INFLATION AND THE FED’S RESPONSE

March 31, 2022

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DISCLAIMER

The views expressed here are those of the presenters and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.
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
HISTORICAL INFLATION SINCE 1800

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INFLATION HAS INCREASED RECENTLY

Consumer Price Index
12-month percent change

Source: Bureau of Labor Statistics
Personal Consumption Expenditures, Chain-Type Price Index

12-month percent change

Source: Bureau of Economic Analysis
WHAT'S GOING UP THE MOST?

CPI, February 2022
12-month change

Used Cars and Trucks
Gasoline
Energy
Electricity
Food
All Items
Food Away from Home
Apparel
Shelter
Medical Care Services

0% 5% 10% 15% 20% 25% 30% 35% 40% 45%
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

EFFECTS SEEMED TO TEMPER MID-YEAR

Contributions to core CPI Inflation
Percentage point contribution, monthly rate, SA

[Diagram showing contributions to core CPI Inflation from Jan-2019 to Jan-2022, with categories Pandemic-Affected Services, Vehicle-Related, and Other.]

THEN INFLATION BECAME MORE WIDESPREAD

Contributions to core CPI Inflation
Percentage point contribution, monthly rate, SA

A LOT OF RECENT INFLATION STILL IN GOODS AND ENERGY

Components of CPI
Percentage point contribution, NSA

- Services (less energy services)
- Goods (less food and energy)
- Food
- Energy

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 SIGNALED THAT MORE INCREASES ARE COMING
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. $

- U.S. Treasuries
- MBS
- Other

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

FEDERAL RESERVE BANK of MINNEAPOLIS
INFLATION EXPECTATIONS REMAIN ANCHORED

LONG-TERM INFLATION EXPECTATIONS

PERCENT

Zero coupon inflation swap, 5-10 years ahead
Survey of Professional Forecasters, 5-10 years ahead

Note: Zero coupon adjusted to PCE basis by subtracting 30 basis points.
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