Inflation Considerations and the Monetary Policy Response

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The views I express here are my own and do not necessarily reflect the views of the Federal Open Market Committee (FOMC) or within the Federal Reserve System.
Inflation Below 2% for Long Time
(PCE price indexes; 12-month percent change)

Unemployment Falling Rapidly with American Rescue Plan (ARP)
(unemployment rate in alternative ARP scenarios, percent)

Source: Bureau of Economic Analysis from Haver Analytics

Inflation Outcomes from Three Models
Smoothed American Rescue Plan Effects Scenario

Phillips Curves: \( \pi = f(\text{resource slack, inflation expectations, lagged inflation, supply shocks}) \)

New Keynesian: short run inflation expectations, no lagged inflation

Yellen Model: long run inflation expectations, lagged inflation

Behavioral: adaptive inflation expectations, “speed effects”

New Keynesian
(percent, annual rate)

\[
\begin{align*}
3.5 & \quad \text{21:Q1} \\
3.0 & \quad \text{21:Q3} \\
2.5 & \quad \text{22:Q1} \\
2.0 & \quad \text{22:Q3} \\
1.5 & \quad \text{23:Q1} \\
1.0 & \quad \text{23:Q3}
\end{align*}
\]

Yellen Model
(percent, annual rate)

\[
\begin{align*}
3.5 & \quad \text{21:Q1} \\
3.0 & \quad \text{21:Q3} \\
2.5 & \quad \text{22:Q1} \\
2.0 & \quad \text{22:Q3} \\
1.5 & \quad \text{23:Q1} \\
1.0 & \quad \text{23:Q3}
\end{align*}
\]

Behavioral
(percent, annual rate)

\[
\begin{align*}
3.5 & \quad \text{21:Q1} \\
3.0 & \quad \text{21:Q3} \\
2.5 & \quad \text{22:Q1} \\
2.0 & \quad \text{22:Q3} \\
1.5 & \quad \text{23:Q1} \\
1.0 & \quad \text{23:Q3}
\end{align*}
\]