
Inflation Considerations and the Monetary Policy Response

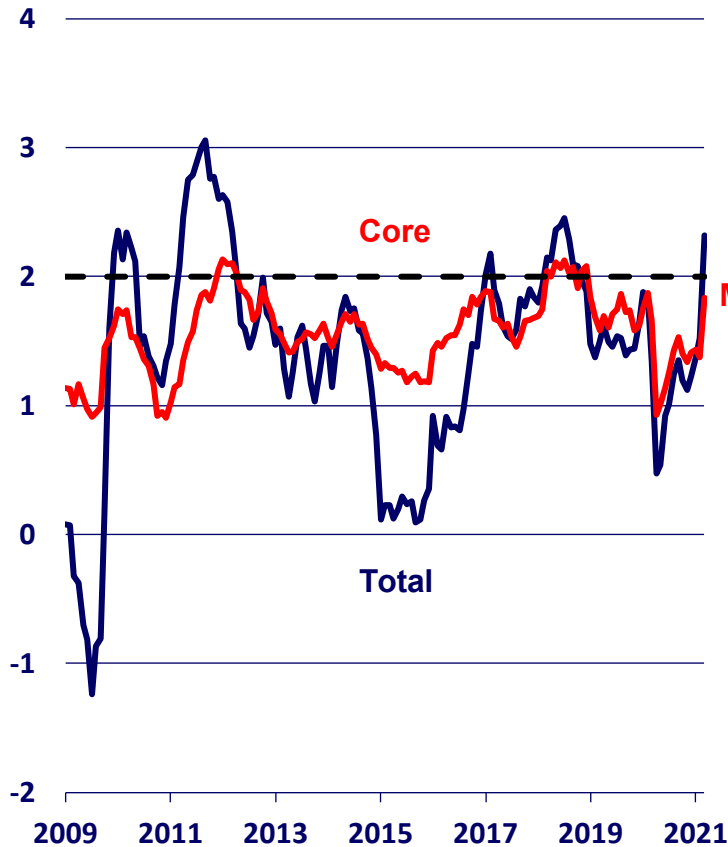
Institute for Monetary and Economic Studies, Bank of Japan
May 25, 2021

Charlie L. Evans
President & CEO
Federal Reserve Bank of Chicago

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.

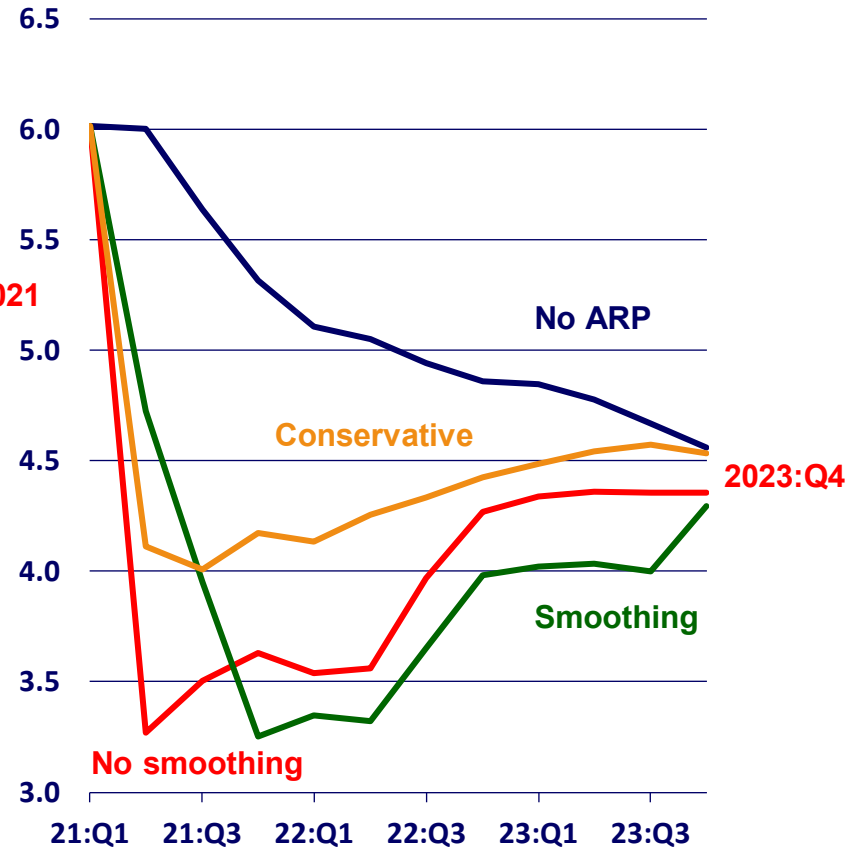
Inflation History; Unemployment Scenarios

Inflation Below 2% for Long Time
(PCE price indexes; 12-month percent change)



Source: Bureau of Economic Analysis from Haver Analytics

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



Source: Francesco Bianchi, Jonas D. M. Fisher, and Leonardo Melosi. Authors' calculations based on data from the Congressional Budget Office, Edelberg and Sheiner (2021). 2
Chicago Fed Letter available at www.chicagofed.org/publications/chicago-fed-letter/2021/453

Inflation Outcomes from Three Models

Smoothed American Rescue Plan Effects Scenario

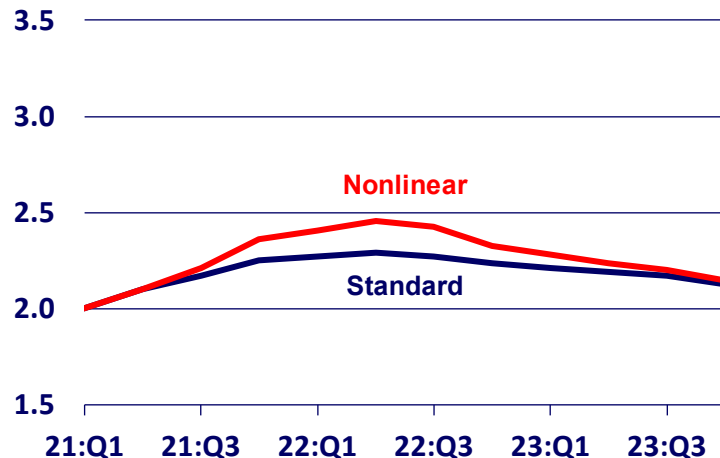
Phillips Curves: $\pi = f(\text{resource slack, inflation expectations, lagged inflation, supply shocks})$

New Keynesian: short run inflation expectations, no lagged inflation

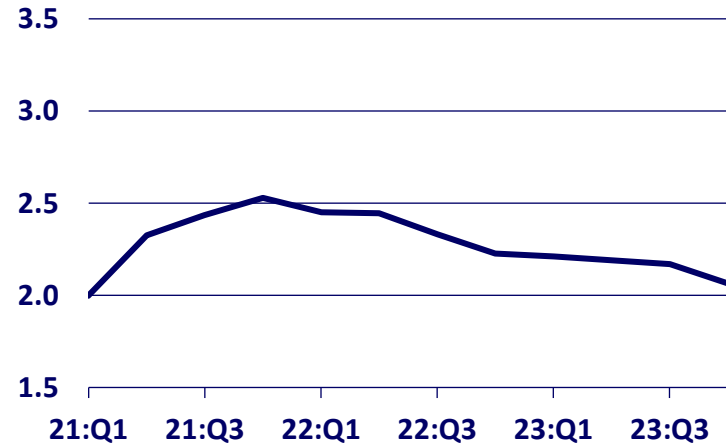
Yellen Model: long run inflation expectations, lagged inflation

Behavioral: adaptive inflation expectations, "speed effects"

Yellen Model
(percent, annual rate)



New Keynesian
(percent, annual rate)



Behavioral
(percent, annual rate)

