

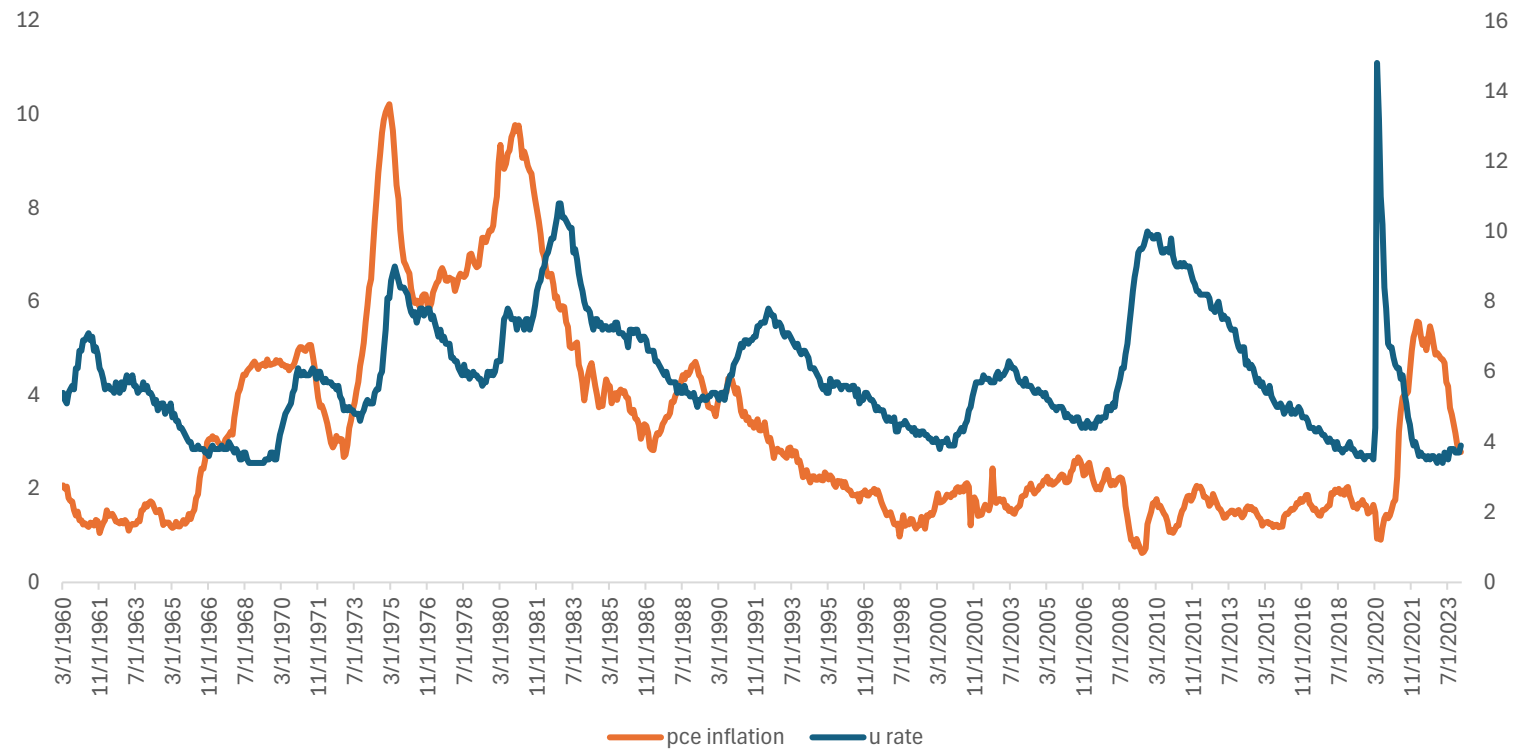
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US INFLATION OUTLOOK AND THE FED

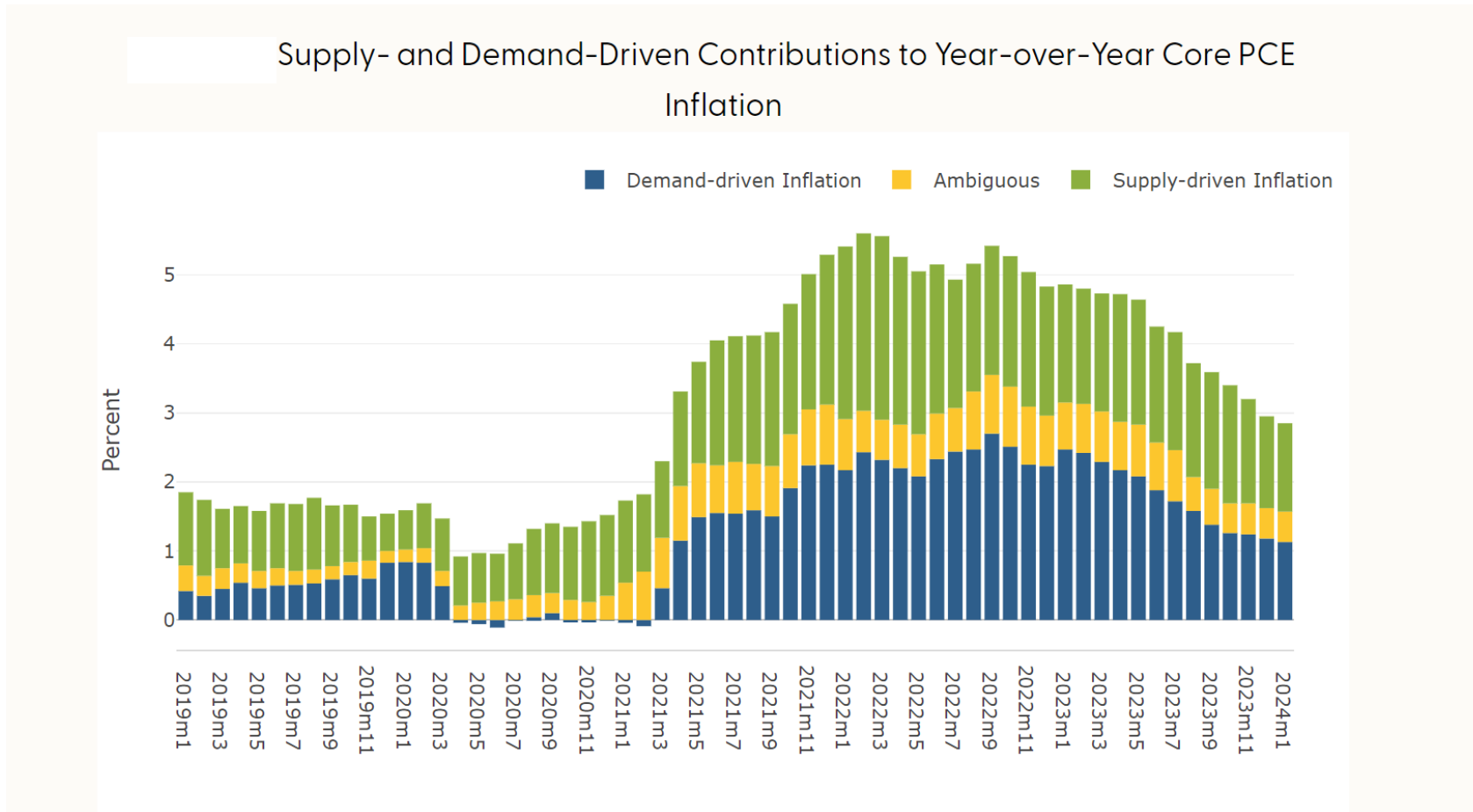
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NBER

UNEMPLOYMENT AND INFLATION SINCE 1960



SF FED SUPPLY DEMAND DECOMPOSITION OF INFLATION



WHAT WERE THEY (FED AND MARKETS) THINKING? *TIPS MARKET ALSO ON TEAM TRANSITORY IN 2021*

CPURNSA Realized and Fixing Swap Implied CPI YoY Path (as of 2024-02-23)



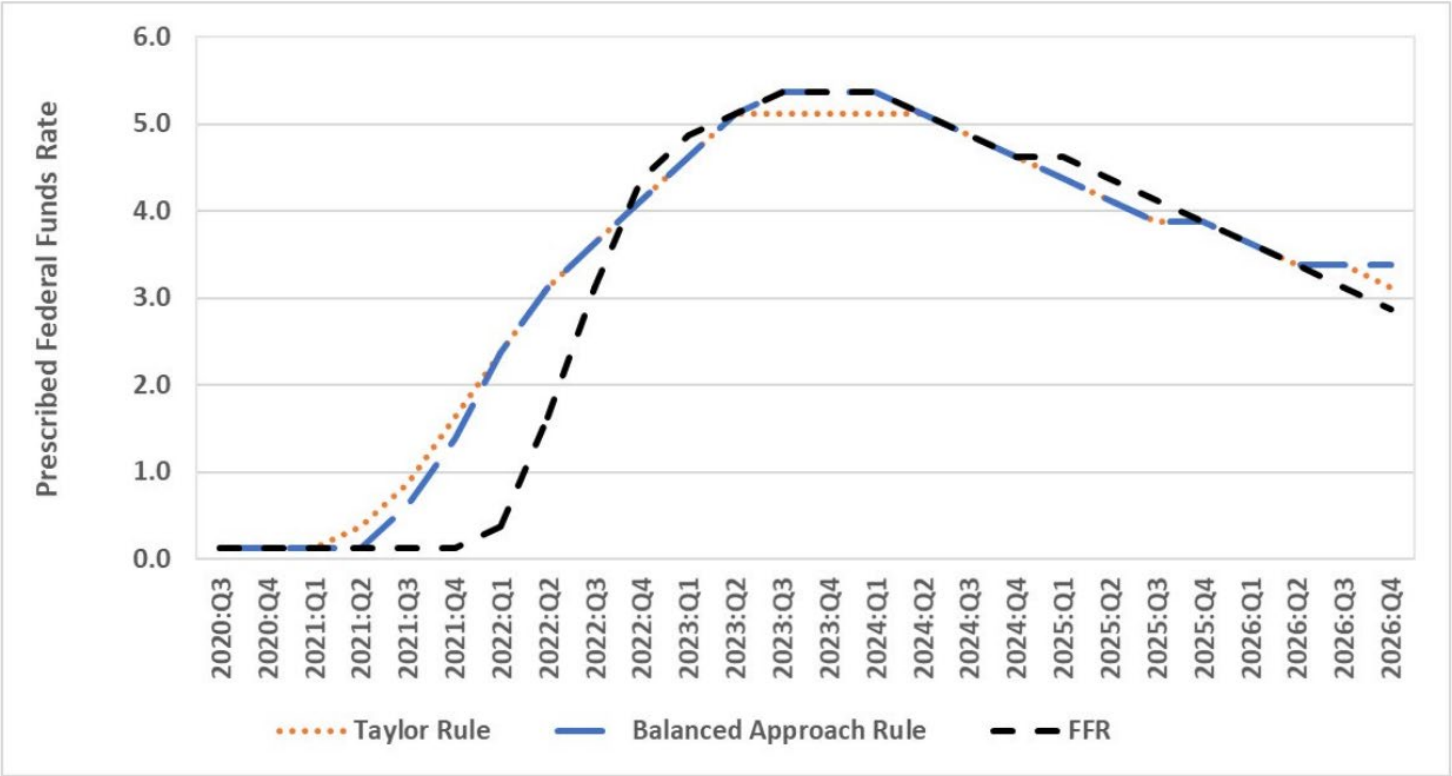
WHAT WERE G10 CENTRAL BANKS THINKING? ALL SAVE SWITZERLAND DELAYED LIFT OFF TILL CORE INFLATION HAD EXCEEDED TARGET

Lift off in Advanced Economies

Country	Core CPI measure name	Reference rate name	Date of first rate hike post pandemic	Core inflation before first rate hike, %	First month core inflation above 2% + stayed	Headline inflation before first rate hike, %	Most recent core inflation (as of 9/25/2023), %	Most recent headline inflation (as of 9/25/2023), %
USD	US Personal Consumption Expenditure Core Price Index YoY SA	Federal Funds Target Rate - Upper Bound	3/16/2022	5.42	3/31/2021	7.9	4.24	3.7
CAD	Bank of Canada Core Inflation Index Trimmed Mean YoY	Bank of Canada Overnight Lending Rate	3/3/2022	4.40	3/31/2021	5.7	3.90	4.0
NZD	RBNZ New Zealand CPI Sectoral Factor Model Tradable Core YoY%	Reserve Bank of New Zealand Official Cash Rate	10/6/2021	2.50	9/30/2021	4.9	4.80	6.0
NOK	Norway CPI Underlying (CPI-ATE) YoY%	Norway Deposit Rate Norges Bank Announcement Rate	9/23/2021	1.00	2/28/2022	3.4	6.30	4.8
EUR	Eurostat Eurozone Core MUICP YoY NSA	ECB Main Refinancing Operations Announcement Rate	7/21/2022	3.70	10/31/2021	8.6	5.30	5.2
CHF	Switzerland Core CPI YoY	Switzerland National Bank Policy Rate	6/16/2022	1.70	1/31/2023	2.9	1.50	1.6
AUD	Australia CPI Measures Trimmed Mean YoY SA	Australia RBA Cash Rate Target	5/3/2022	3.80	9/30/2021	5.1	5.90	6.0
GBP	UK CPI Ex Energy Food Alcohol & Tobacco YoY	UK Bank of England Official Bank Rate	12/16/2021	4.00	8/31/2021	5.1	6.20	6.7
SEK	Sweden Underlying Inflation Rate CPIF excluding Energy YoY%	Sweden Repo Rate (Decision Rate)	4/28/2022	4.10	1/31/2022	6.0	7.20	7.5

Source: Bloomberg

FED LIFT OFF VERSUS TAYLOR RULE COUNTERFACTUAL

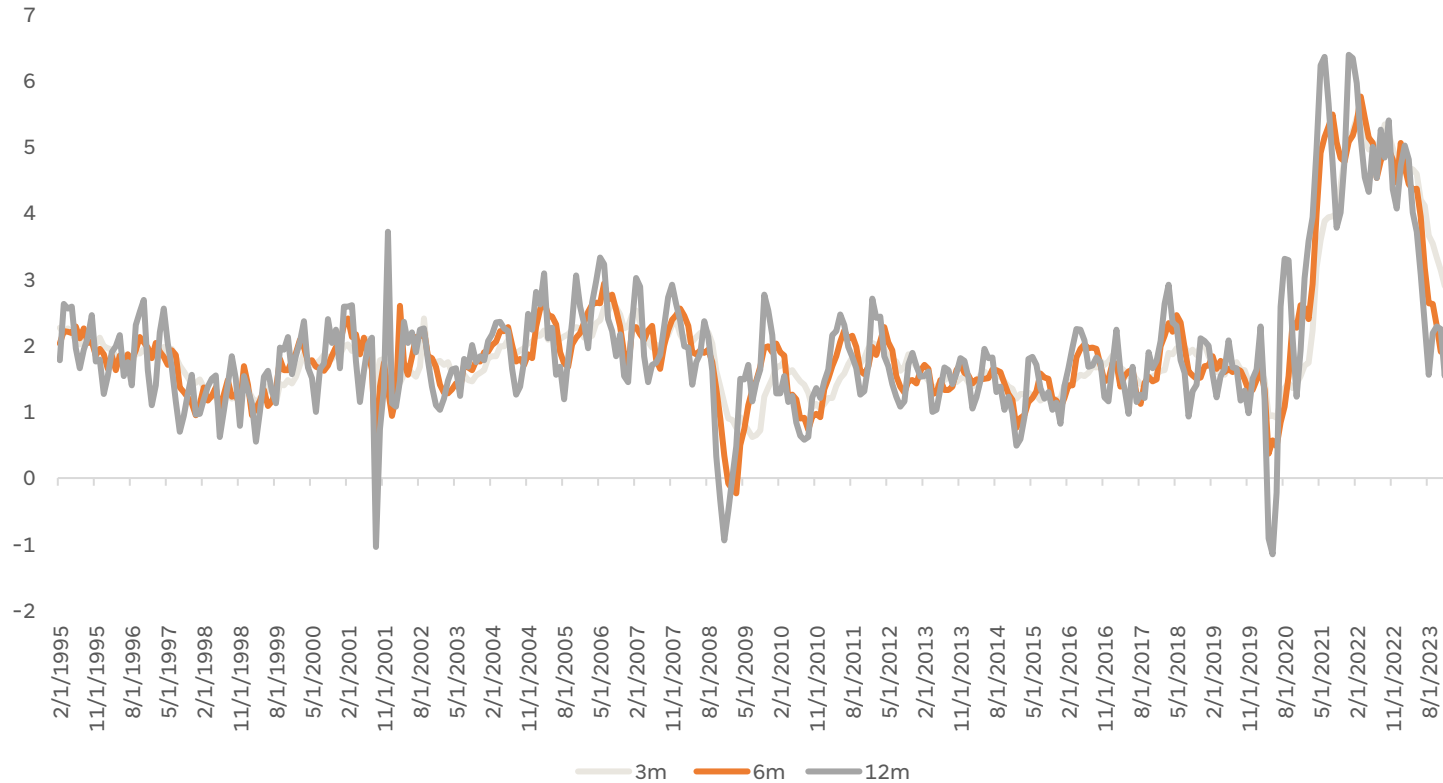


Papell and Prodan-Boul (2024)

CORE PCE INFLATION BACK TO “TWO POINT SOMETHING”

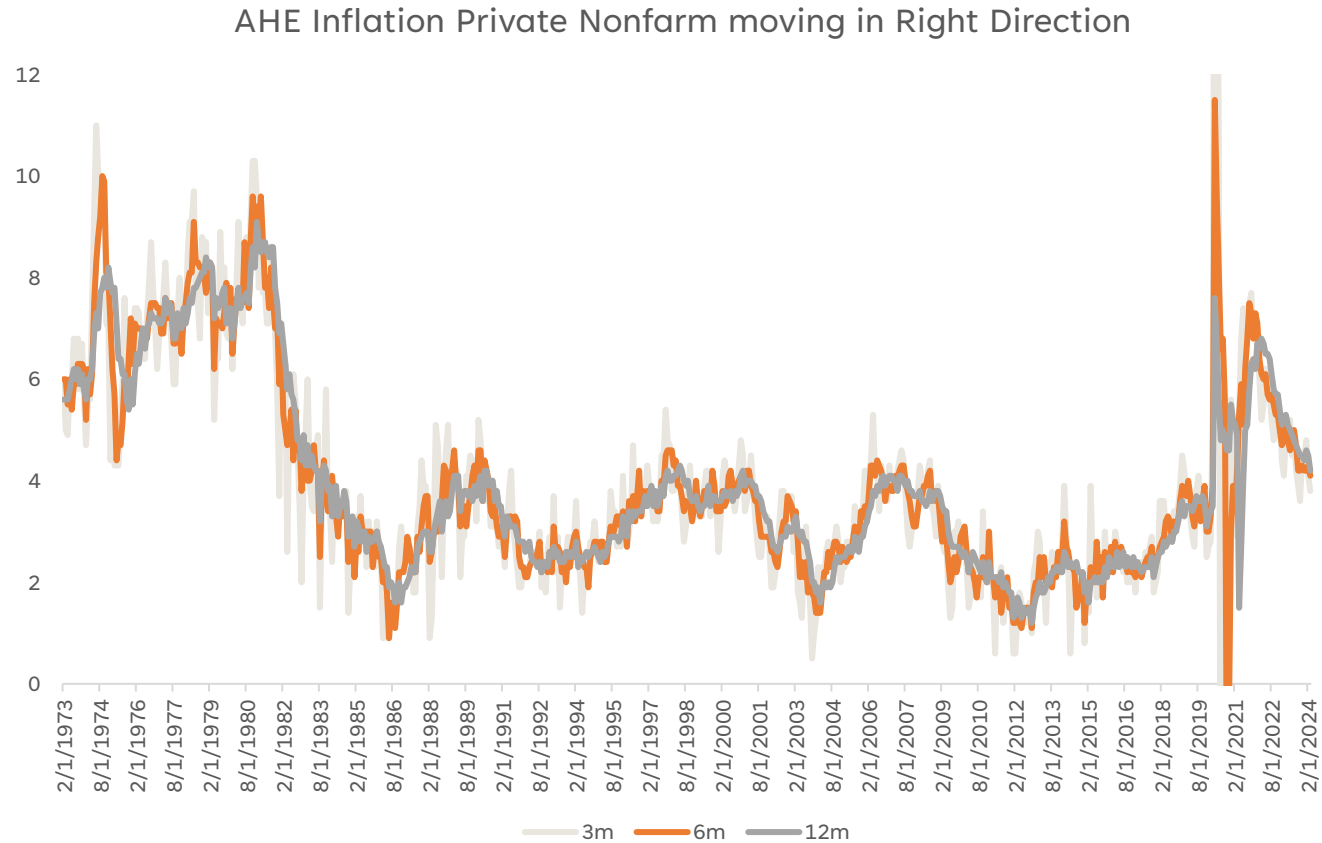
3M = 3.5%; 6M = 2.9% ; 12M = 2.8%

Core Pce Inflation back to "2 point Something" on a 6 and 12m basis
But are the last 3 months a “bump in the road”?

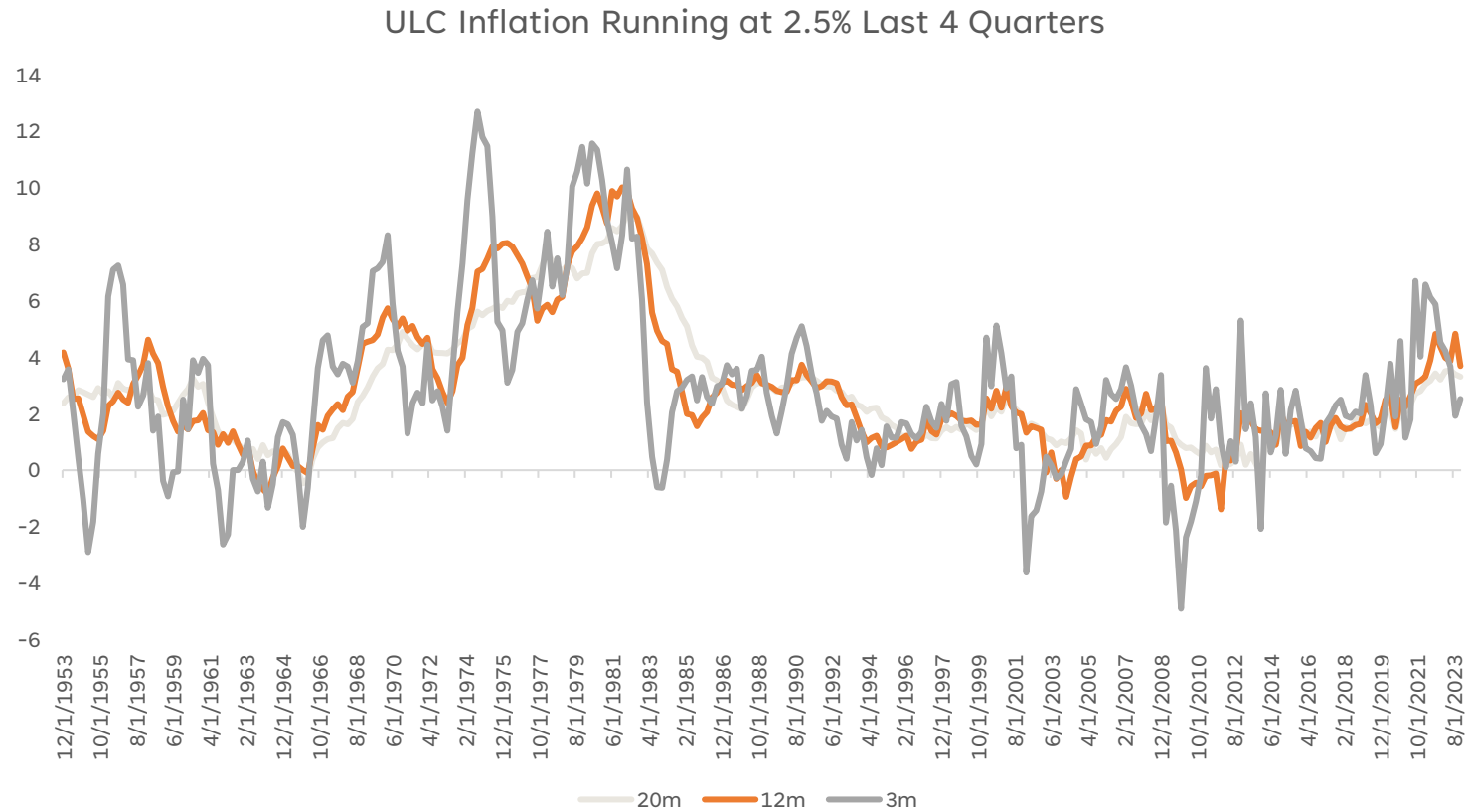


WAGE INFLATION MOVING IN RIGHT DIRECTION

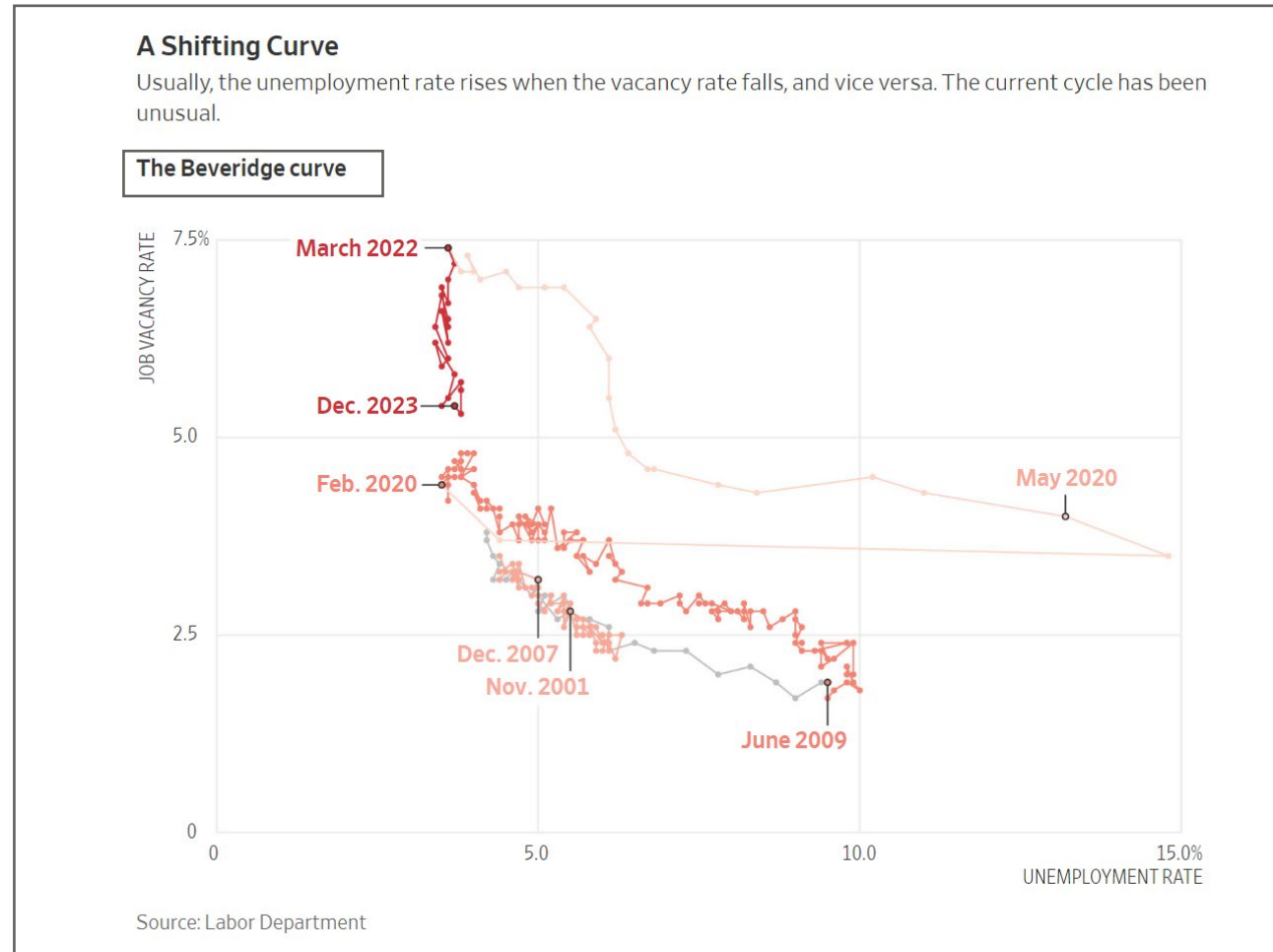
3M = 3.8; 6M = 4.1; 12M = 4.2



ULC INFLATION RUNNING AT 2.5% LAST 4 QUARTERS

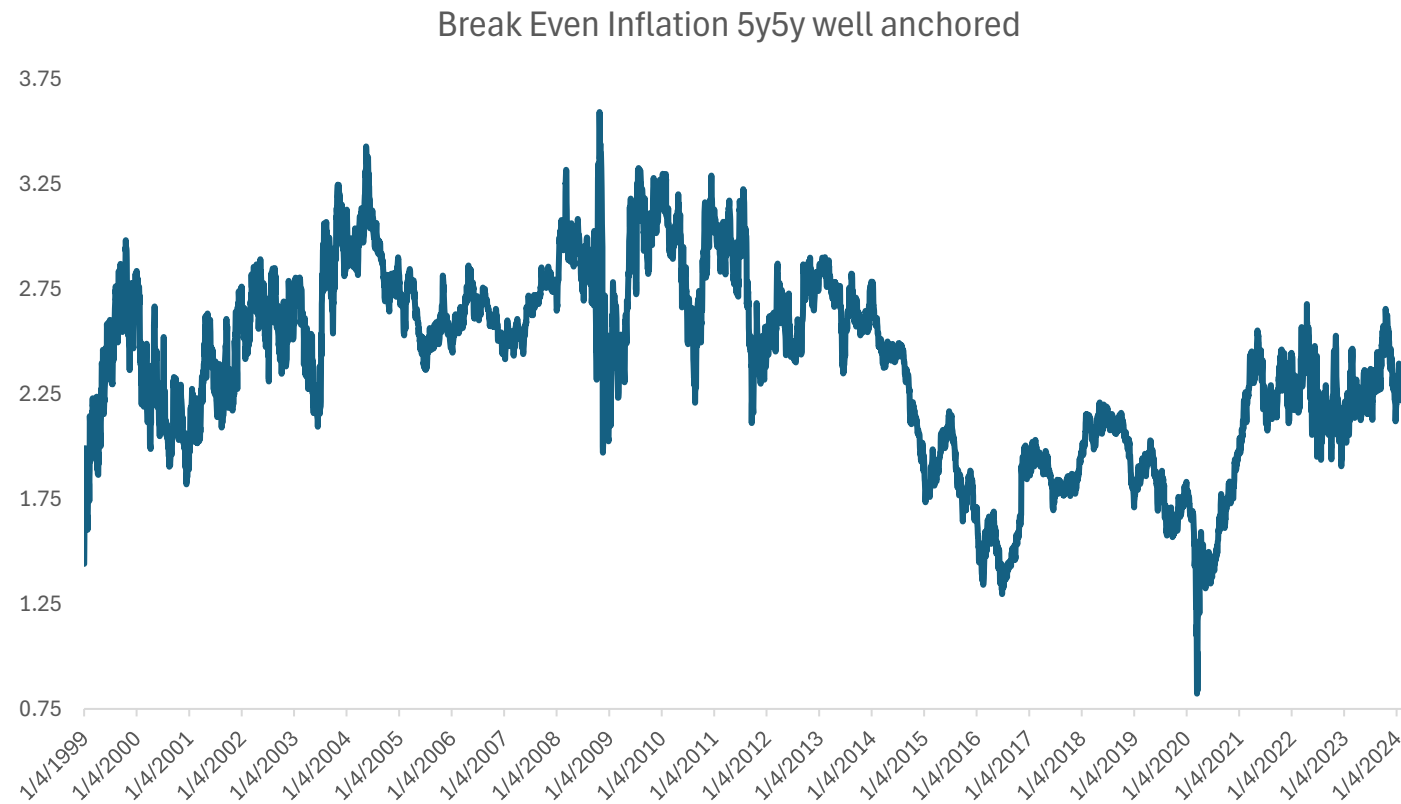


LABOR MARKET ADJUSTING THRU V AND Q AND L NOT U WALLER WAS RIGHT

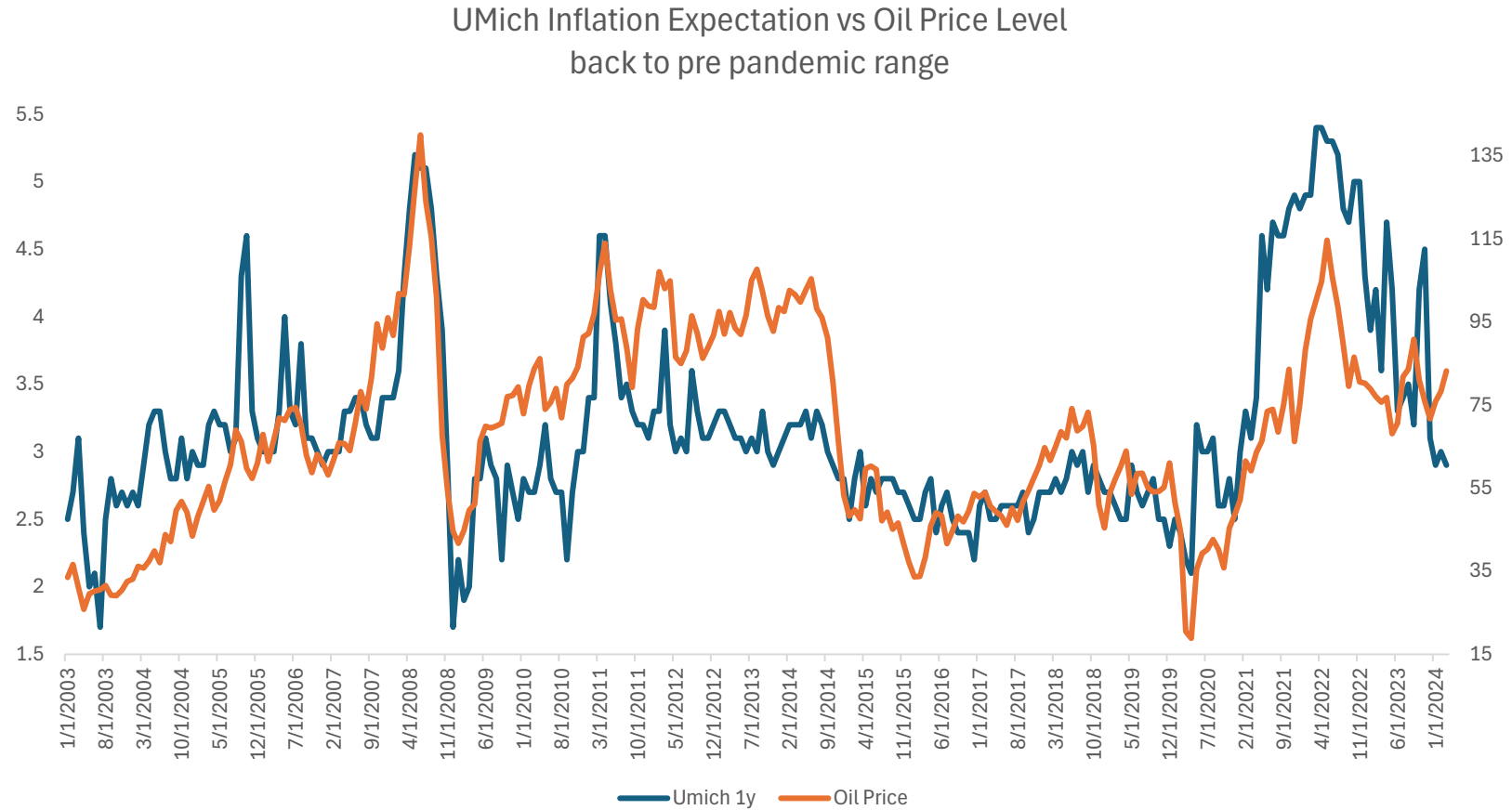


Source: WSJ

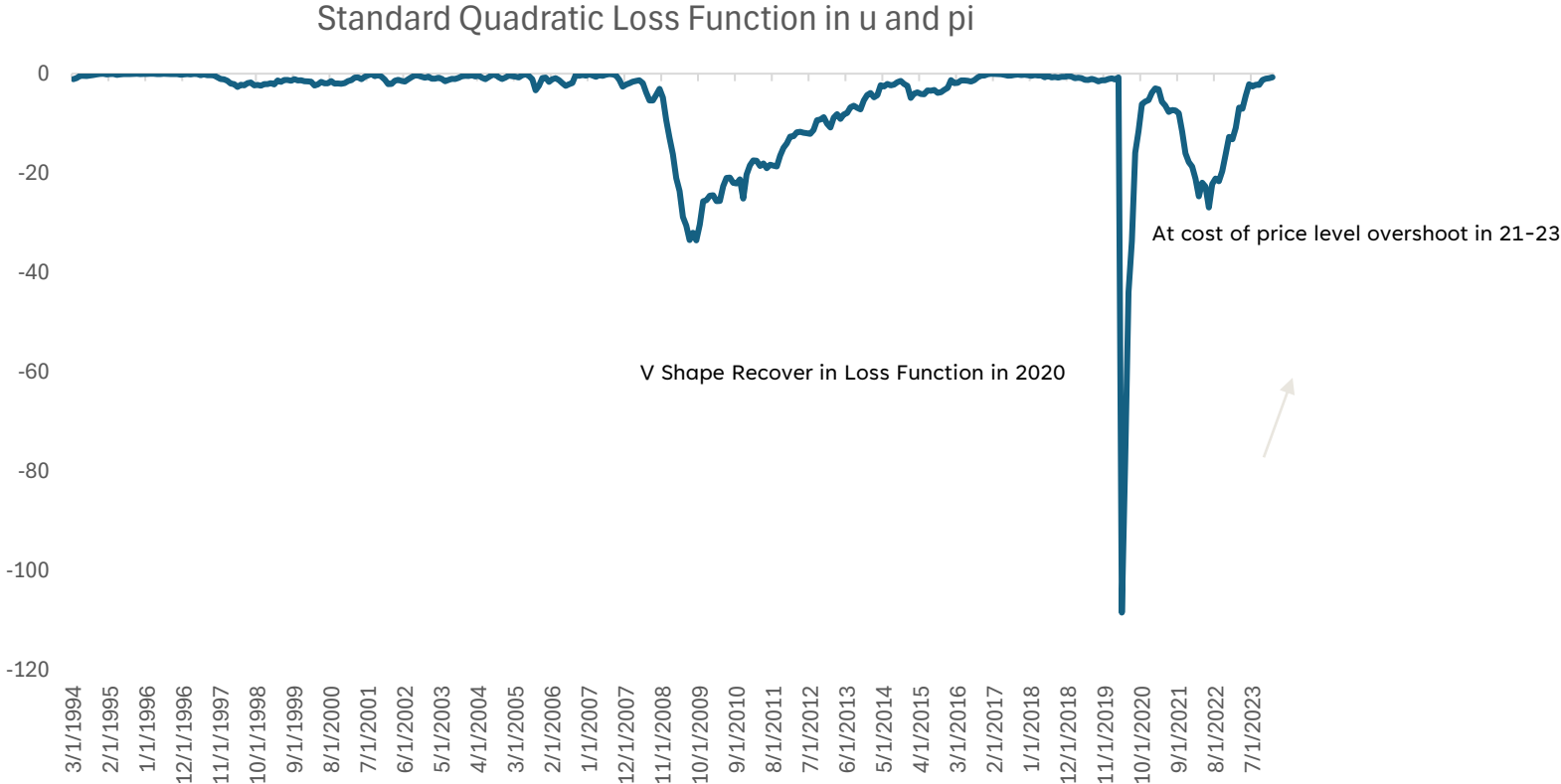
BREAK EVEN INFLATION WELL ANCHORED



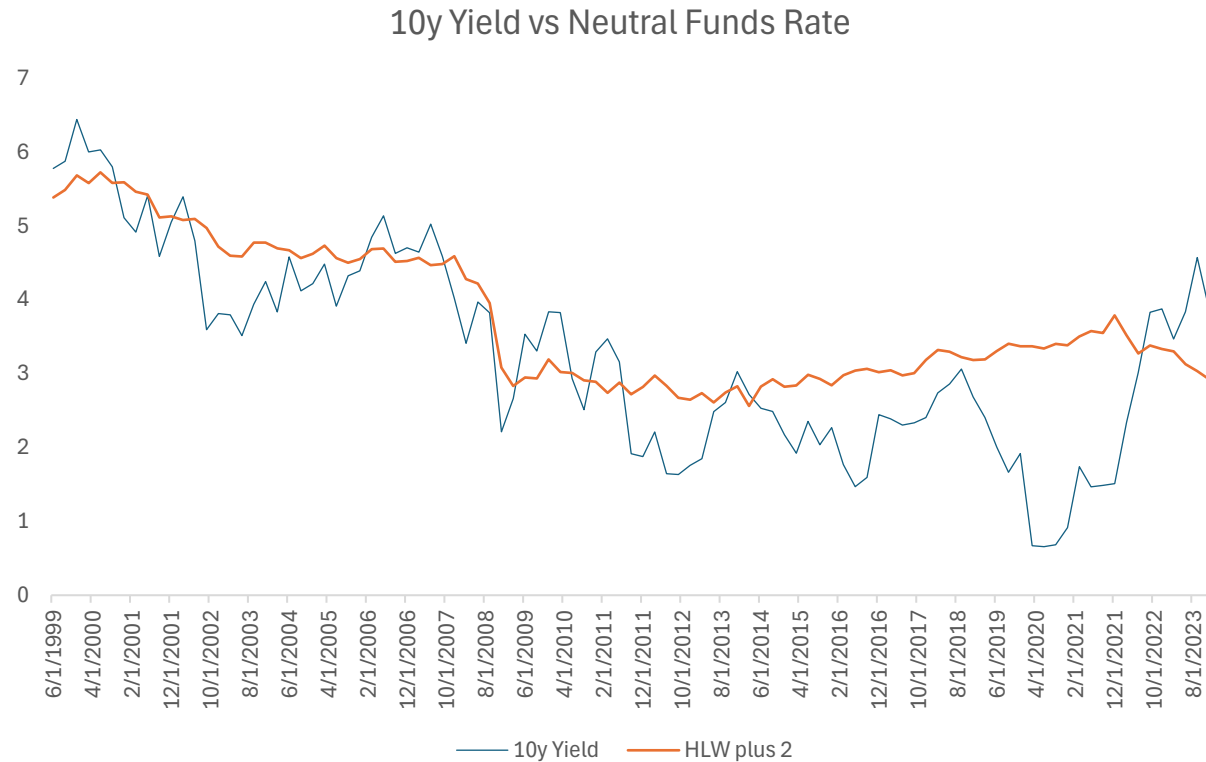
AS ARE SURVEY MEASURES (AFTER A SCARE IN 21-22) *U MICHIGAN ONE YEAR AHEAD EXPECTED INFLATION*



REALIZED QUADRATIC LOSS IN π AND U

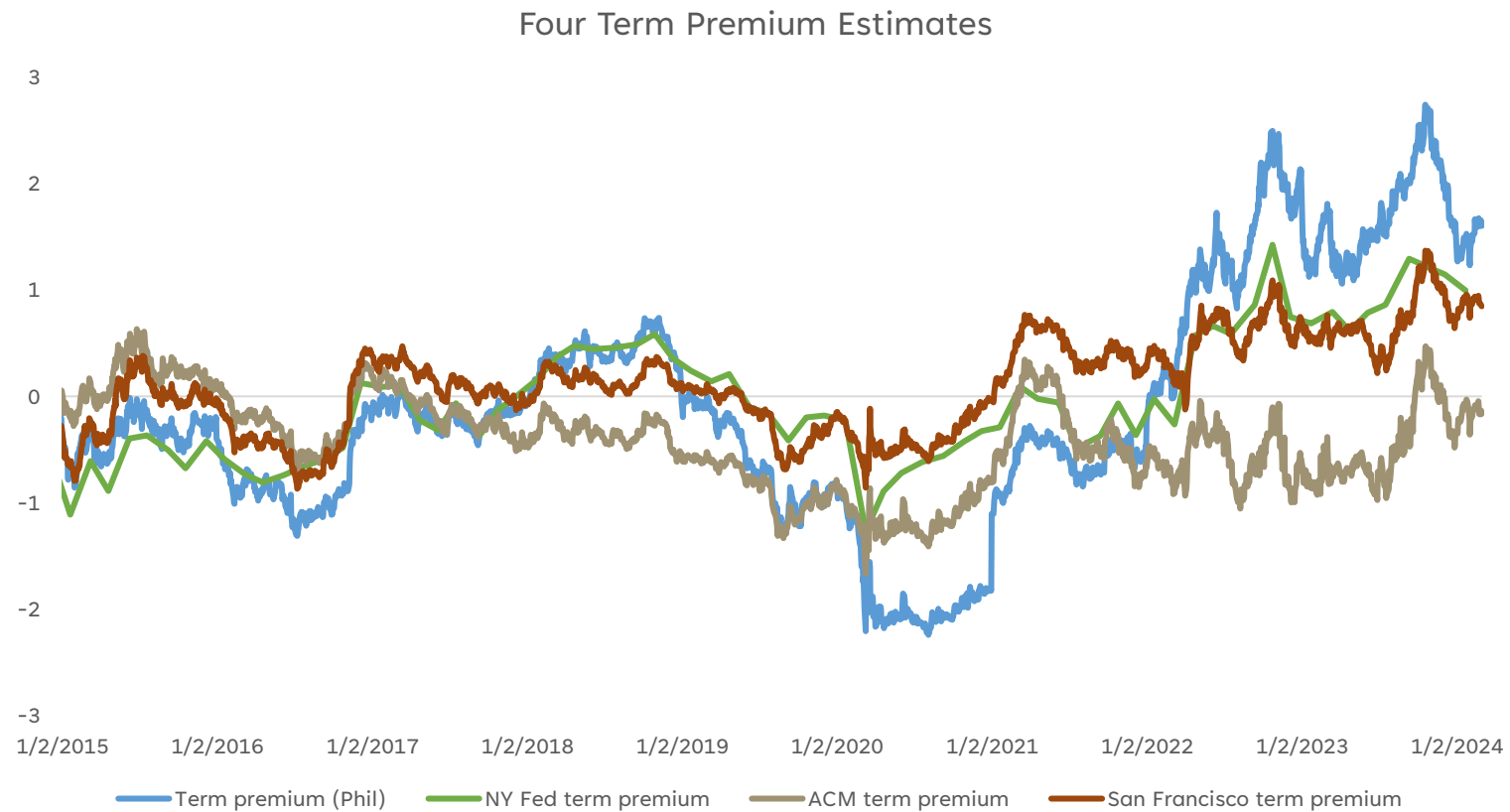


10-YEAR TREASURY YIELD VS LONG RUN NOMINAL NEUTRAL USING LAUBACH AND WILLIAMS R*



Source: "Sovereign Markets Global Factor" presented at Atlanta Fed Amelia Island Conference, May 17 2021

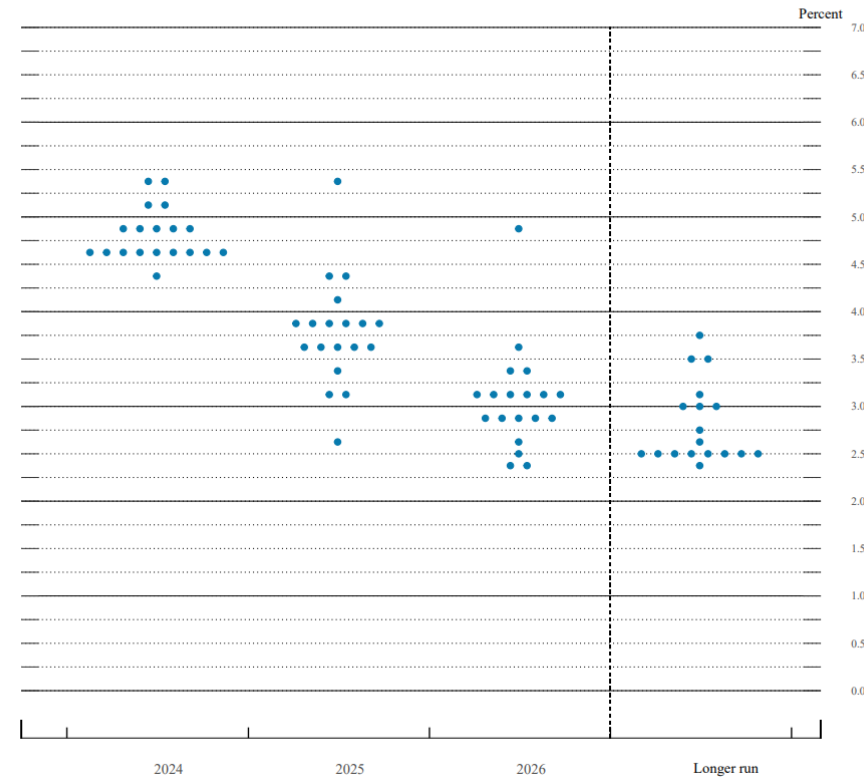
WILL THE TRUE TERM PREMIUM PLEASE STAND UP?



FED RATE PROJECTIONS

3 CUTS IN 24, 3 CUTS IN 25, 3 CUTS IN 26

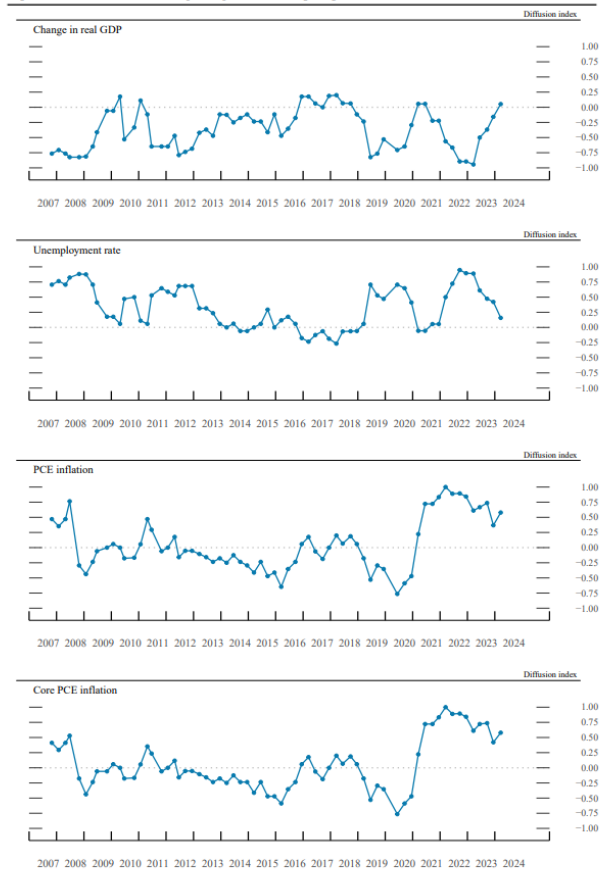
Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



← LR Nominal Neutral 2.6 %

FED SINCE 2020 PROVIDES BALANCE OF RISK INFO *INFLATION RISK ELEVATED BUT MOVING LOWER*

Figure 4.E. Diffusion indexes of participants' risk weightings



NOTE: For each SEP, participants provided responses to the question "Please indicate your judgment of the risk weighting around your projections." Each point in the diffusion indexes represents the number of participants who responded "Weighted to the Upside" minus the number who responded "Weighted to the Downside," divided by the total number of participants. Figure excludes March 2020 when no projections were submitted.

WHAT'S PRICED IN FOR THE FED?
 AFTER DECEMBER FOMC 6 CUTS PRICED IN!
 AFTER MARCH CPI, LESS THAN 2 CUTS PRICED IN!

Region: United States »

Target Rate 5.50
 Effective Rate 5.33

Instrument: Fed Funds Futures »

Pricing Date 04/12/2024 📅
 Cur. Imp. O/N Rate 5.326

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
05/01/2024	-0.057	-5.7%	-0.014	5.312	0.250
06/12/2024	-0.291	-23.4%	-0.073	5.253	0.250
07/31/2024	-0.655	-36.4%	-0.164	5.163	0.250
09/18/2024	-1.128	-47.3%	-0.282	5.044	0.250
11/07/2024	-1.412	-28.4%	-0.353	4.973	0.250
12/18/2024	-1.900	-48.8%	-0.475	4.851	0.250
01/29/2025	-2.235	-33.5%	-0.559	4.767	0.250



THANK YOU