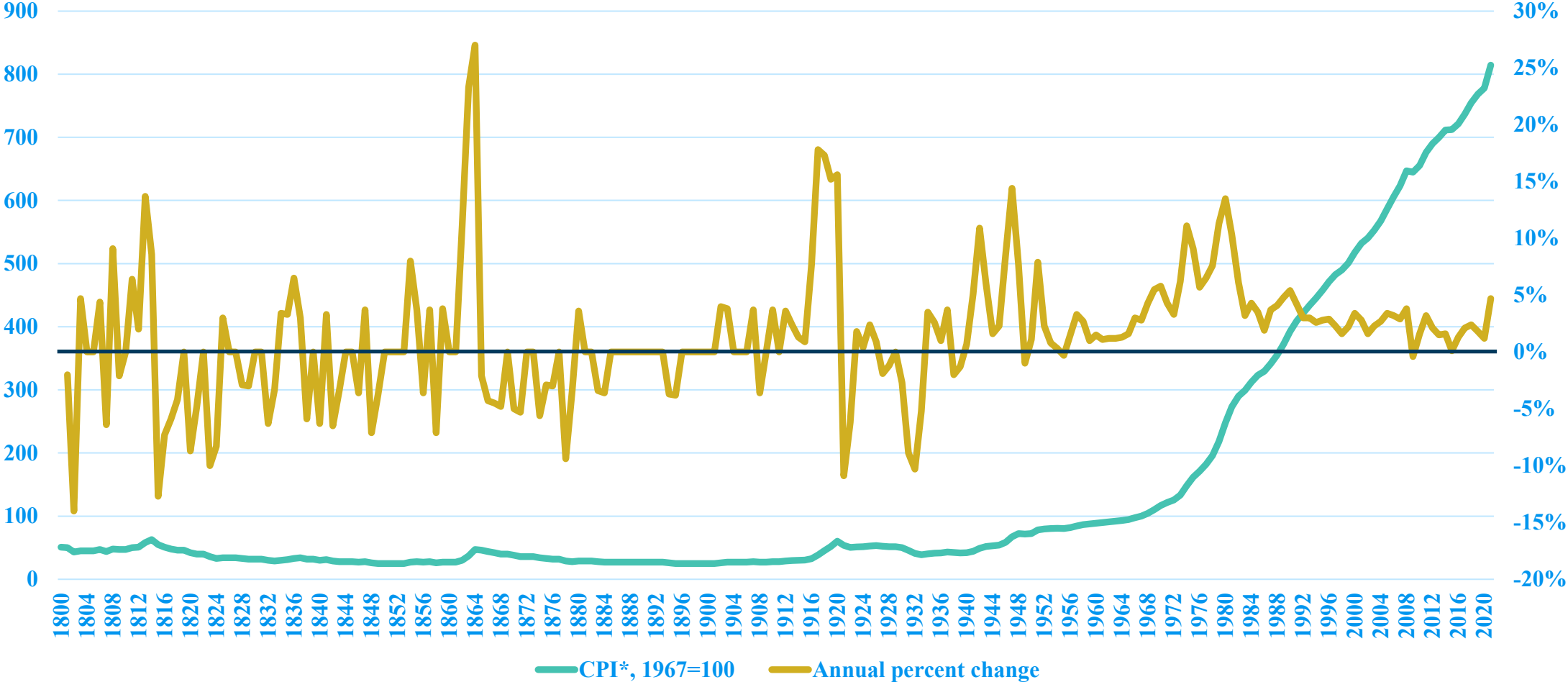
Source: Bureau of Labor Statistics

*Values prior to 1913 are estimates from historical data series



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HISTORICAL INFLATION SINCE 1800



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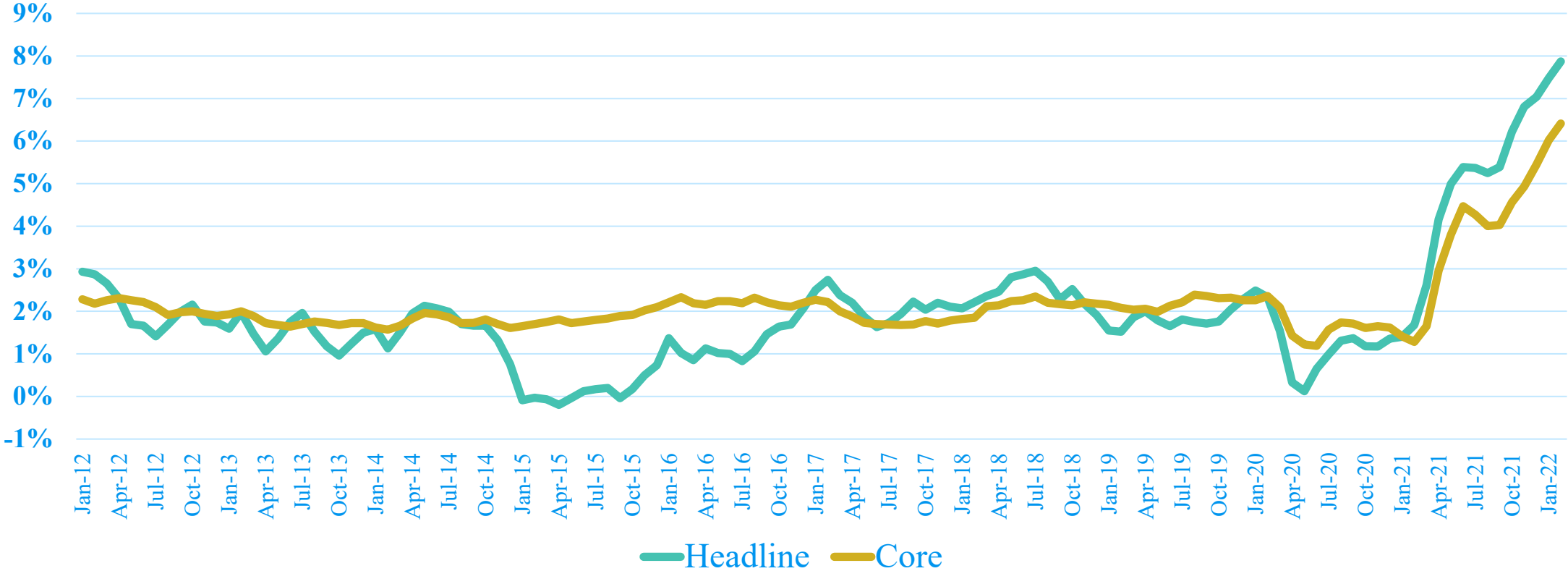


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INFLATION HAS INCREASED RECENTLY

Consumer Price Index

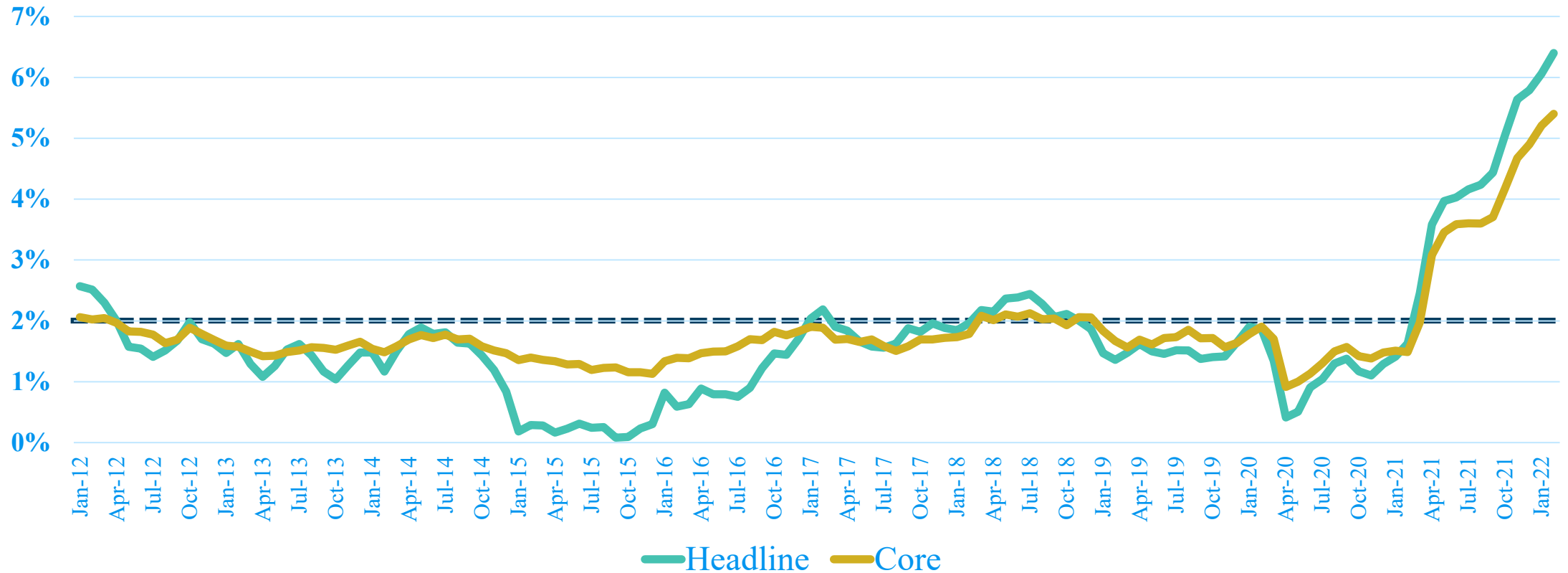
12-month percent change



Source: Bureau of Labor Statistics

FROM BELOW TARGET TO WELL ABOVE

Personal Consumption Expenditures, Chain-Type Price Index *12-month percent change*



Source: Bureau of Economic Analysis

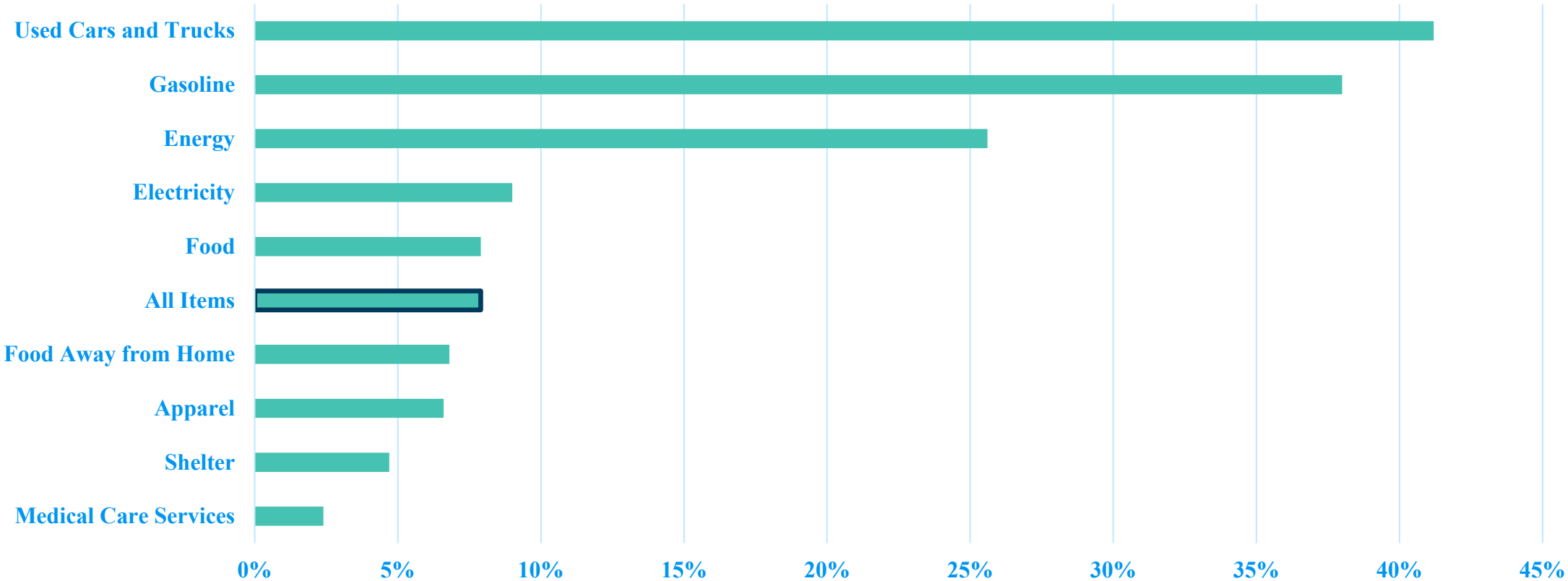


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WHAT'S GOING UP THE MOST?



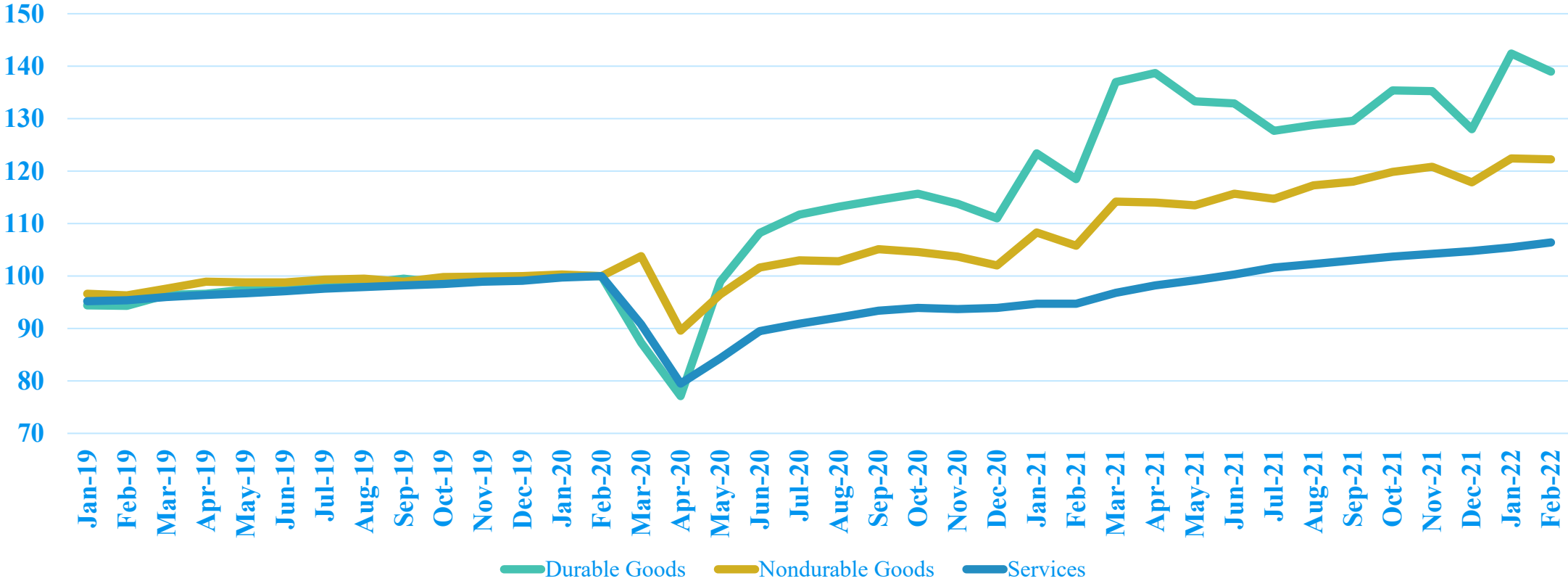
CPI, February 2022
12-month change



CONSUMER SPENDING WAY UP, ESPECIALLY FOR GOODS

Personal Consumption Expenditures

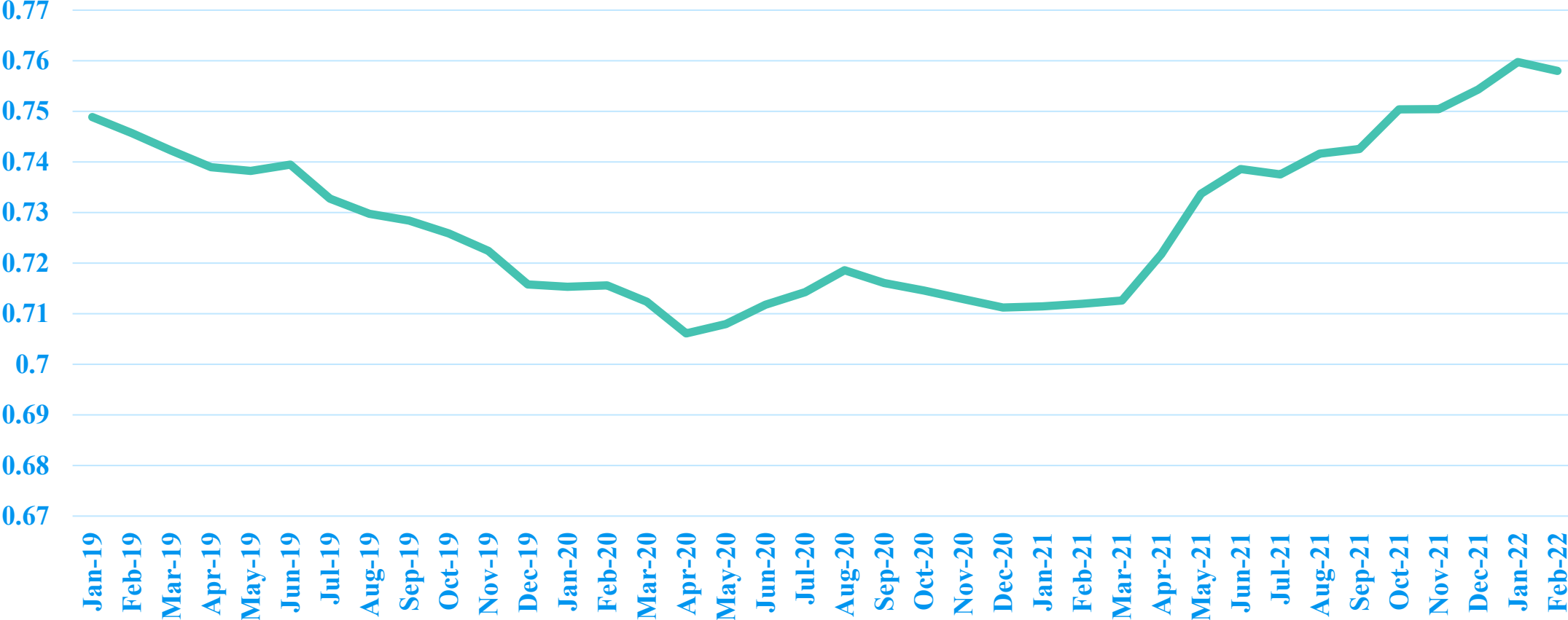
Index Feb 2020=100, Monthly, Seasonally Adjusted Annual Rate



Source: Bureau of Economic Analysis

GOODS GETTING MORE EXPENSIVE RELATIVE TO SERVICES

Ratio: PCE-Durable Goods/PCE-Services

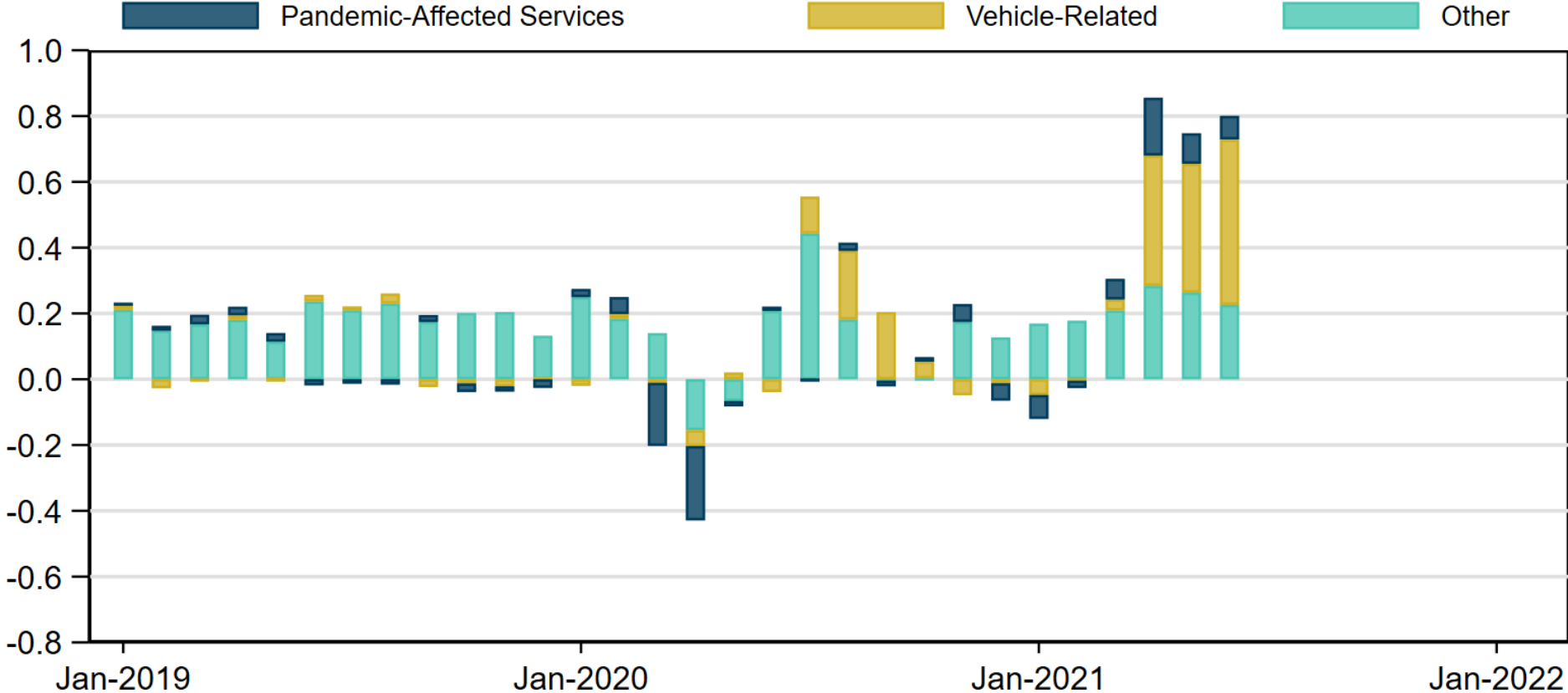


Source: Bureau of Economic Analysis

PANDEMIC, SUPPLY CHAIN EFFECTS STRONG IN EARLY 2021

Contributions to core CPI Inflation

Percentage point contribution, monthly rate, SA



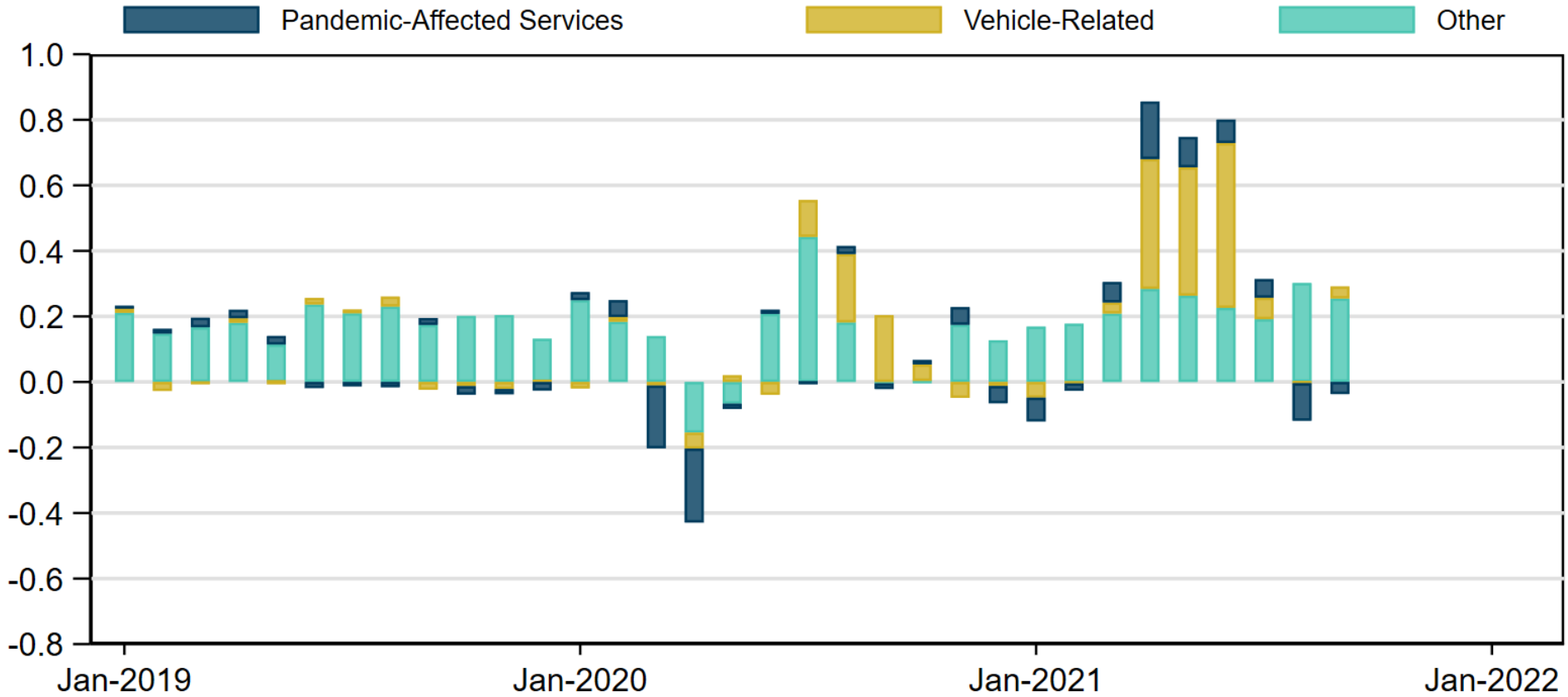
Source: U.S. Bureau of Labor Statistics.

EFFECTS SEEMED TO TEMPER MID-YEAR



Contributions to core CPI Inflation

Percentage point contribution, monthly rate, SA

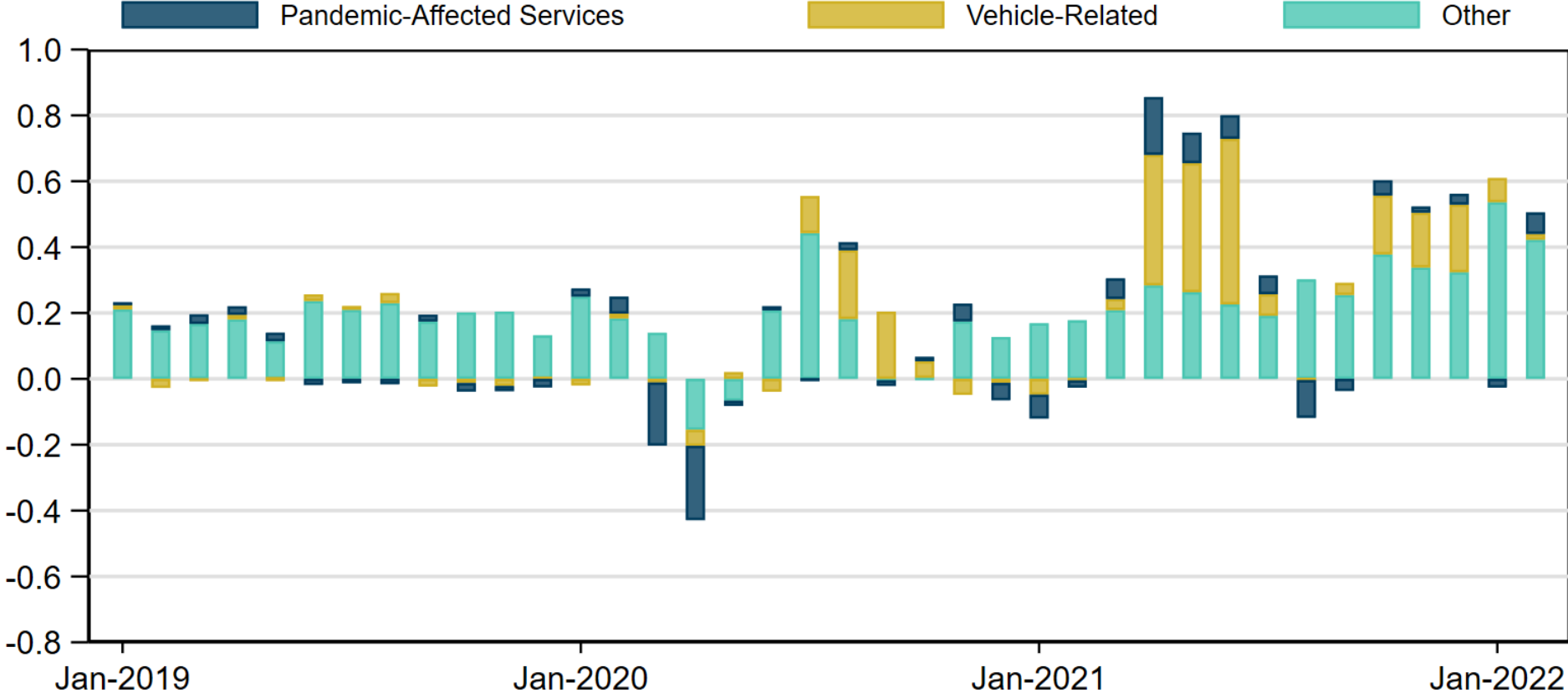


Source: U.S. Bureau of Labor Statistics.

THEN INFLATION BECAME MORE WIDESPREAD

Contributions to core CPI Inflation

Percentage point contribution, monthly rate, SA

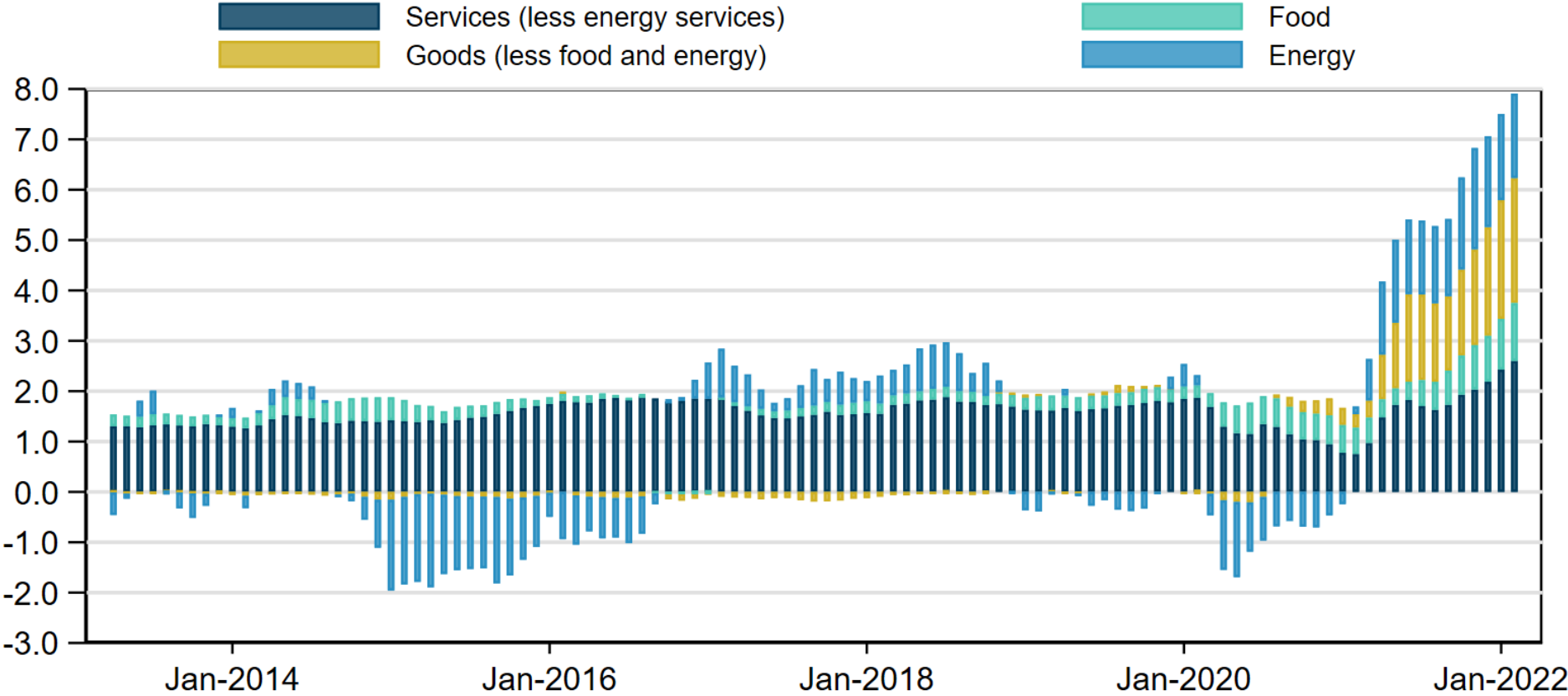


Source: U.S. Bureau of Labor Statistics.

A LOT OF RECENT INFLATION STILL IN GOODS AND ENERGY

Components of CPI

Percentage point contribution, NSA



Source: U.S. Bureau of Labor Statistics.

THE FEDERAL RESERVE'S CONGRESSIONAL MANDATE

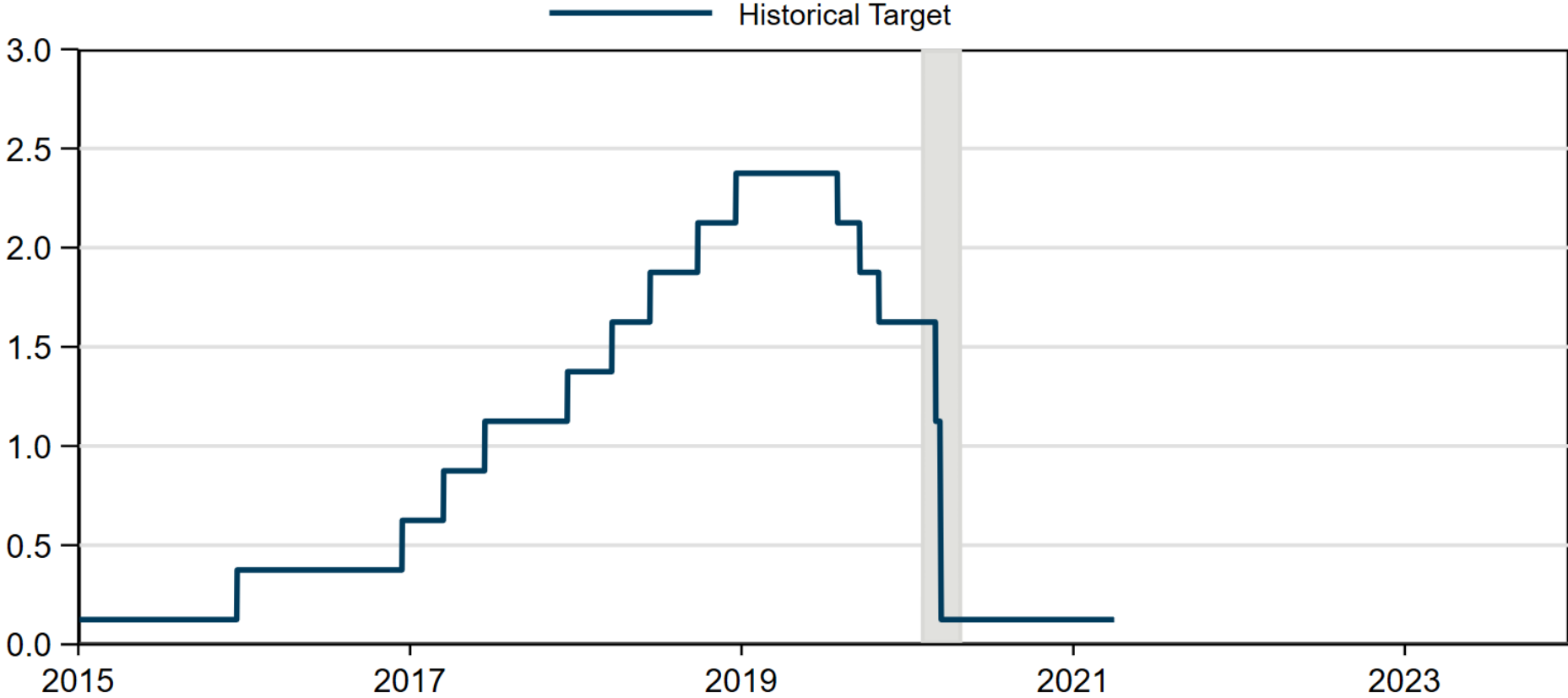
The Federal Reserve Act mandates that the Federal Reserve conduct monetary policy “*so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.*”

Dual Mandate: maximum employment and price stability



THE FED ACTED QUICKLY WHEN COVID HIT

FEDERAL FUNDS RATE PERCENT

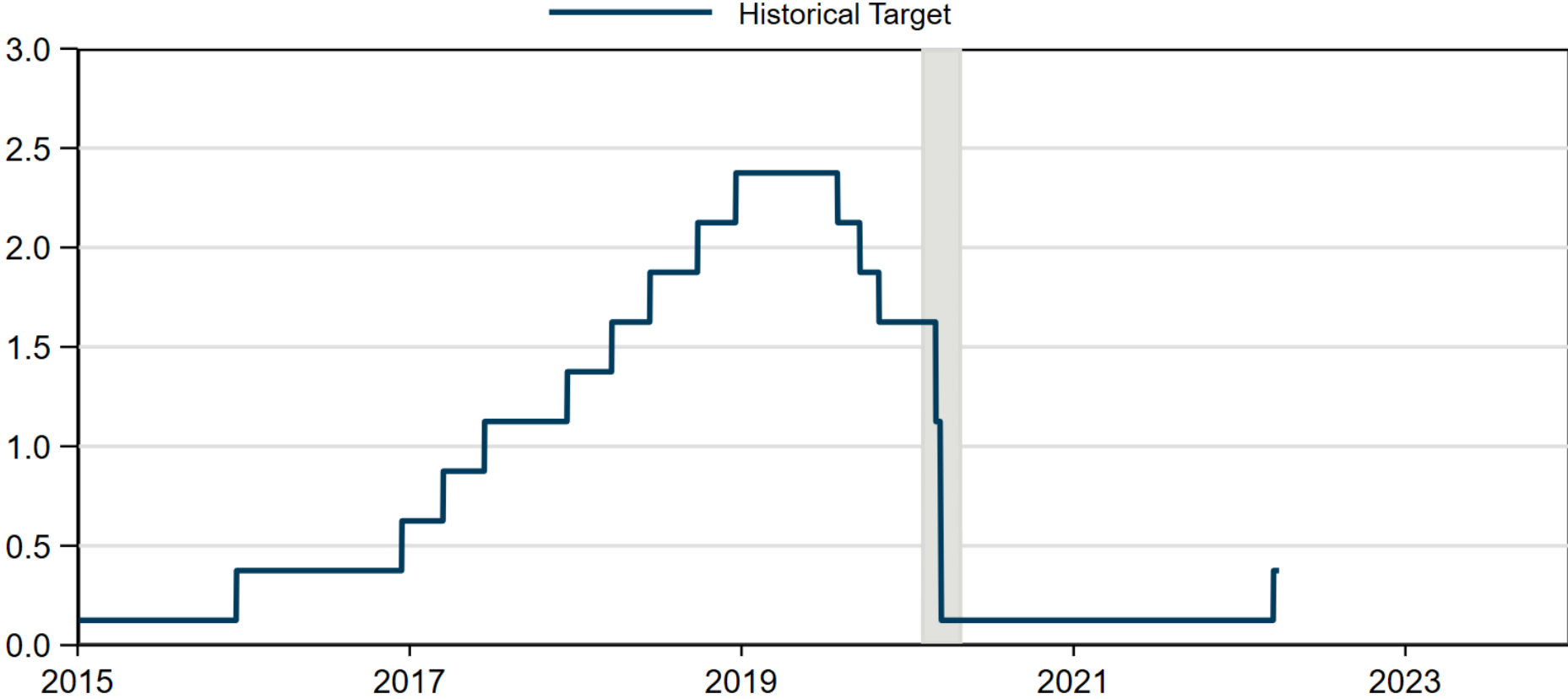


Source: Bloomberg, Federal Reserve Board of Governors.

THE FED HAS STARTED RAISING RATES ...



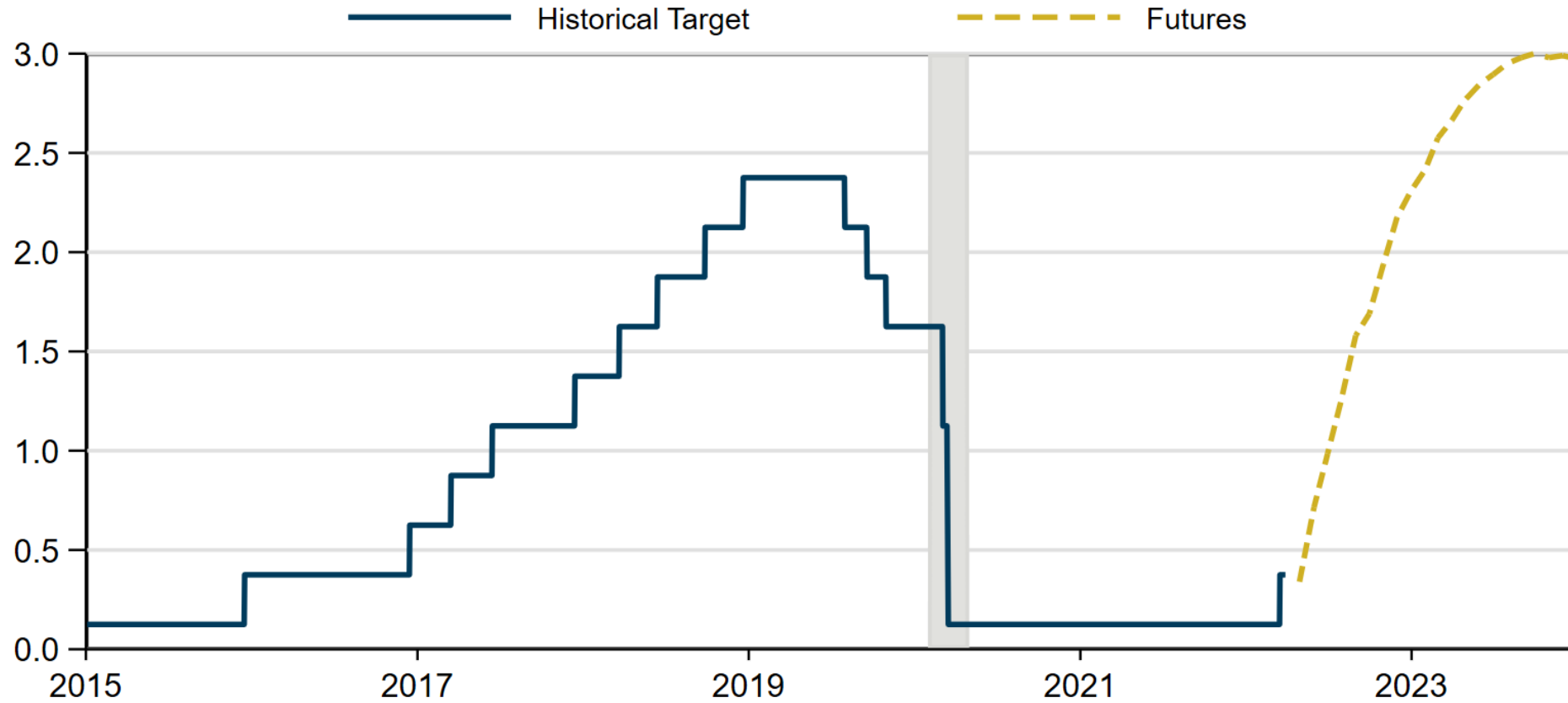
FEDERAL FUNDS RATE PERCENT



Source: Bloomberg, Federal Reserve Board of Governors.

... AND SIGNALLED THAT MORE INCREASES ARE COMING

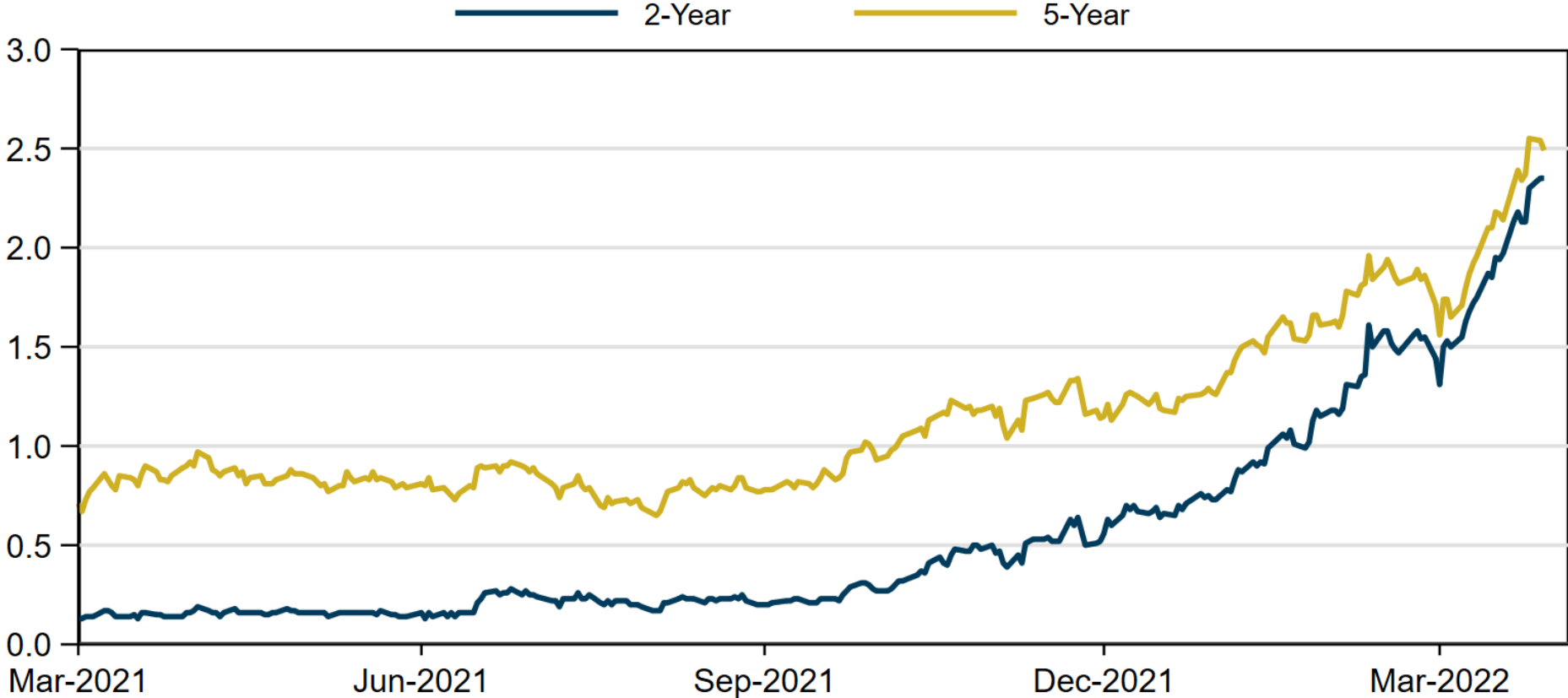
FEDERAL FUNDS RATE PERCENT



Source: Bloomberg, Federal Reserve Board of Governors.

RISING INTEREST RATES REFLECT THE FED'S TIGHTENING

U.S. TREASURY RATES PERCENT

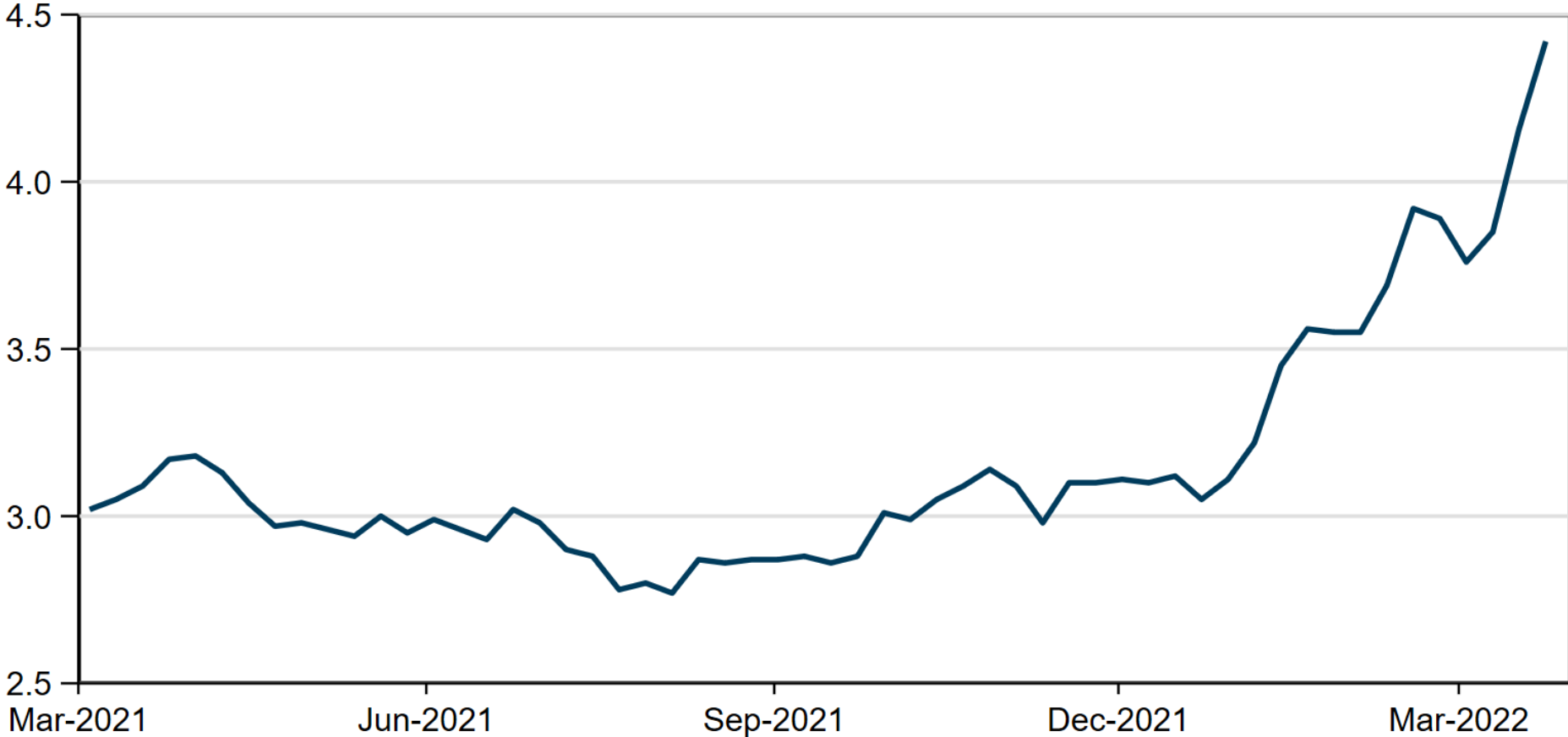


Source: Federal Reserve Board of Governors.

MORTGAGE RATES HAVE RISEN SUBSTANTIALLY

THIRTY-YEAR FIXED RATE MORTGAGES

PERCENT

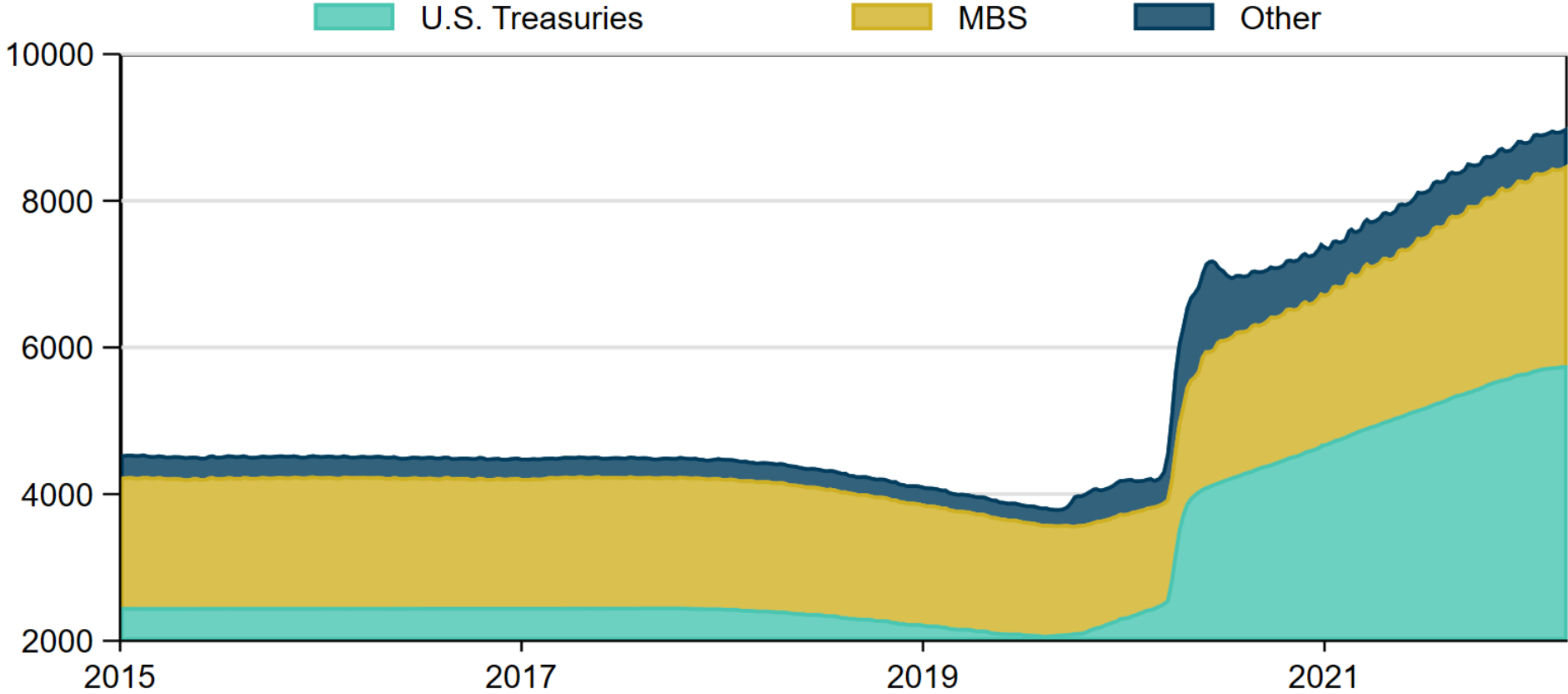


Source: Federal Home Loan Mortgage Corporation.

THE FED'S BALANCE SHEET HAS STOPPED GROWING

ASSETS OF THE FEDERAL RESERVE

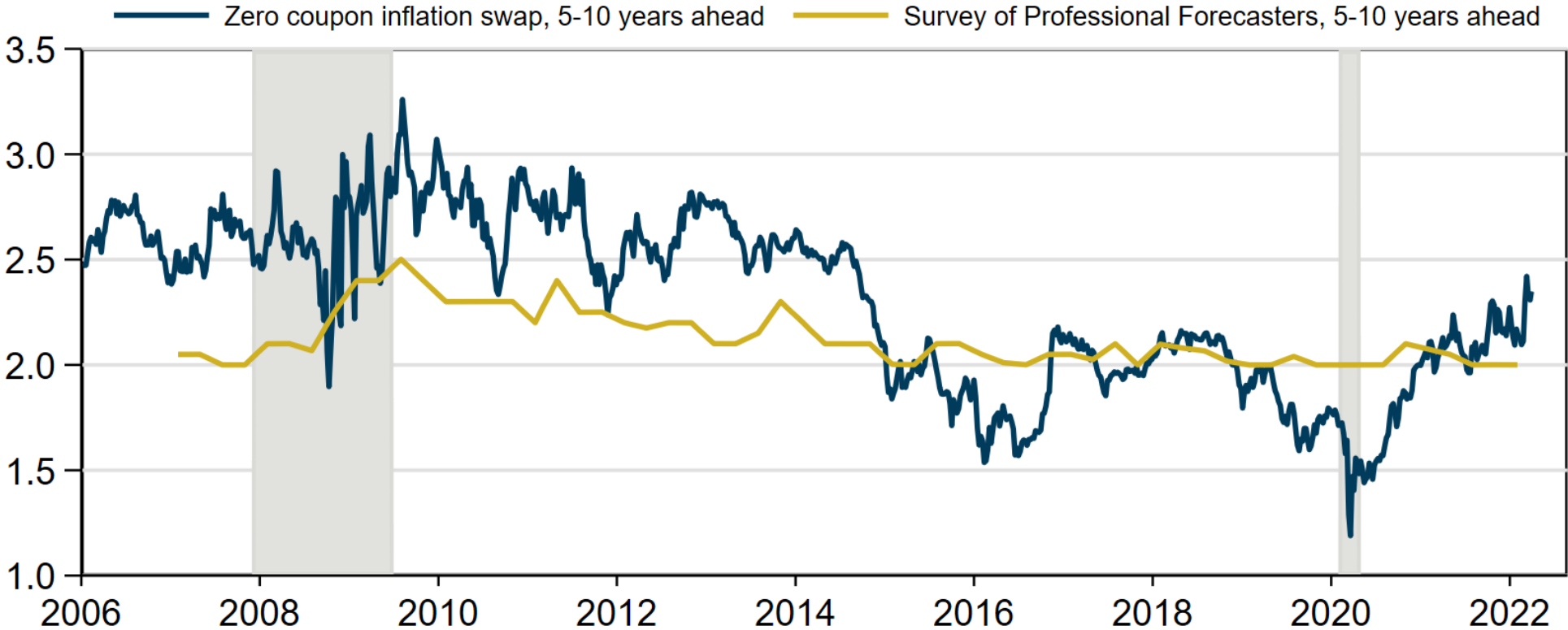
BIL. \$



Source: Federal Reserve Board of Governors, H.4.1 Statistical Release.

INFLATION EXPECTATIONS REMAIN ANCHORED

LONG-TERM INFLATION EXPECTATIONS PERCENT



Note: Zero coupon adjusted to PCE basis by subtracting 30 basis points.
Source: Bloomberg, Federal Reserve Bank of Philadelphia Survey of Professional Forecasters.

UPCOMING EVENTS

Unequal Inflation Impacts

Virtual Conference

Tuesday, April 5

9:00 – 11:00 a.m. CT

Featuring Fed Governor Lael Brainard

Registration information available in
the Zoom chat box



THANK YOU



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