

Perspectives on US Monetary Policy

Richard Clarida

Figure 1

Core Inflation
US UK EZ CA

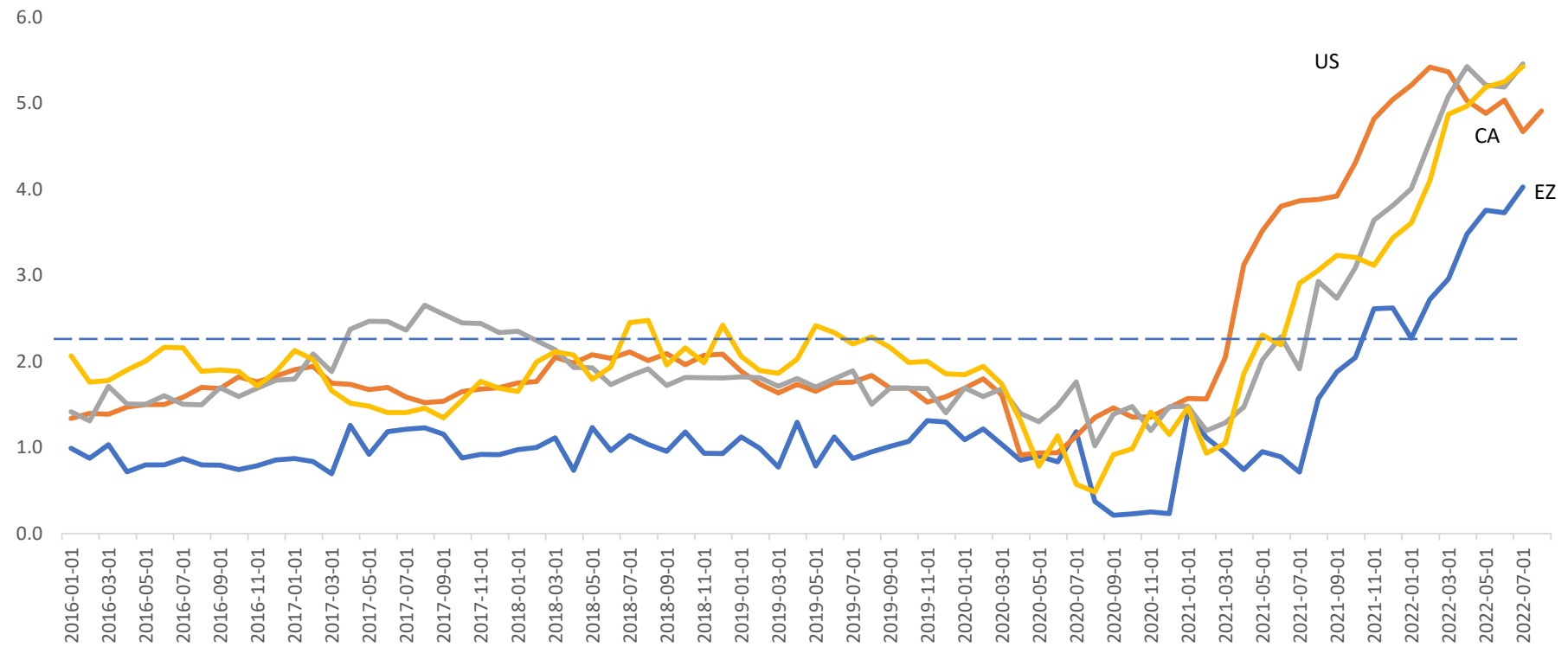


Figure 2

Dallas Fed Trimmed Mean PCE through July 2021

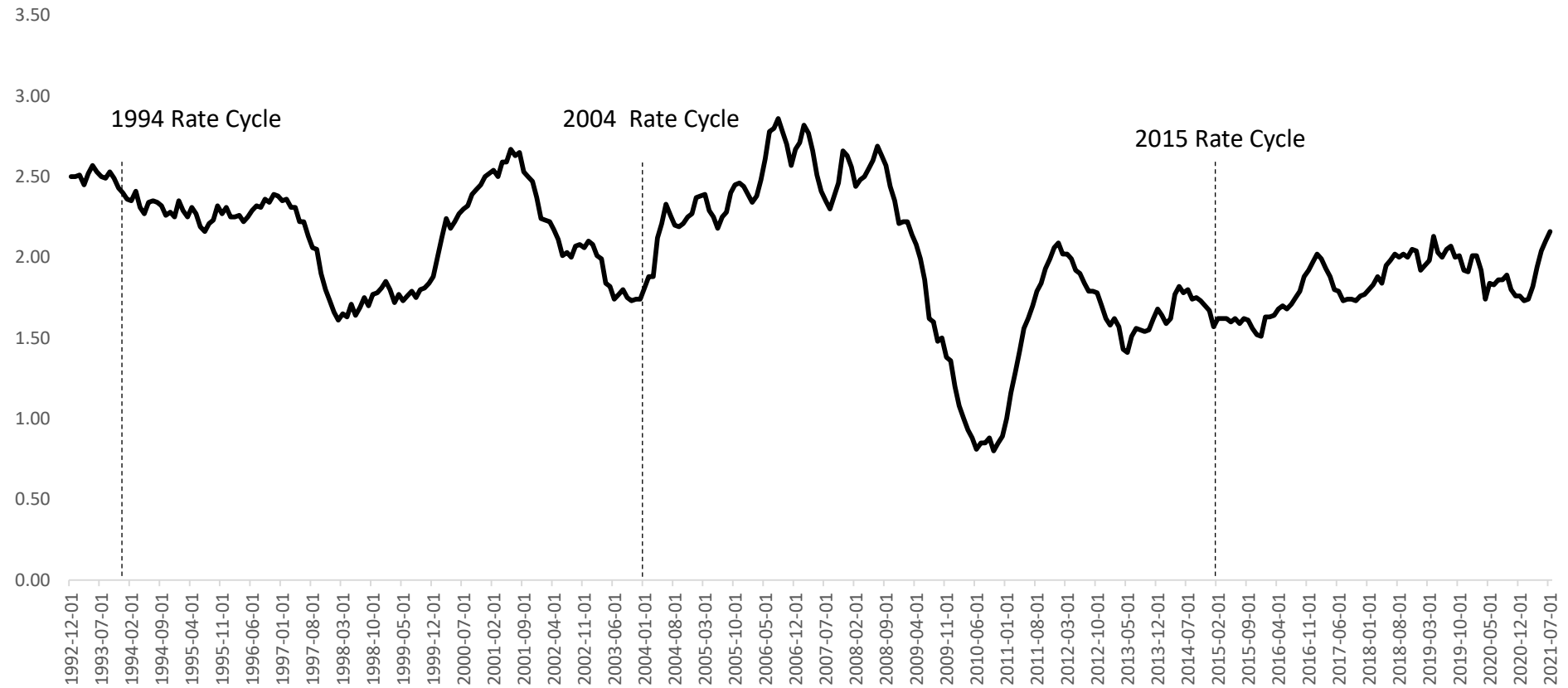


Figure 3

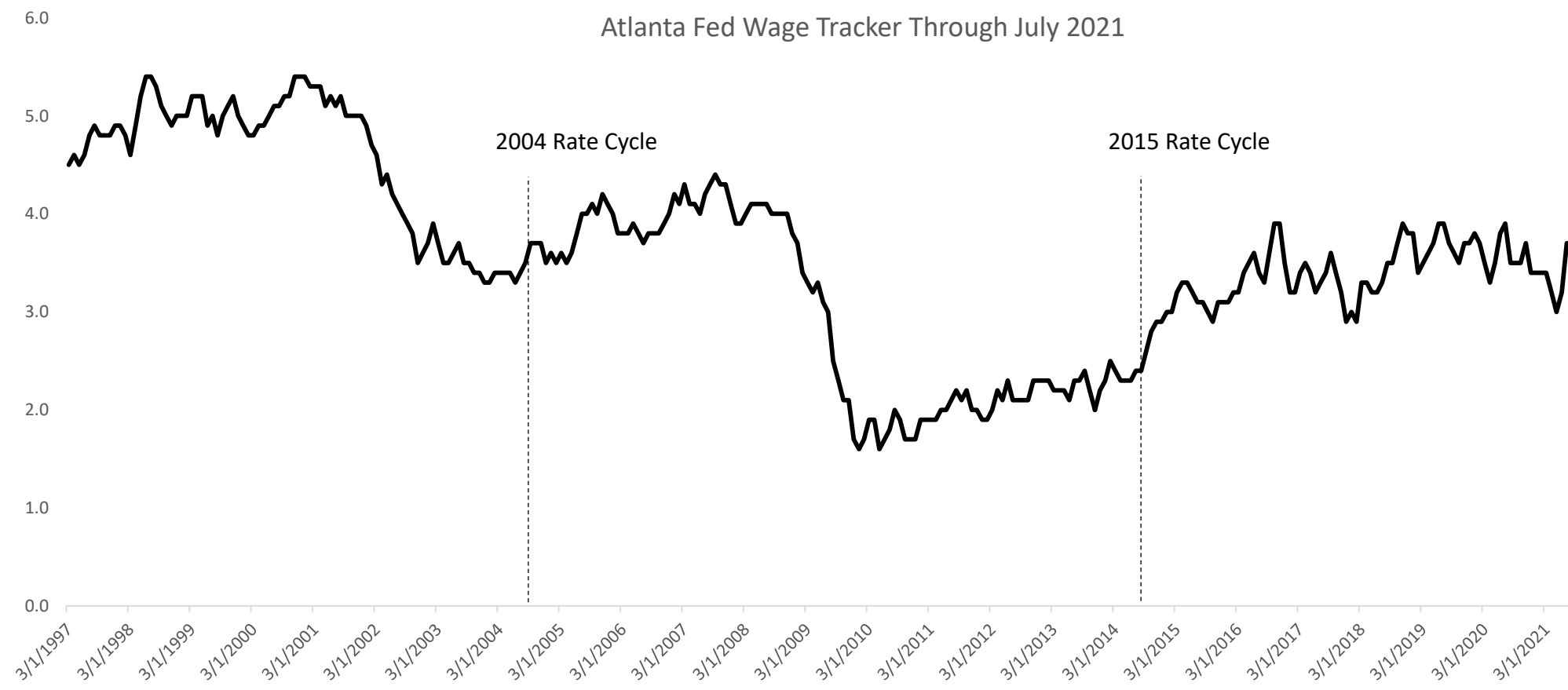


Figure 4

Dallas Fed Trimmed Mean PCE full sample

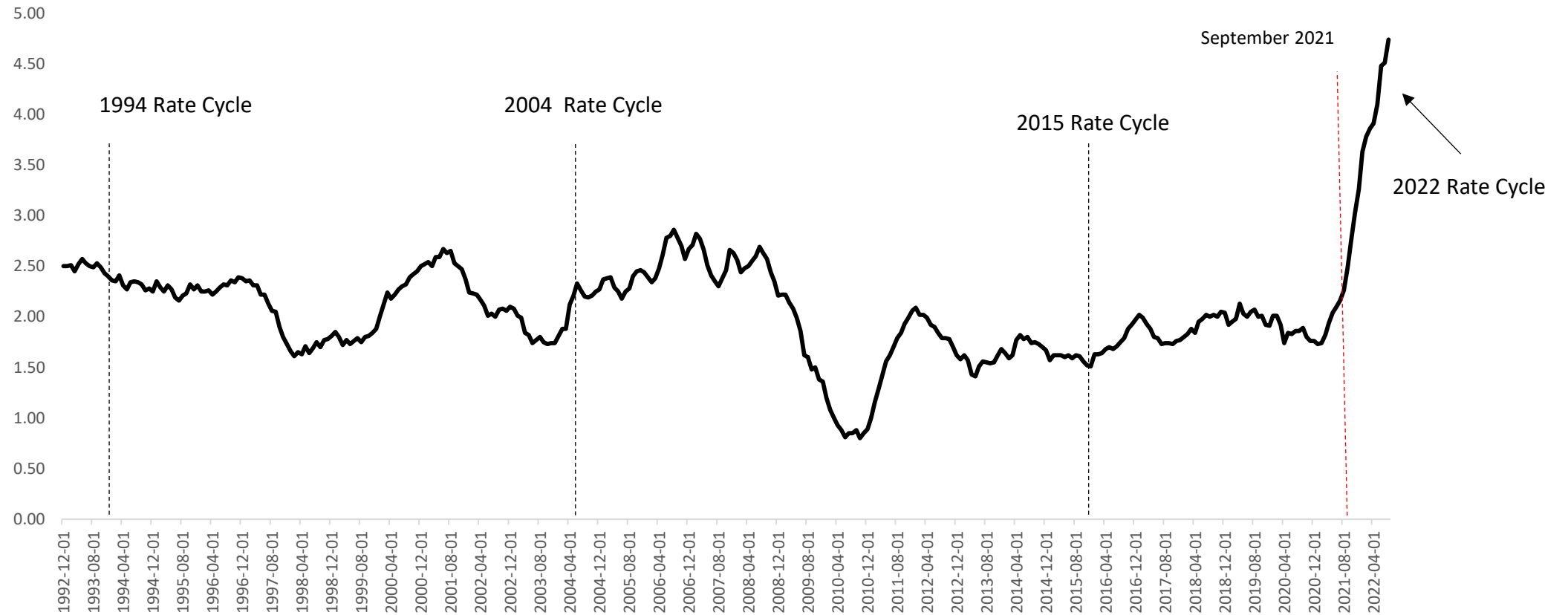


Figure 5

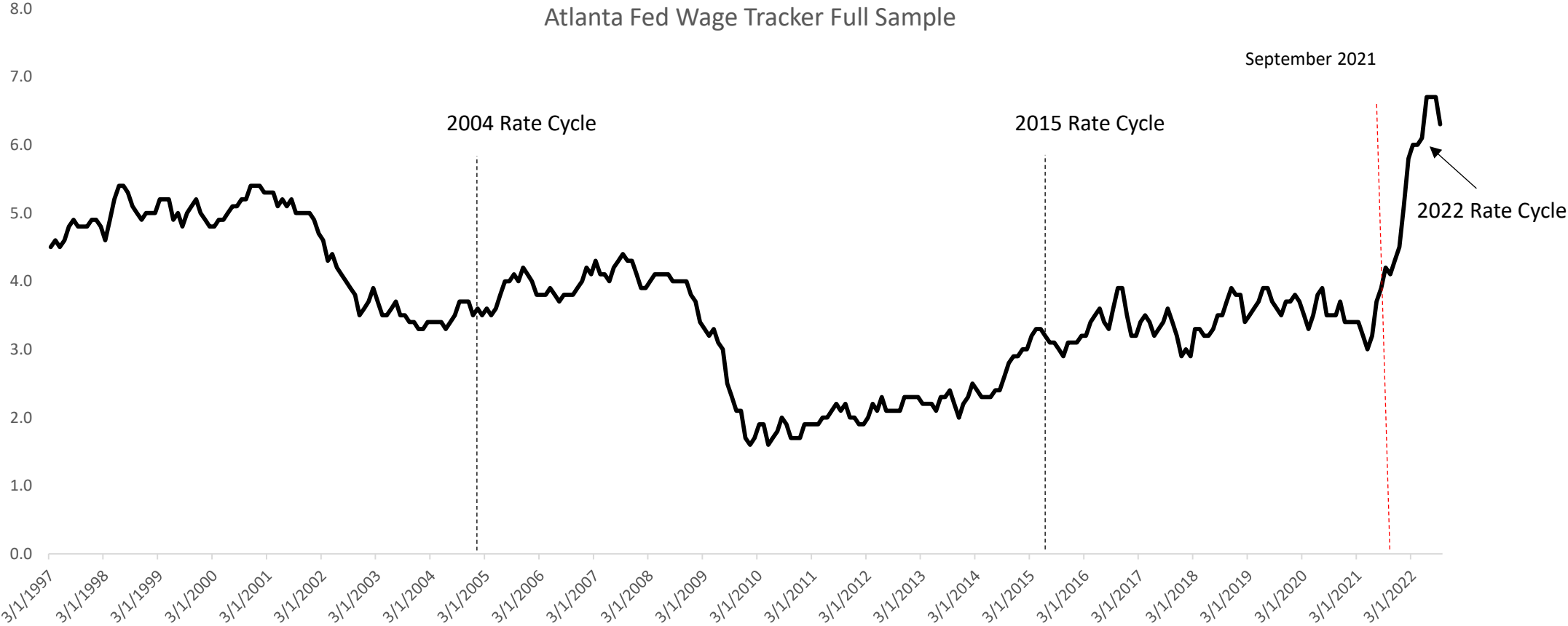


Figure 6

Real GDP vs CBO Potential GDP

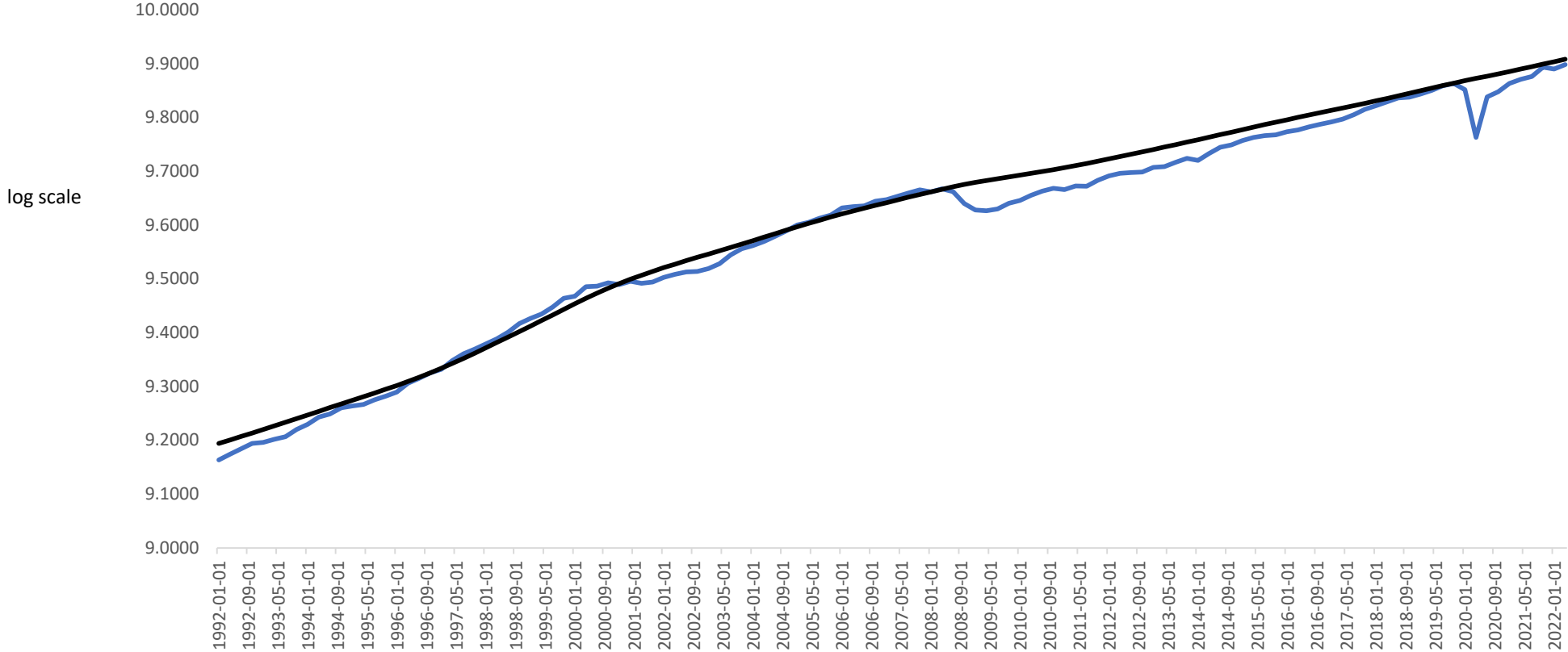


Figure 7

Output Gap
Actual minus CBO Potential

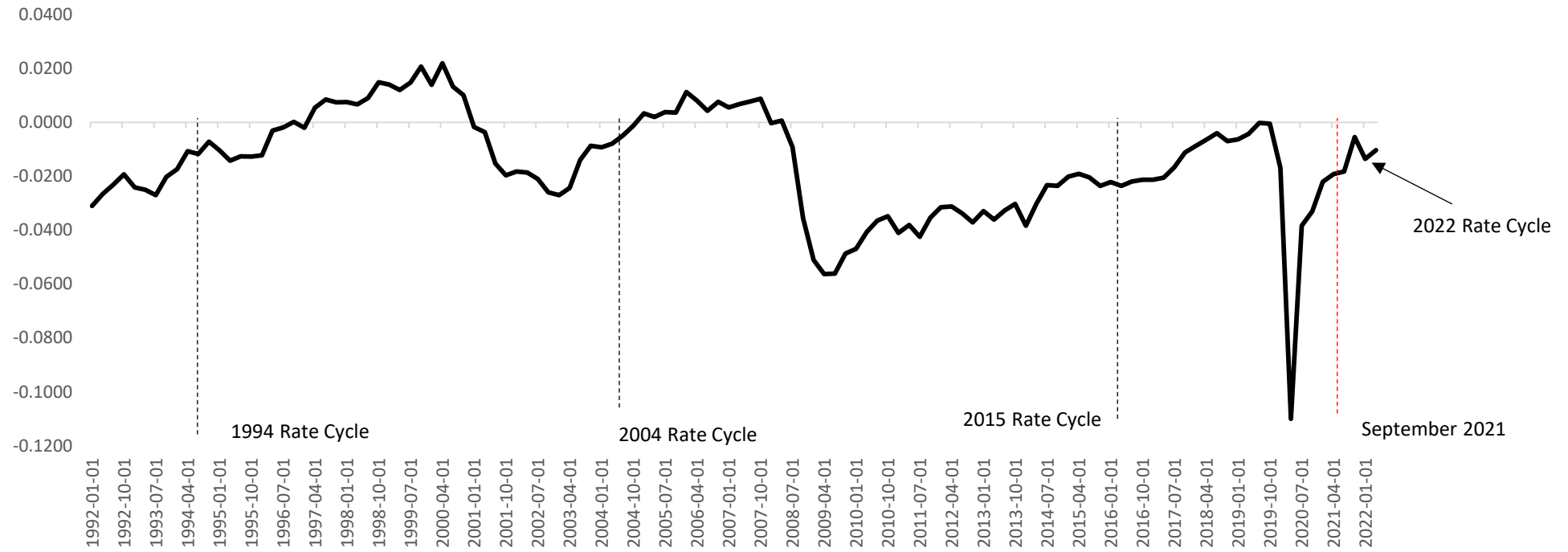


Figure 8

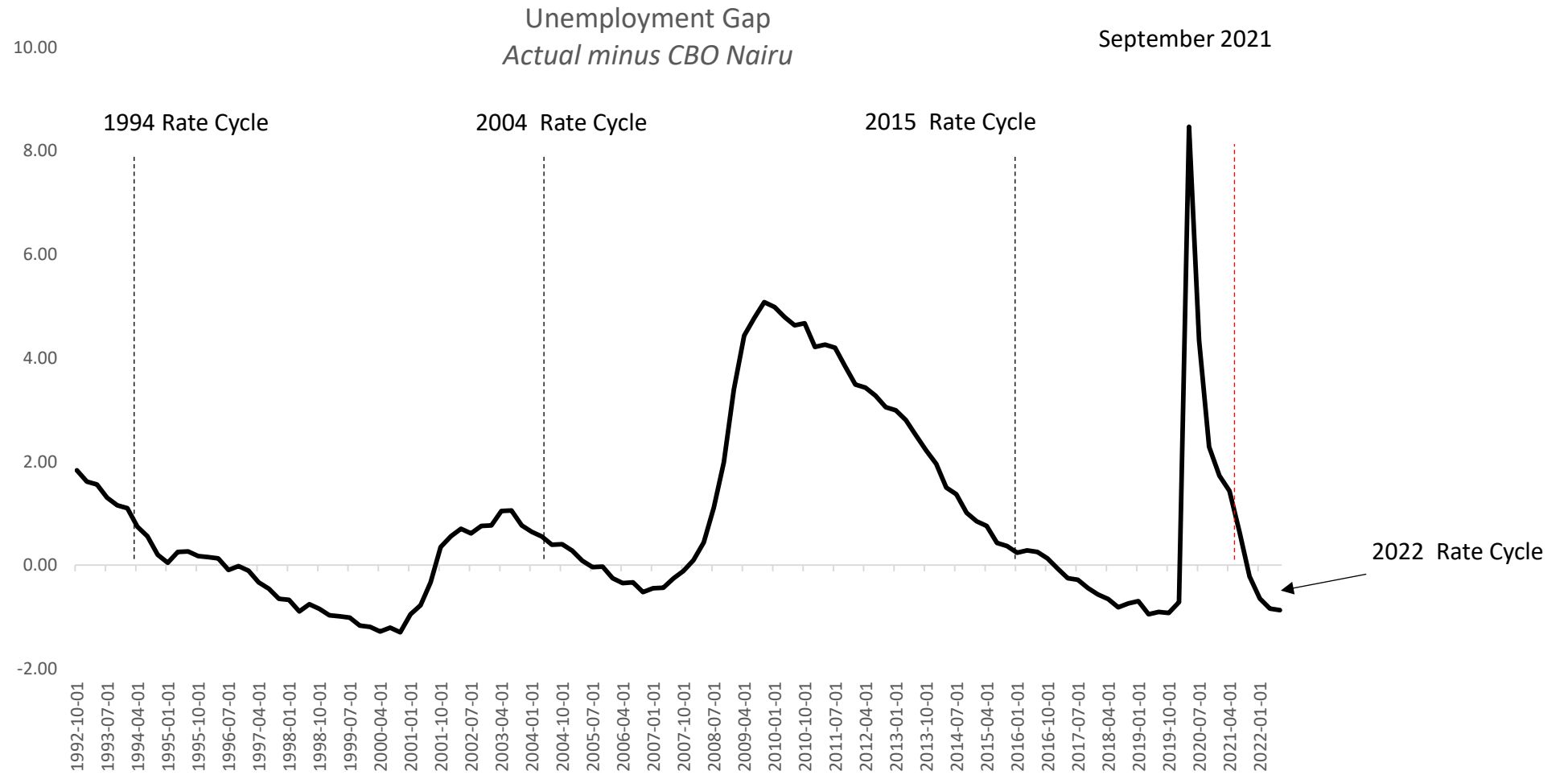
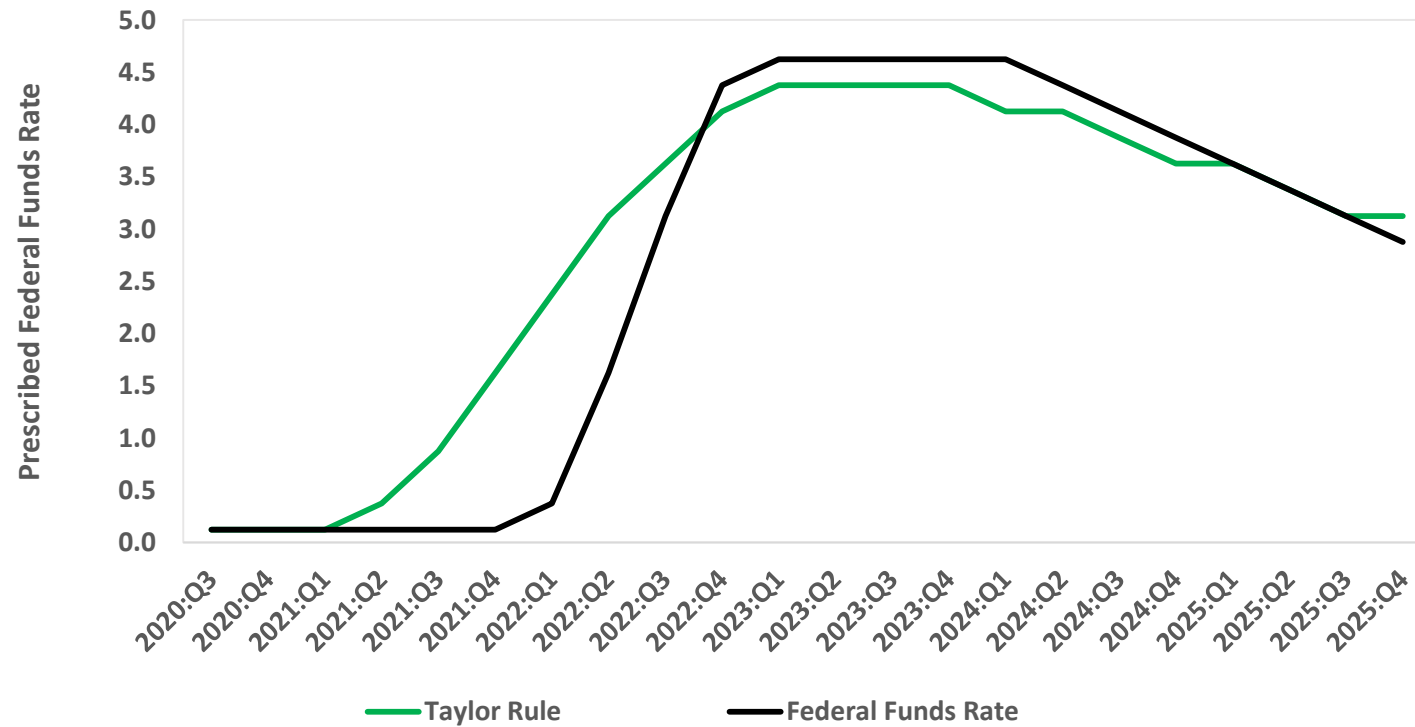


Figure 9

Inertial Taylor-Type Policy Rules Signaled Lift Off in by Q3 2021



Source: Papell and Prodan “Policy Rules and Forward Guidance Following the Covid Recession “ University of Houston Working Paper, November 2, 2022.

Figure 10

Michigan Inflation Survey

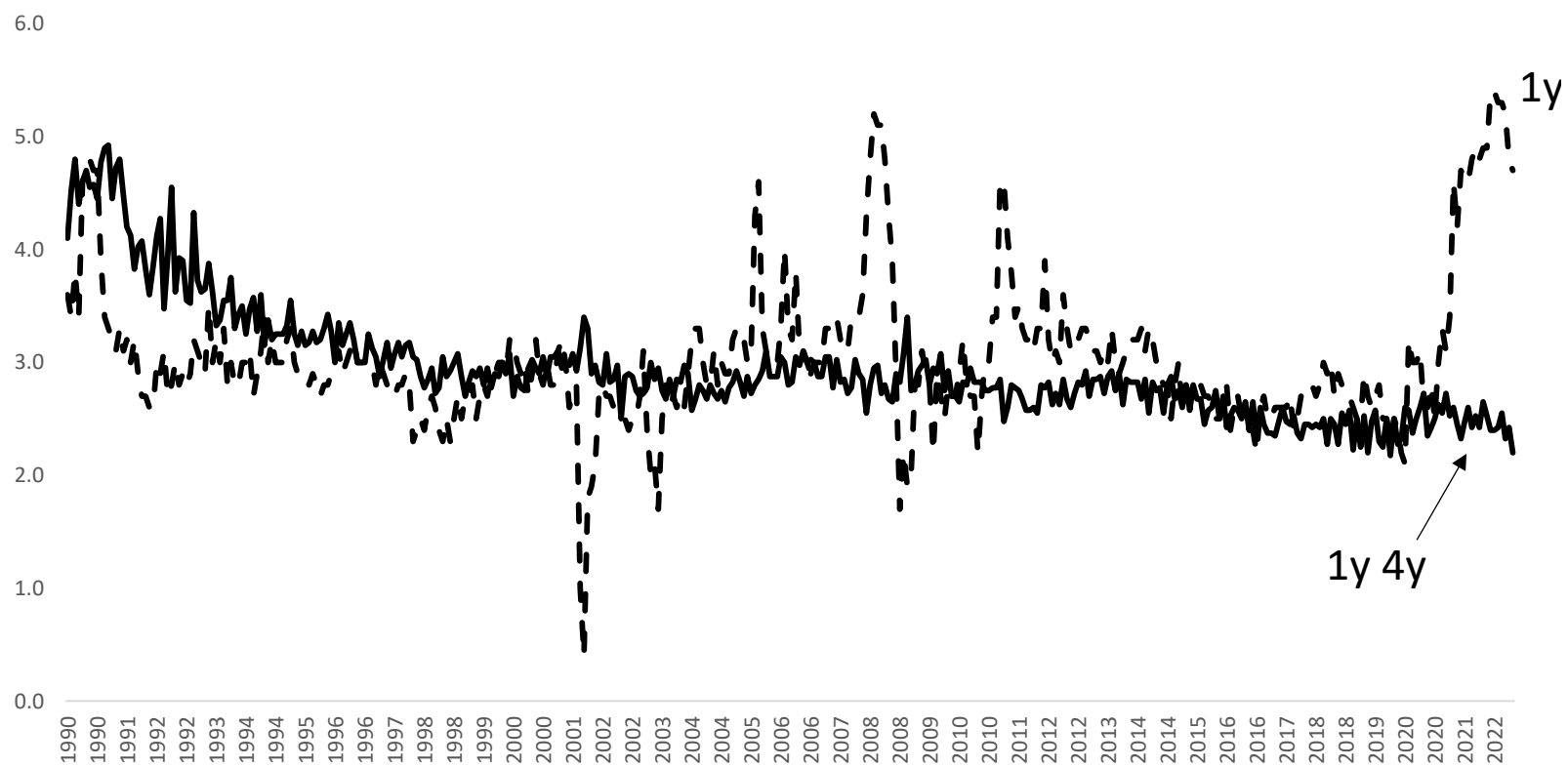
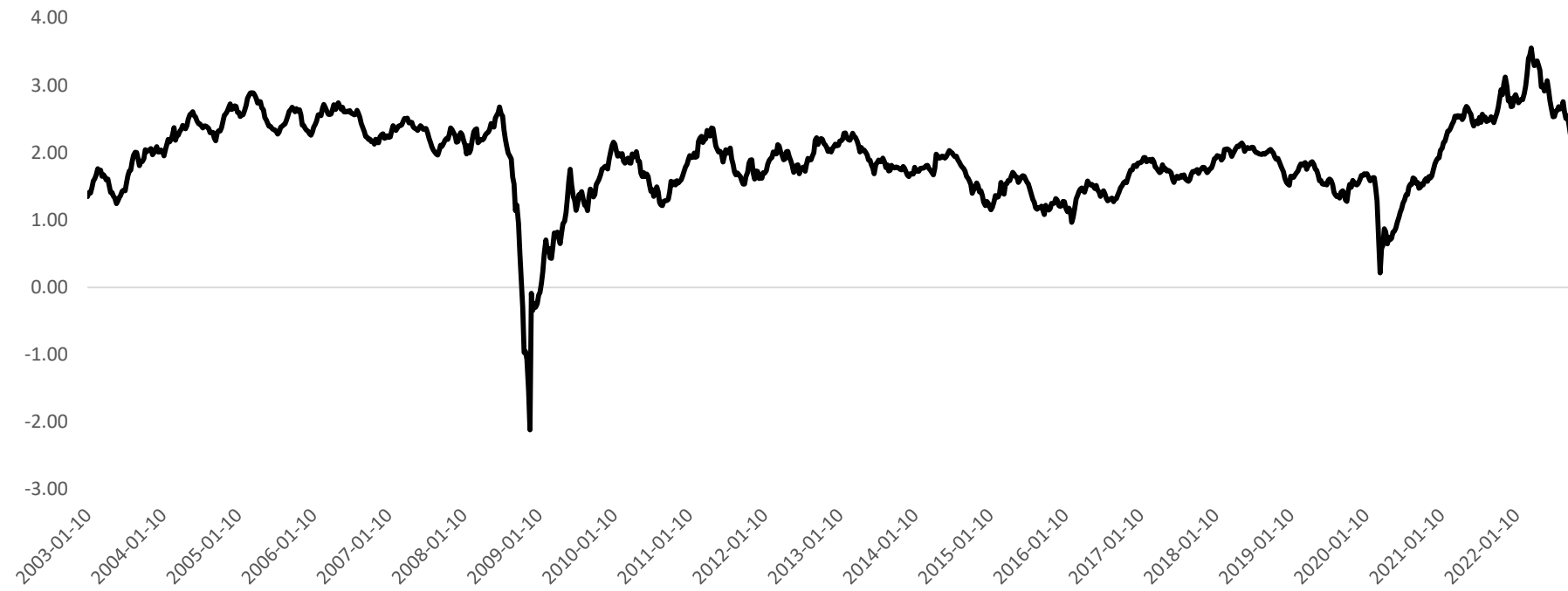
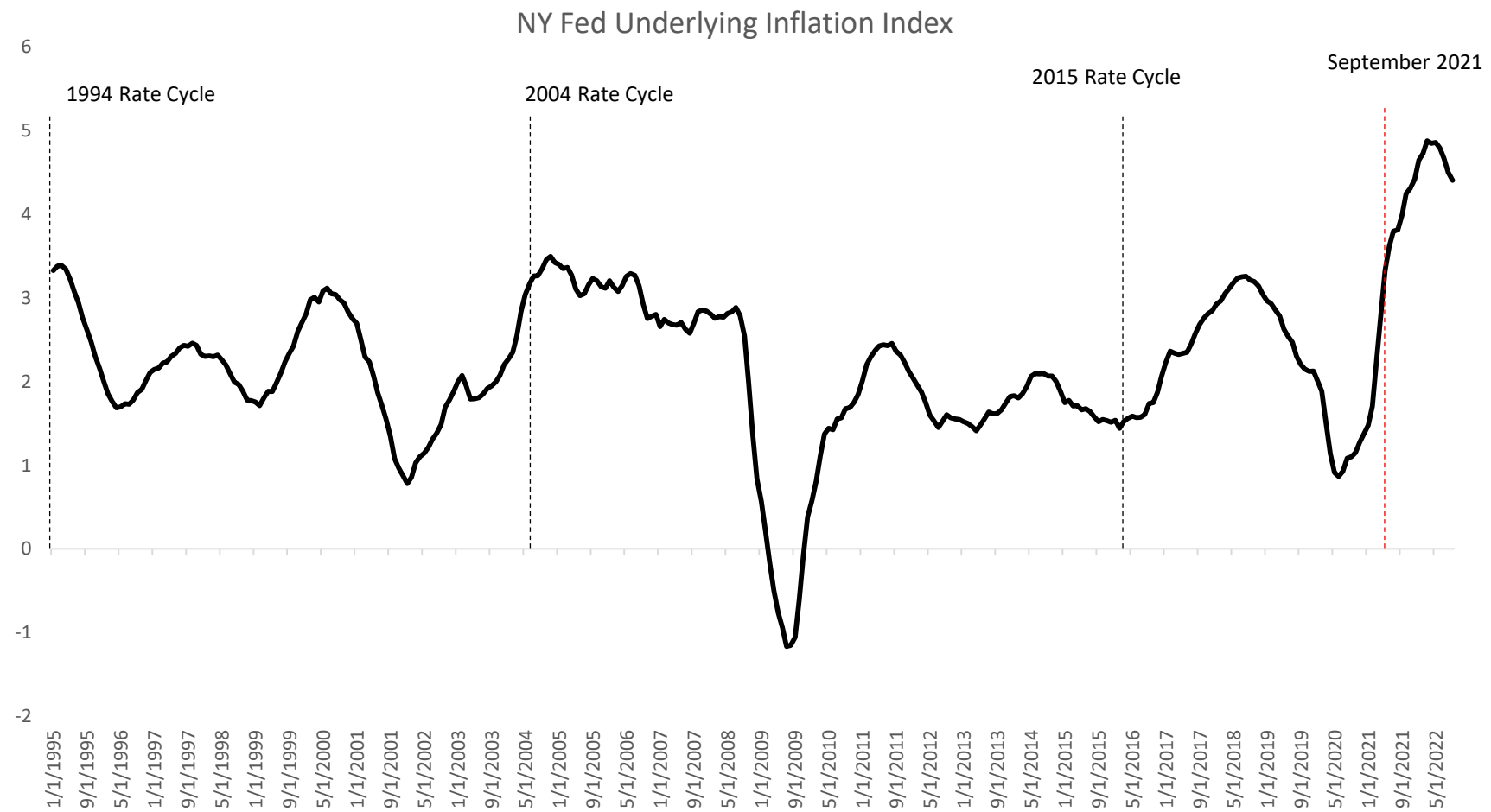


Figure 11

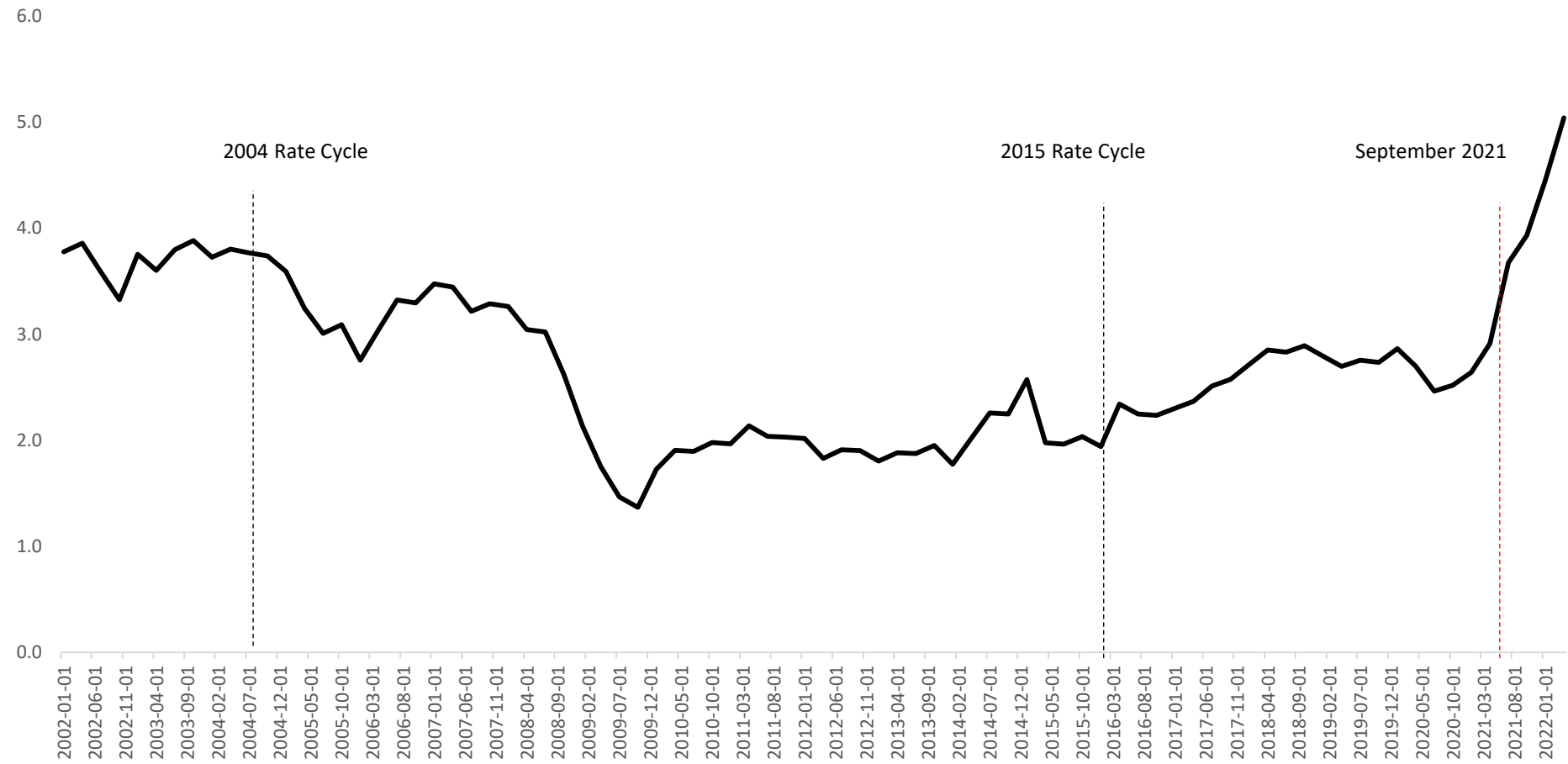
5y Breakeven Inflation

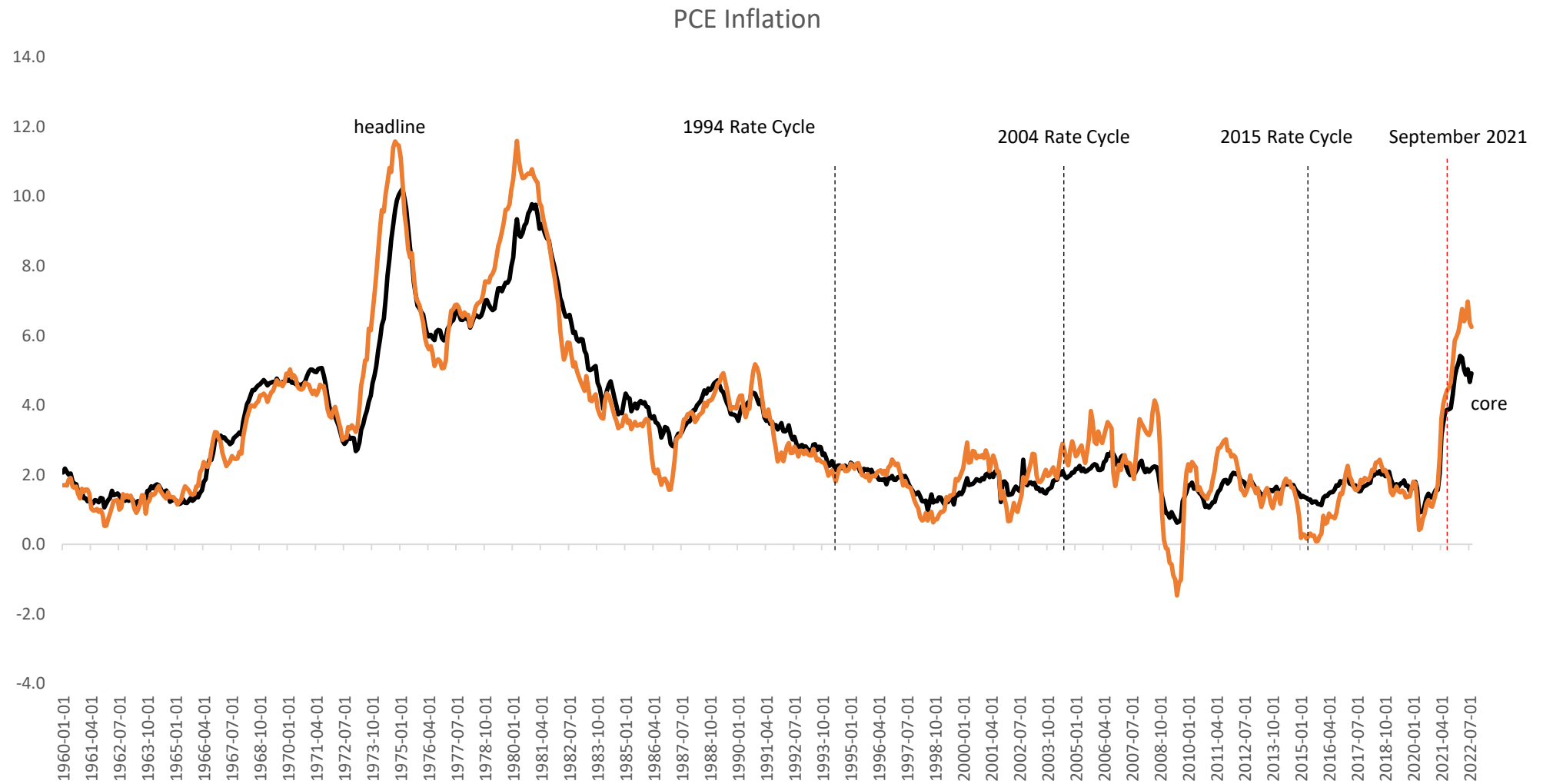


Appendix



Employment Cost Index





CBO's Economic Projections for Calendar Years 2021 to 2031

					Annual Average	
	Actual, 2020	2021	2022	2023	2024– 2025	2026– 2031
Percentage Change From Fourth Quarter to Fourth Quarter						
Gross Domestic Product						
Real ^a	-2.4	7.4	3.1	1.1	1.2	1.6
Nominal	-1.2	10.7	5.3	3.3	3.4	3.7
Inflation						
PCE price index	1.2	2.8	2.0	2.1	2.1	2.1
Core PCE price index ^b	1.4	2.4	2.0	2.2	2.2	2.1
Consumer price index ^c	1.2	3.4	2.3	2.3	2.4	2.4
Core consumer price index ^b	1.6	2.7	2.4	2.5	2.5	2.4
GDP price index	1.3	3.0	2.1	2.2	2.1	2.1
Employment Cost Index ^d	2.8	3.7	3.3	3.6	3.4	3.1
Fourth-Quarter Level (Percent)						
Unemployment Rate	6.8	4.6	3.6	3.8	4.2 ^e	4.5 ^f
Percentage Change From Year to Year						
Gross Domestic Product						
Real ^a	-3.5	6.7	5.0	1.5	1.2	1.6
Nominal	-2.3	9.7	7.2	3.8	3.4	3.7
Inflation						
PCE price index	1.2	2.6	2.1	2.1	2.1	2.1
Core PCE price index ^b	1.4	2.2	2.0	2.2	2.2	2.1
Consumer price index ^c	1.2	3.3	2.5	2.3	2.4	2.4
Core consumer price index ^b	1.7	2.5	2.5	2.5	2.5	2.4
GDP price index	1.2	2.9	2.1	2.2	2.2	2.1
Employment Cost Index ^d	2.9	3.5	3.2	3.5	3.5	3.1
Annual Average						
Unemployment Rate (Percent)	8.1	5.5	3.8	3.7	4.1	4.4
Payroll Employment (Monthly change, in thousands) ^g	-760	587	417	70	4	42
Interest Rates (Percent)						
3-month Treasury bills	0.4	*	0.1	0.2	0.7	1.9
10-year Treasury notes	0.9	1.6	1.9	2.0	2.4	3.2
Tax Bases (Percentage of GDP)						
Wages and salaries	44.6	43.7	43.3	43.4	43.6	43.7
Domestic corporate profits ^h	8.1	9.9	9.8	9.1	8.6	7.8

Data sources: Congressional Budget Office; Bureau of Economic Analysis; Bureau of Labor Statistics; Federal Reserve. See www.cbo.gov/publication/57218#data.

GDP = gross domestic product; PCE = personal consumption expenditures; * = between zero and 0.05 percentage points.

a. Real values are nominal values that have been adjusted to remove the effects of changes in prices.

b. Excludes prices for food and energy.

c. The consumer price index for all urban consumers.

d. The employment cost index for wages and salaries of workers in private industries.

e. Value for the fourth quarter of 2025.

f. Value for the fourth quarter of 2031.

g. The average monthly change, calculated by dividing by 12 the change in payroll employment from the fourth quarter of one calendar year to the fourth quarter of the next.

h. Adjusted to remove distortions in depreciation allowances caused by tax rules and to exclude the effect of inflation on the value of inventories.