

Disinflation...and Whose Inflation?

Anderton Economic Policy Symposium

November 12, 2024

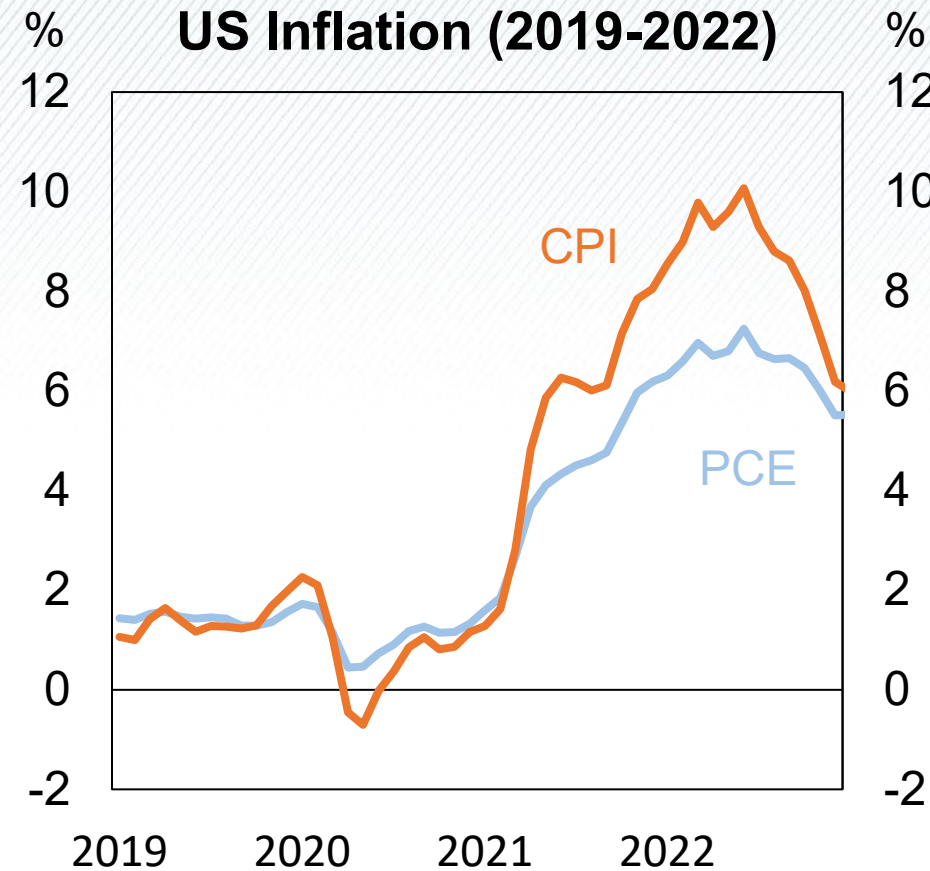
Kartik Athreya, Federal Reserve Bank of New York

The views here are of the presenter and do not necessarily represent those of the Federal Reserve Bank of New York or Federal Reserve System.

Disinflation

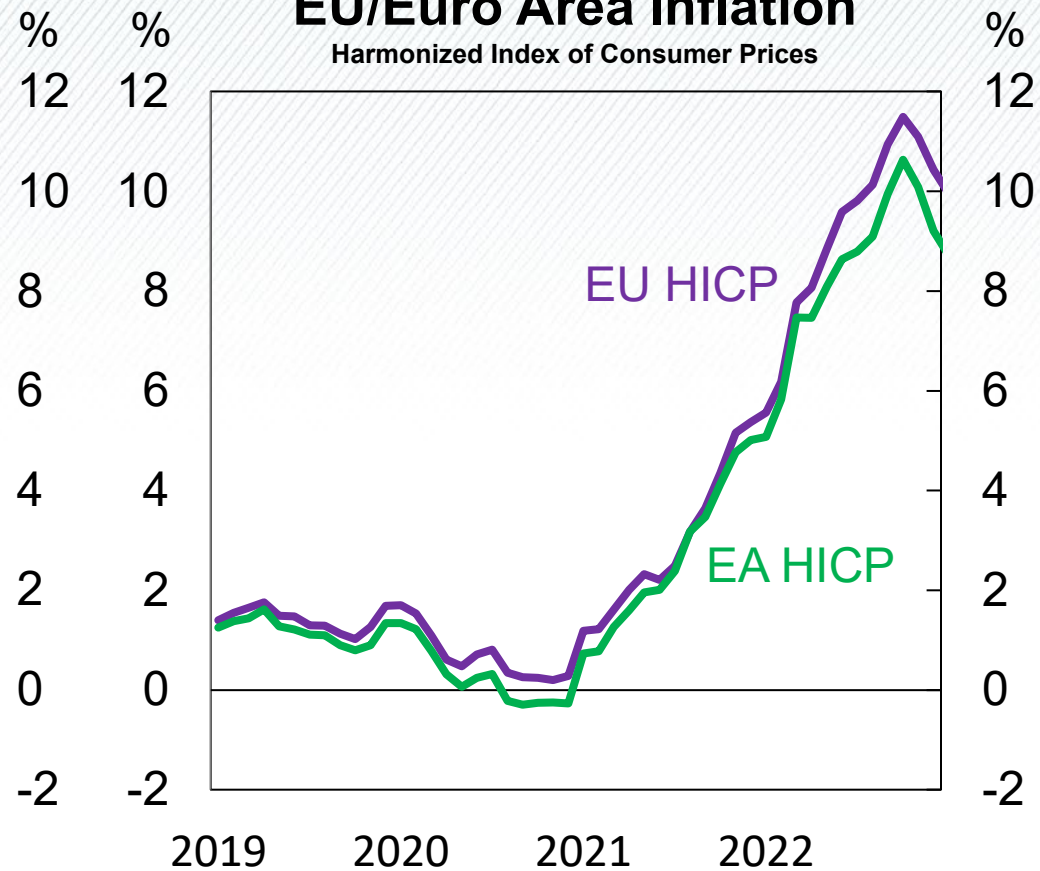
Two Years Ago: A Pandemic-Induced Burst of Inflation Was Upon Us

US Inflation (2019-2022)



EU/Euro Area Inflation

Harmonized Index of Consumer Prices

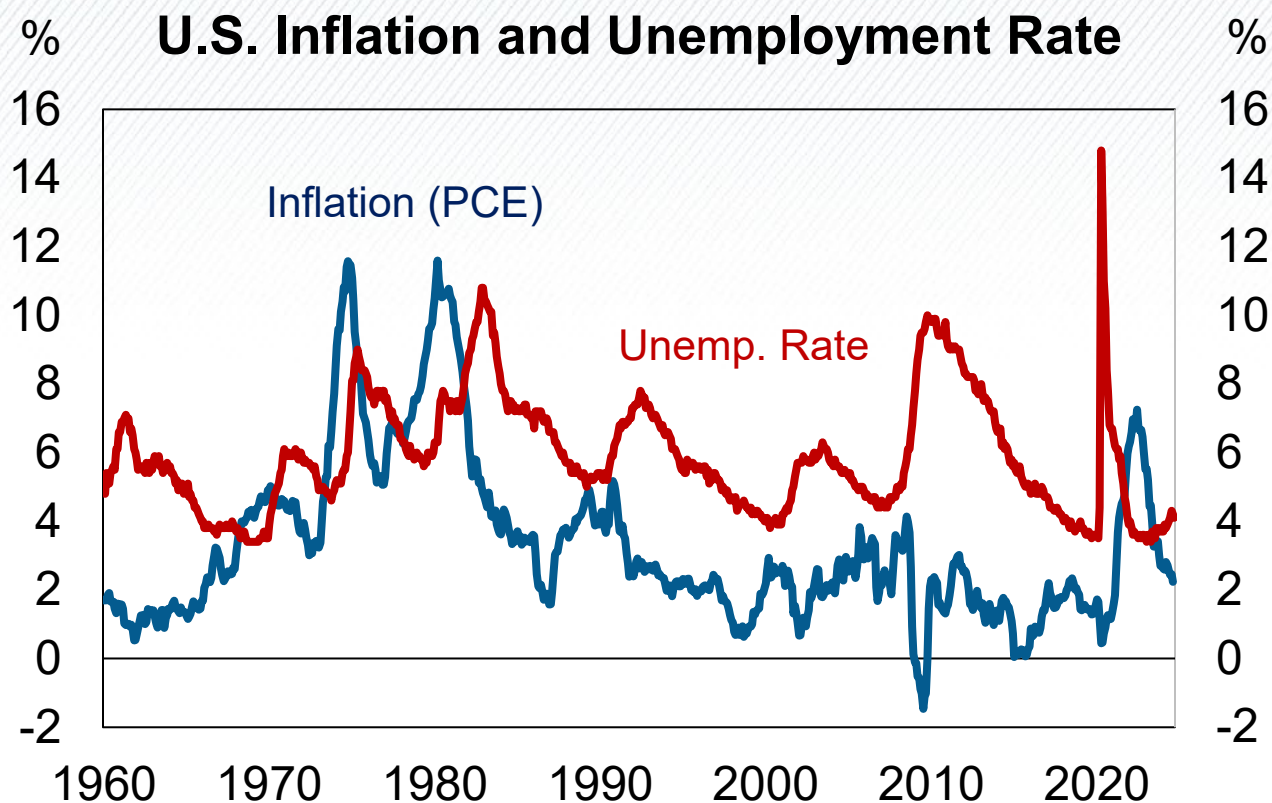


Sources: Haver Analytics, Bureau of Labor Statistics, European Central Bank, Statistical Office of the European Communities

The Challenge: Could Disinflation be Done Without a Recession?

Why was this seen as a challenge?

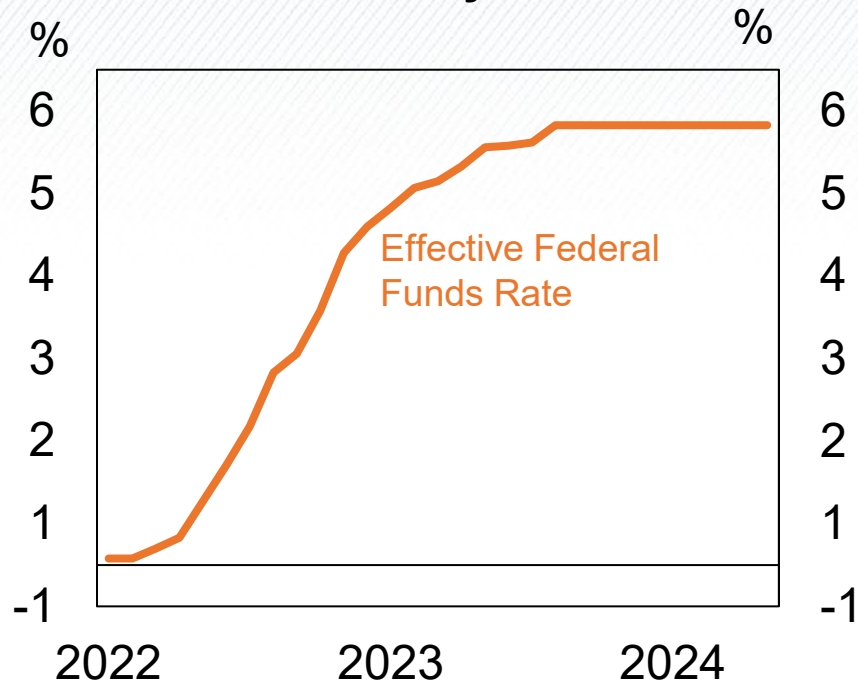
- Conquests of inflation, or at least, disinflation have at times been very costly.
- Early 1980s US: Inflation lowered, but deepest recession in postwar (unemployment slightly *higher* than in the Great Recession!)



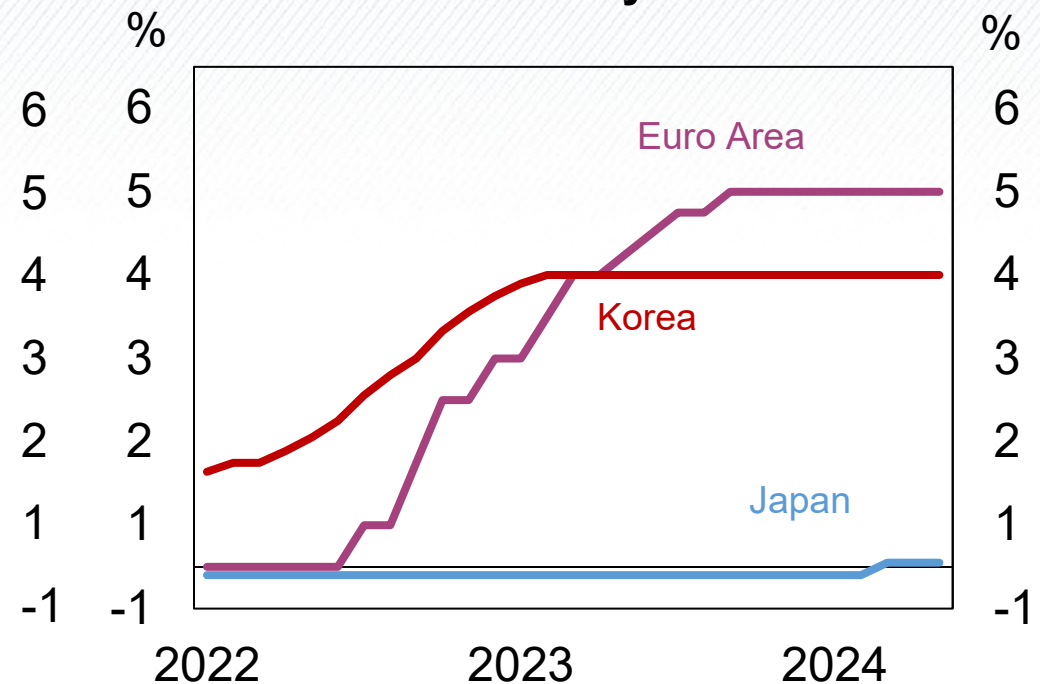
Sources: Haver Analytics, Bureau of Labor Statistics

Challenge...Accepted

US Policy Rate



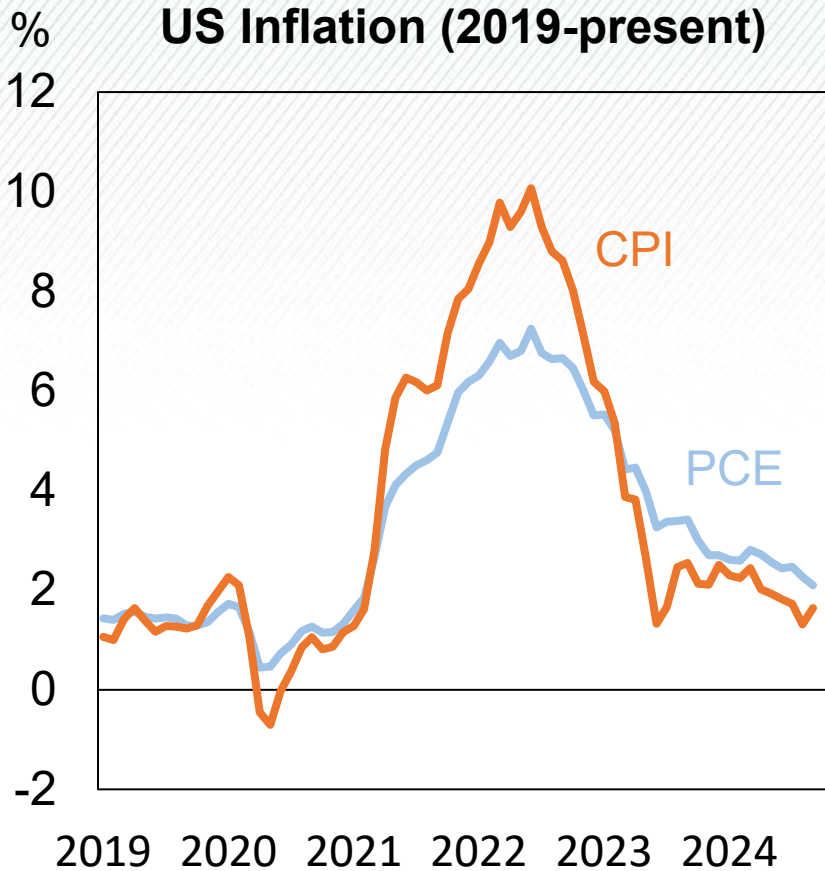
Euro Area and (a Couple of) Asian Policy Rates



Sources: Haver Analytics, Federal Reserve Board, European Central Bank, Bank of Japan, Bank of Korea

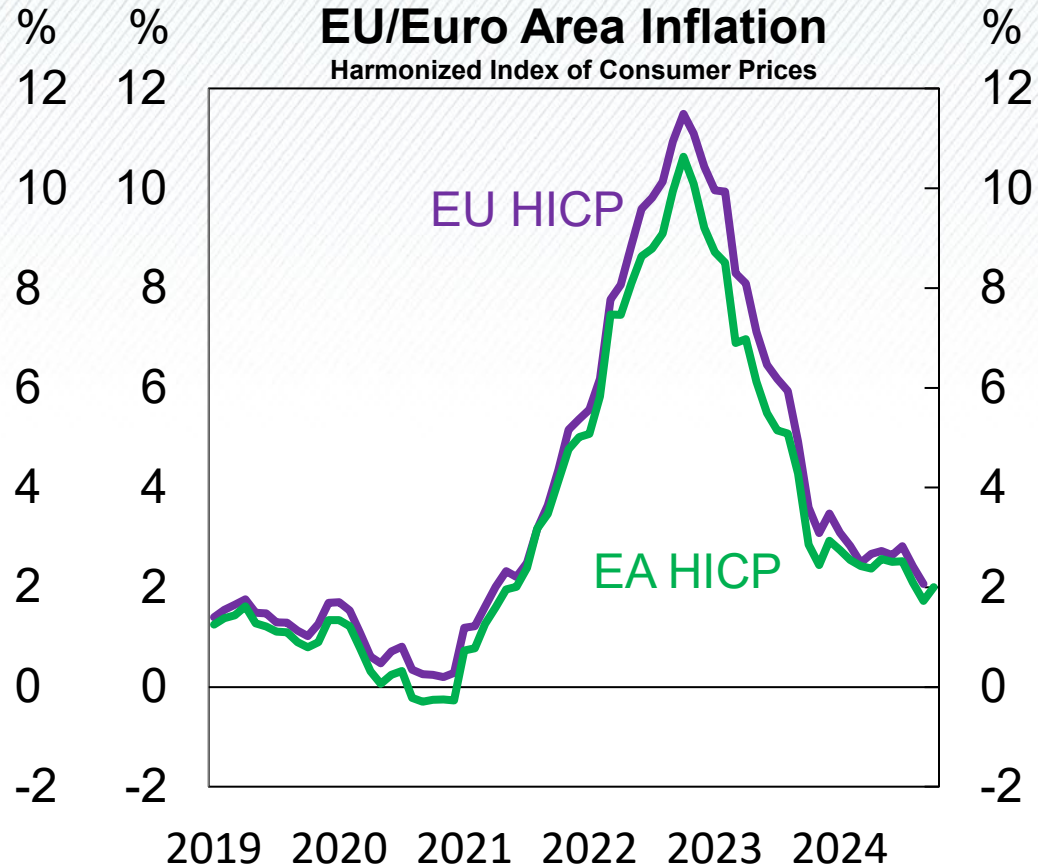
So Far: Challenge...Met

US Inflation (2019-present)



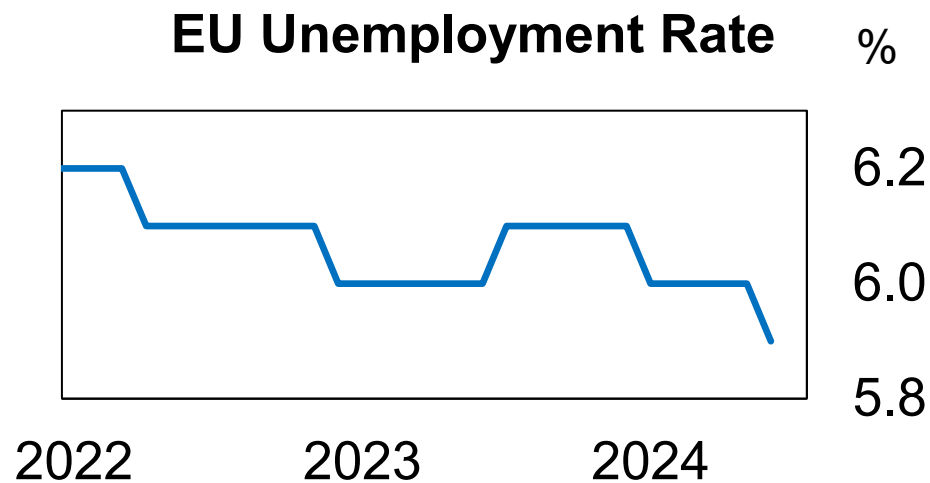
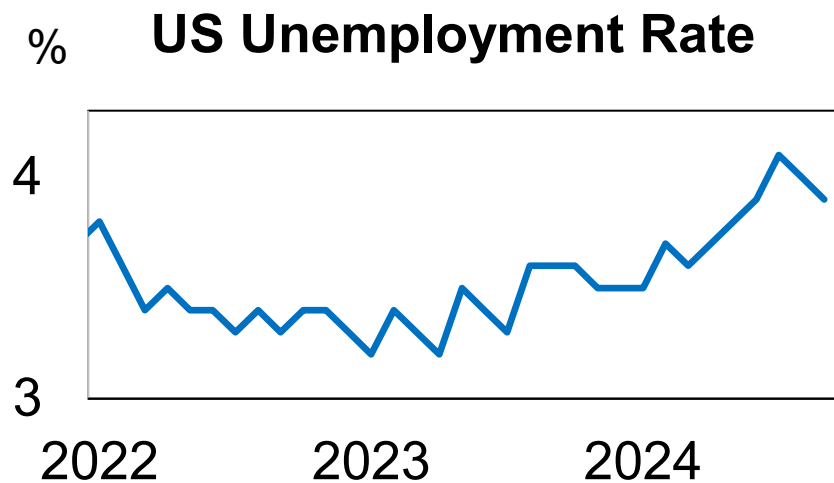
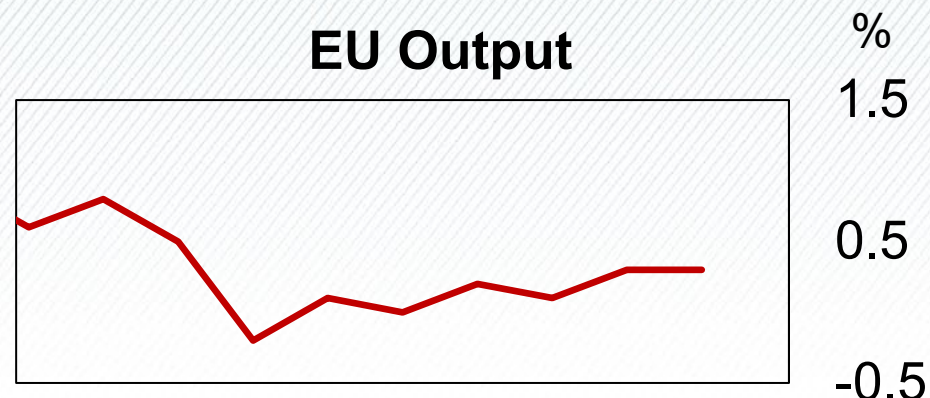
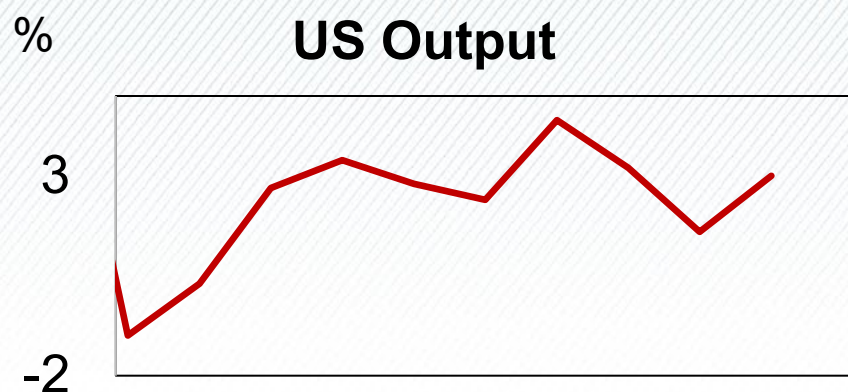
EU/Euro Area Inflation

Harmonized Index of Consumer Prices



Sources: Haver Analytics, Bureau of Labor Statistics, European Central Bank, Statistical Office of the European Communities
Note: Countries in the EU but not the EA are Bulgaria, the Czech Republic, Denmark, Hungary, Poland, Romania, and Sweden

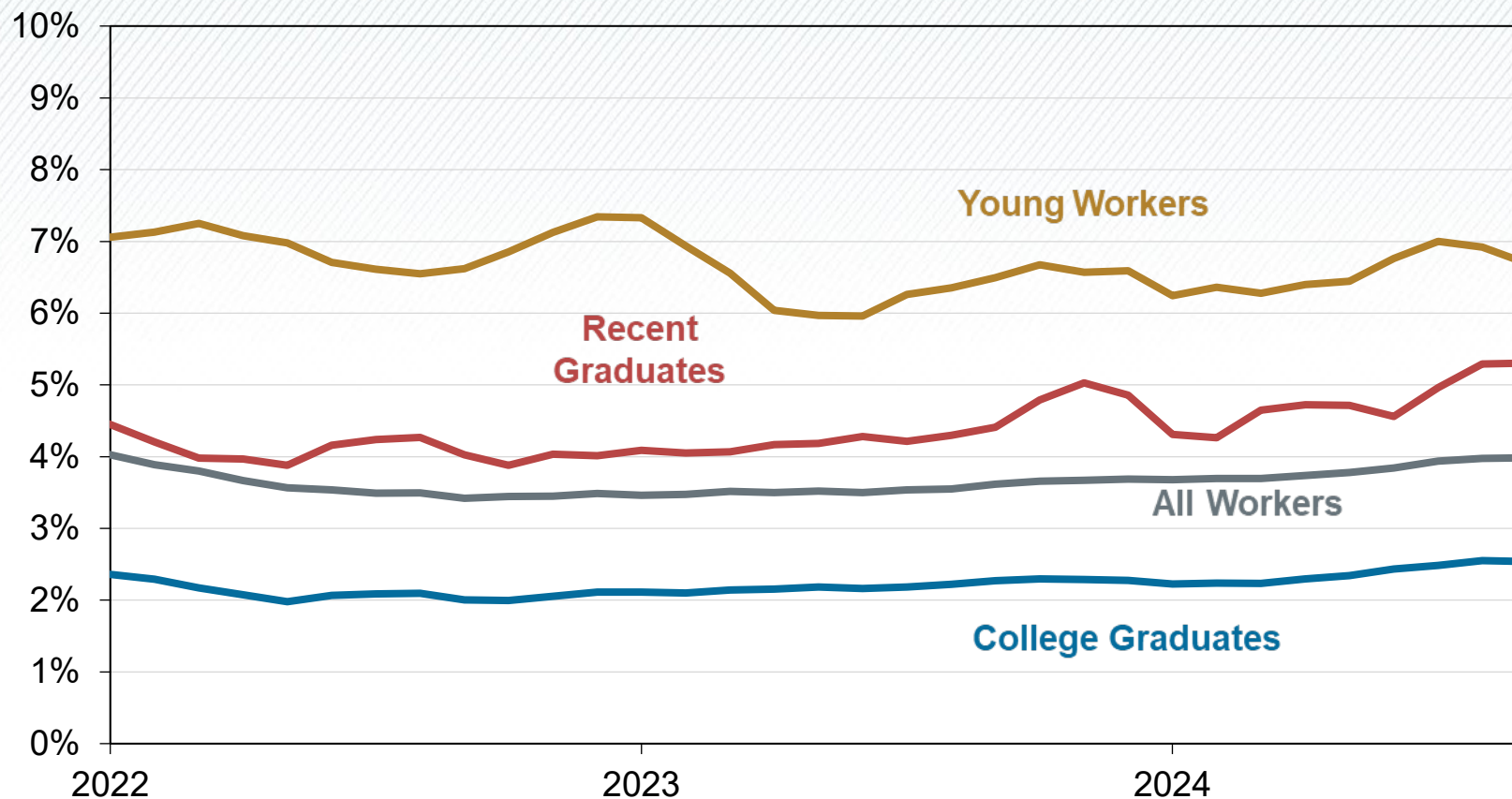
And So Far, A Smooth—Not Traumatic—Disinflation...



Sources: Haver Analytics, Bureau of Labor Statistics, Census Bureau, Statistical Office of the European Communities

Note: Output data are seasonally adjusted real GDP Q/Q %change

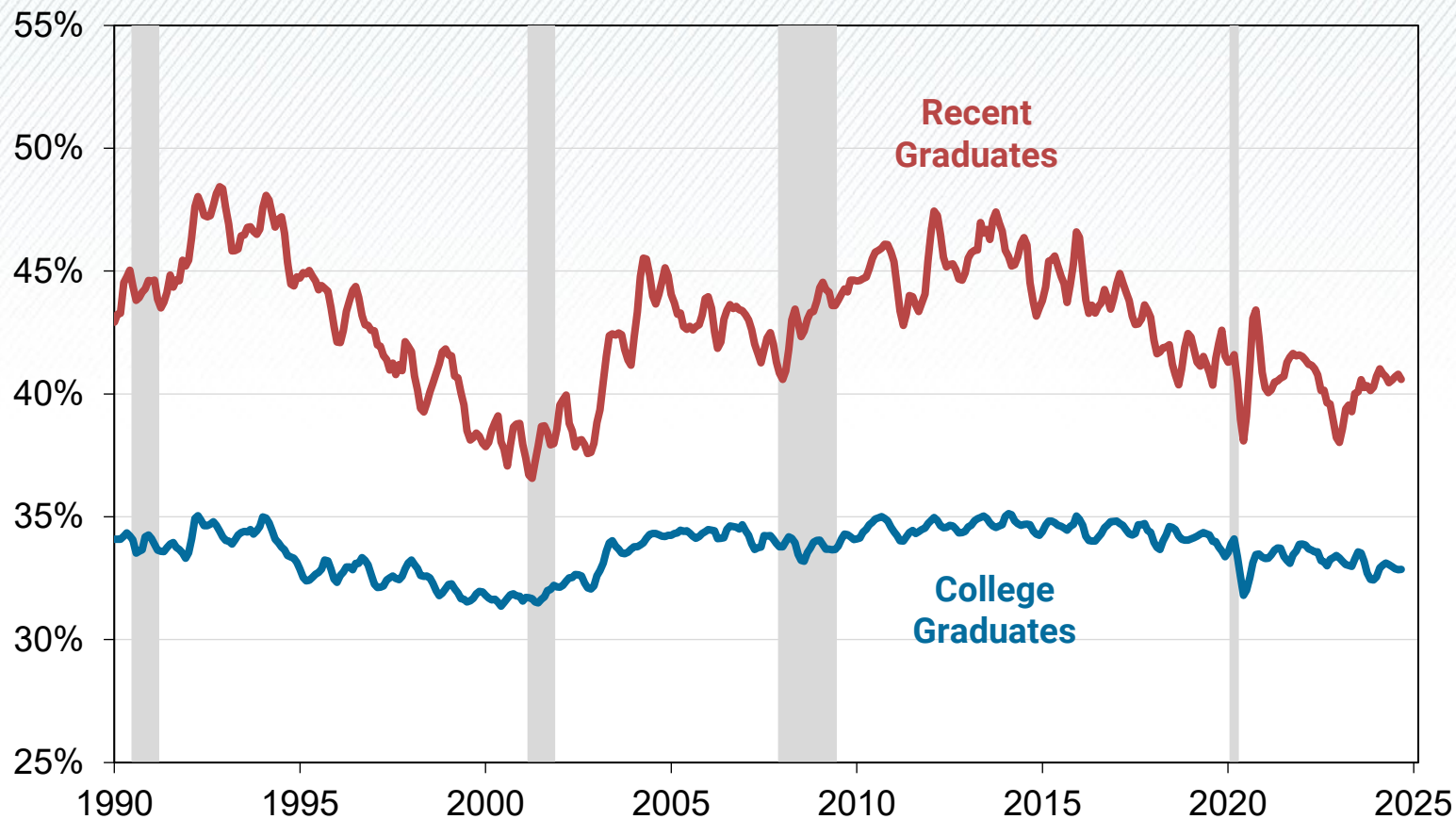
Unemployment Rate Did Not Spike



Sources: BLS Consumer Expenditure Survey microdata

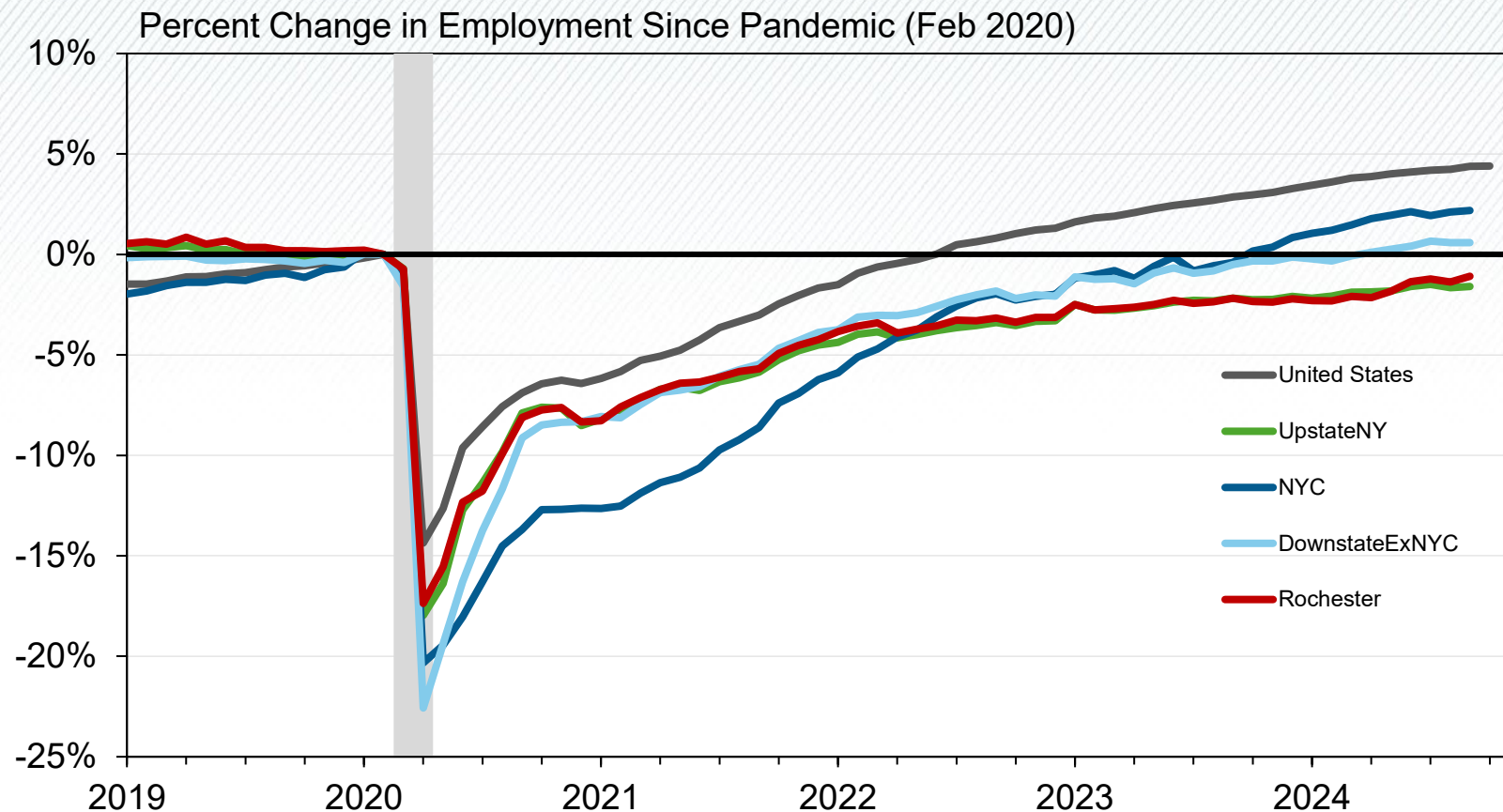
Note: Expenditure shares use 2021 CEX microdata

Underemployment in Line with Past Trends



Sources: Federal Reserve Bank of New York, *The Labor Market for Recent College Graduates*

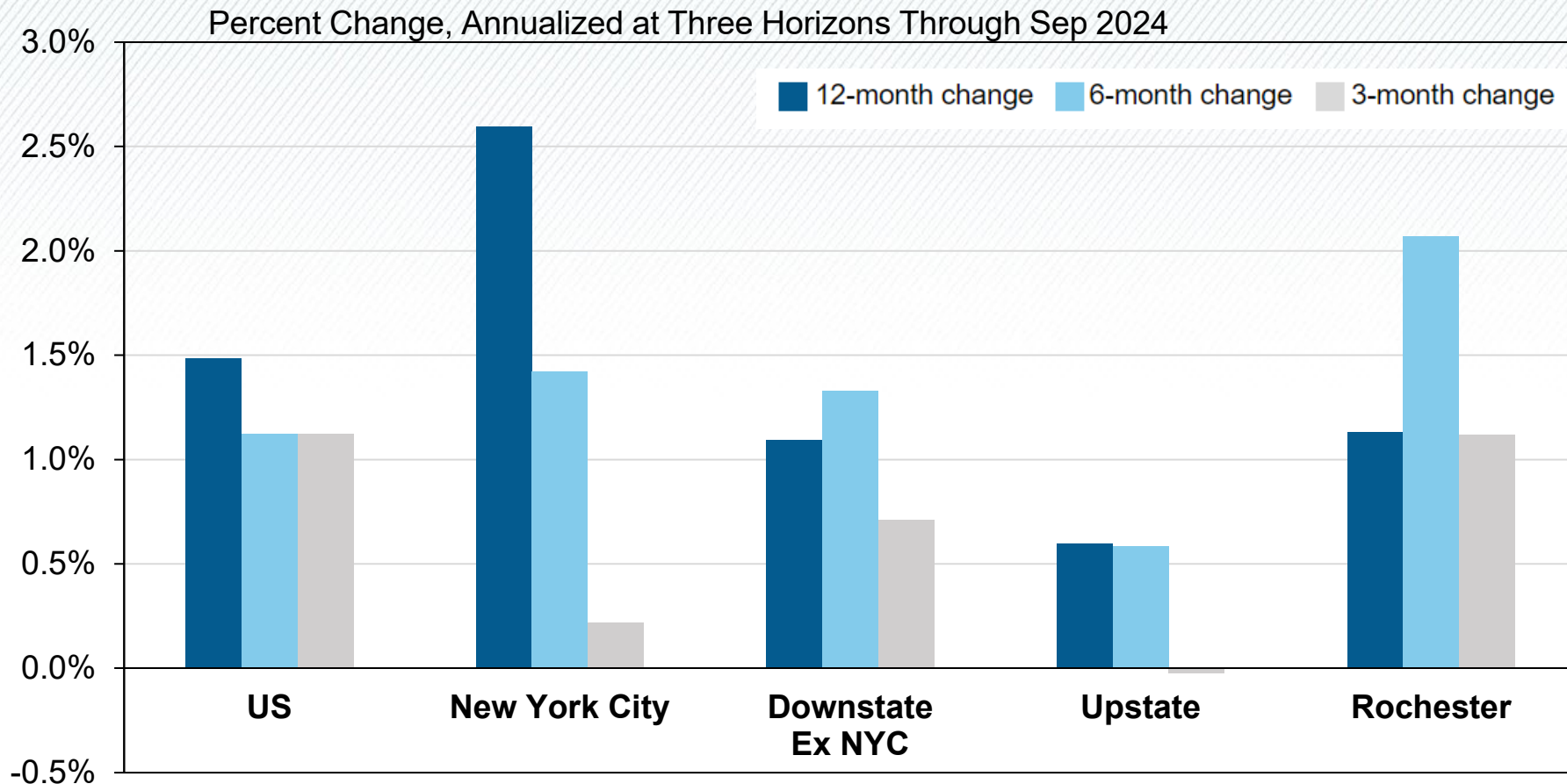
Job Growth Has Been Sustained



Source: U.S. Bureau of Labor Statistics, Moody's Economy.com

Note: Regional data early benchmarked by NY Fed staff

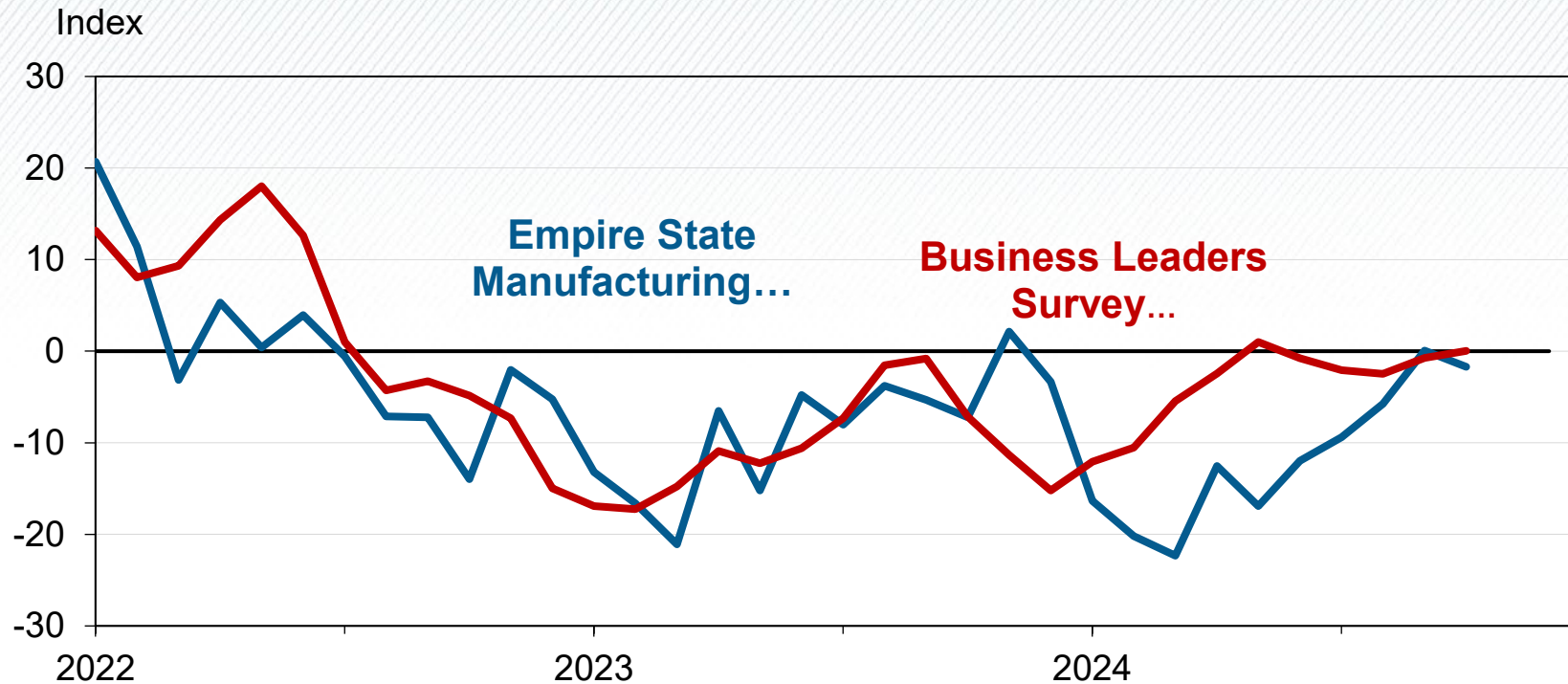
Our Region's Growth Has Been Solid



Source: U.S. Bureau of Labor Statistics, Moody's Economy.com

Note: Regional data early benchmarked by NY Fed staff

Our Region's Businesses *Feel* Alright...



Source: Federal Reserve Bank of New York

Why Wasn't Disinflation a Lot Worse?

Modern Central Banking Matters

Longer term inflation expectations remained very stable—did not jump

- Private sector never doubted that inflation would be tamed
- They also understood that conditions had changed and needed response
 - 2021-22 was that response: Rapid and large rate hikes

Stable inflation expectations + rate hikes means:

- Expected “real” interest rates that guide decisions rose
- Economic growth slowed
- Pressure on businesses and households to ask for price and wage hikes abated

Modern Central Banking Means Communicating...

"For starters, **we need to raise interest rates to a level that is sufficiently restrictive to return inflation to 2 percent.**"

- Chair Powell at the Hutchins Center on Fiscal and Monetary Policy, Brookings Institution (Nov 30, 2022)

"In conclusion, inflation is still too high, and **we will use our monetary policy tools to restore price stability.** I am confident that we will attain and maintain a sufficiently restrictive stance to bring inflation down to our 2 percent longer-run goal."

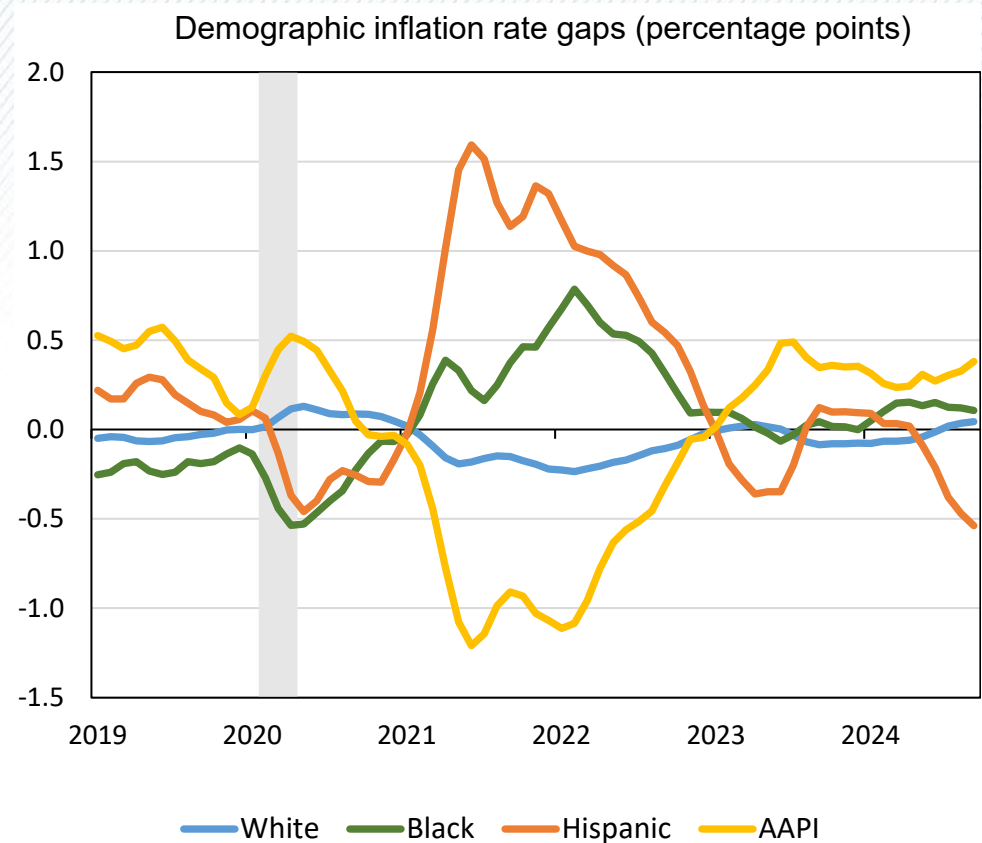
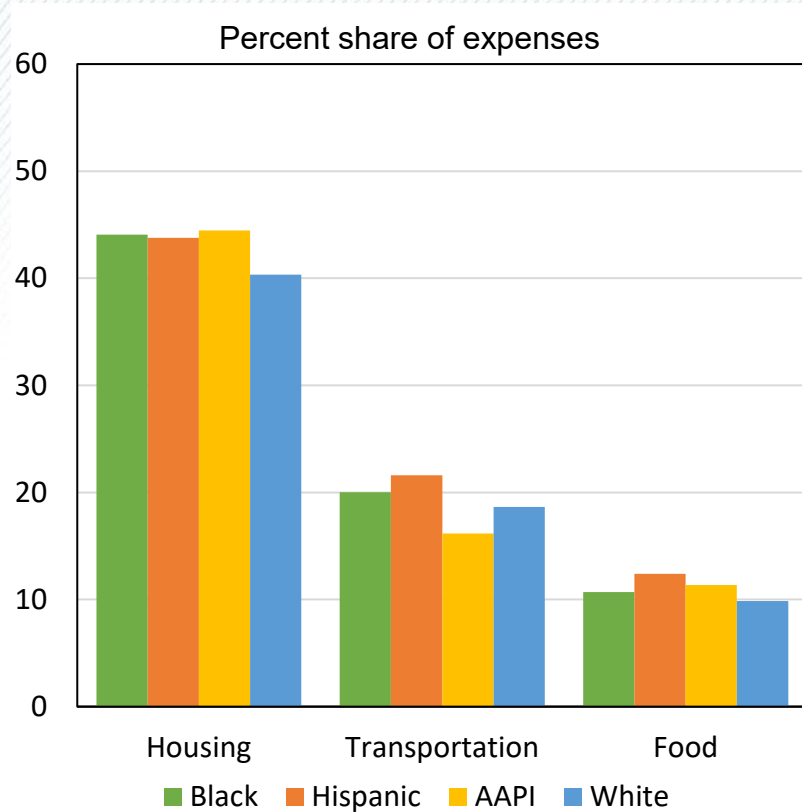
- NY Fed President Williams at NYU (April 19, 2023)

"Two percent is and will remain our inflation target. **We are committed to achieving and sustaining a stance of monetary policy that is sufficiently restrictive** to bring inflation down to that level over time."

- Chair Powell at Jackson Hole, WY (Aug 25, 2023)

Whose Inflation?

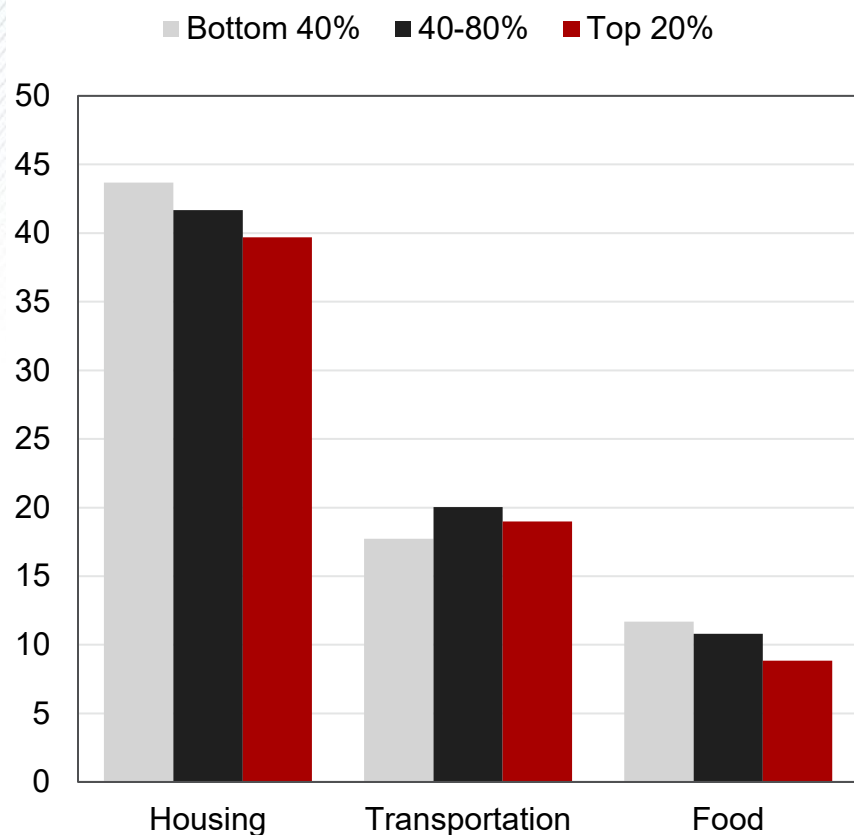
Whose Inflation Was/is it Anyway? Part One



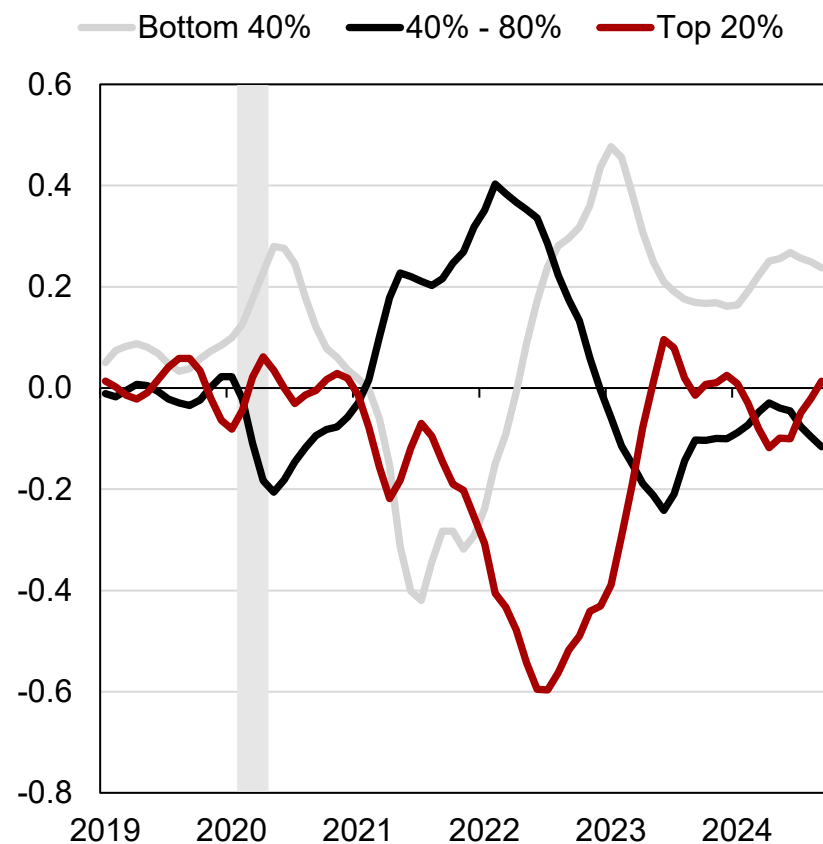
Source: Federal Reserve Bank of New York, *Equitable Growth Indicators*

Whose Inflation Was/is it Anyway? Part Two

Percent share of expenses, from total income



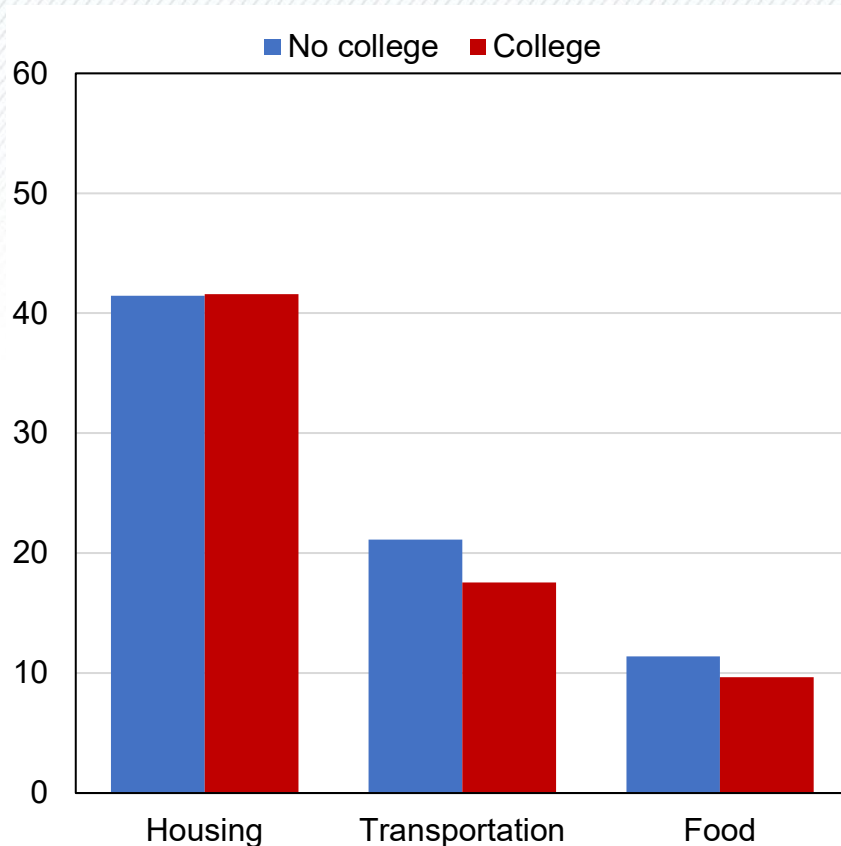
Demographic inflation rate gaps (percentage points)



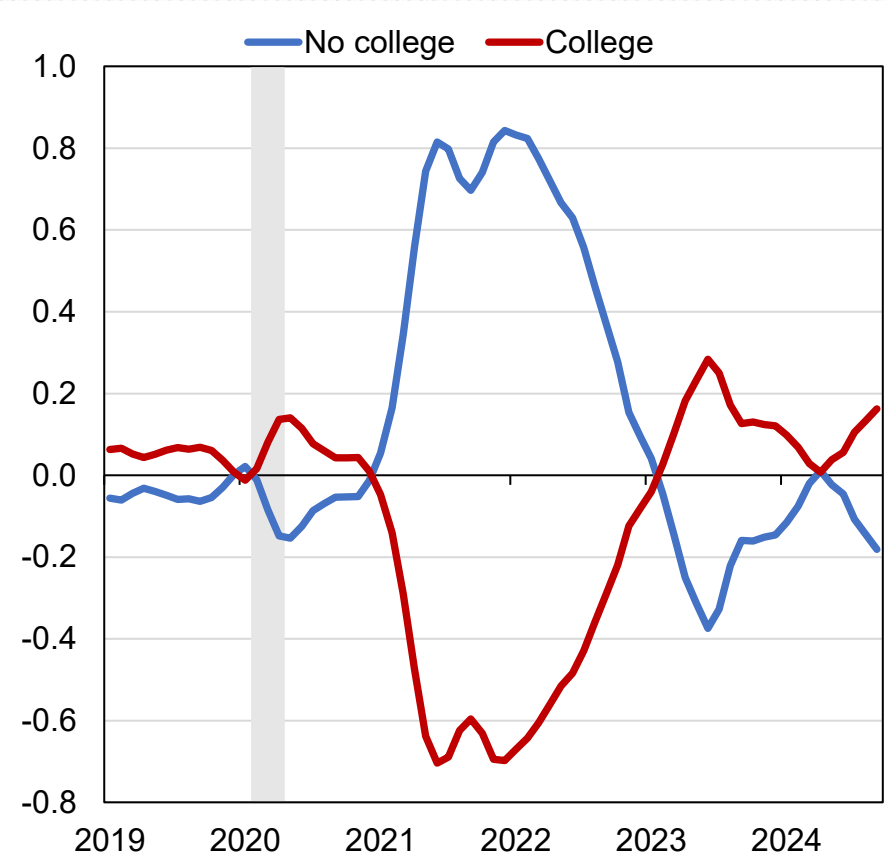
Source: Federal Reserve Bank of New York, *Equitable Growth Indicators*

Whose Inflation Was/is it Anyway? Part Three

Percent share of expenses



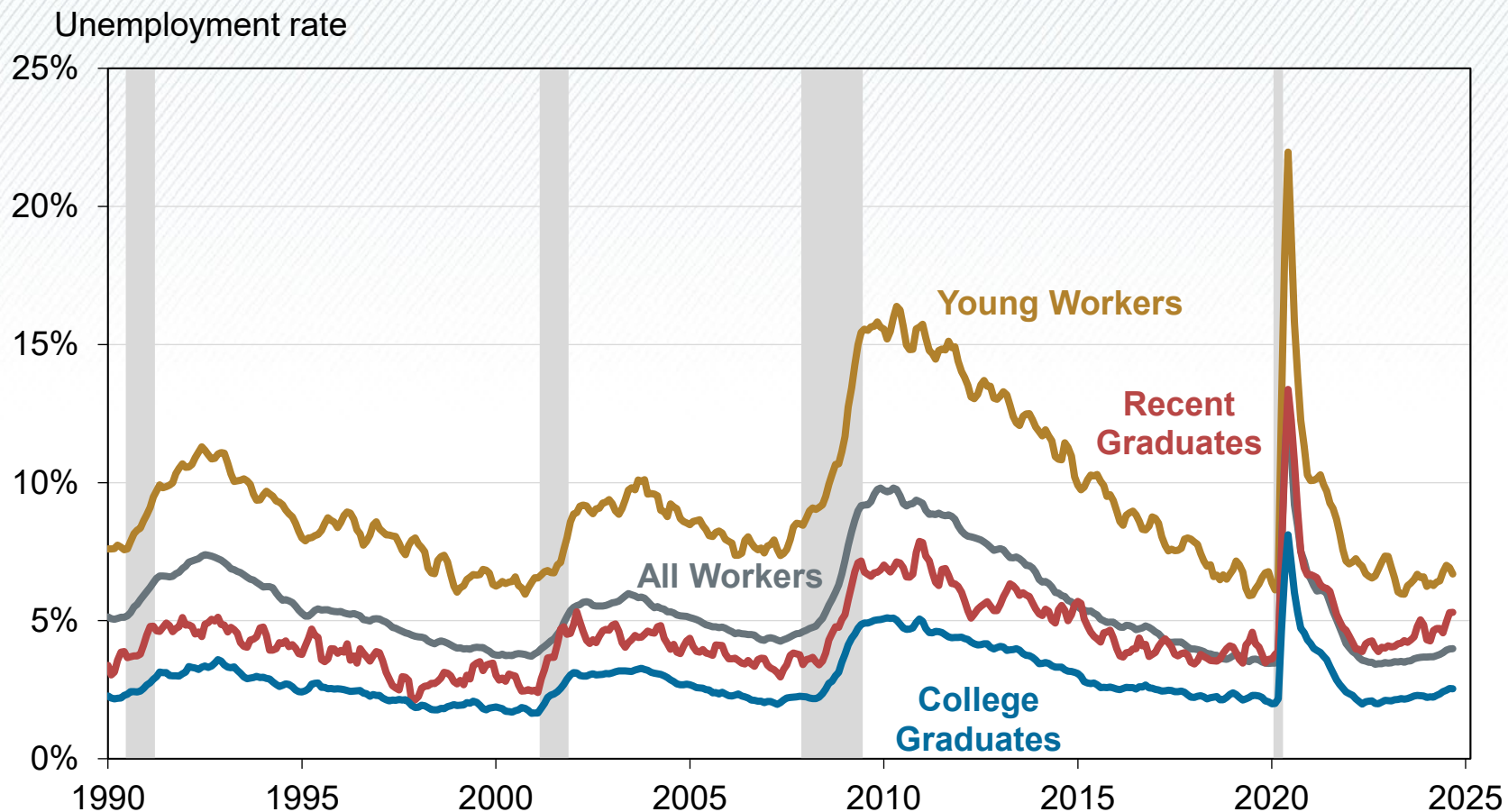
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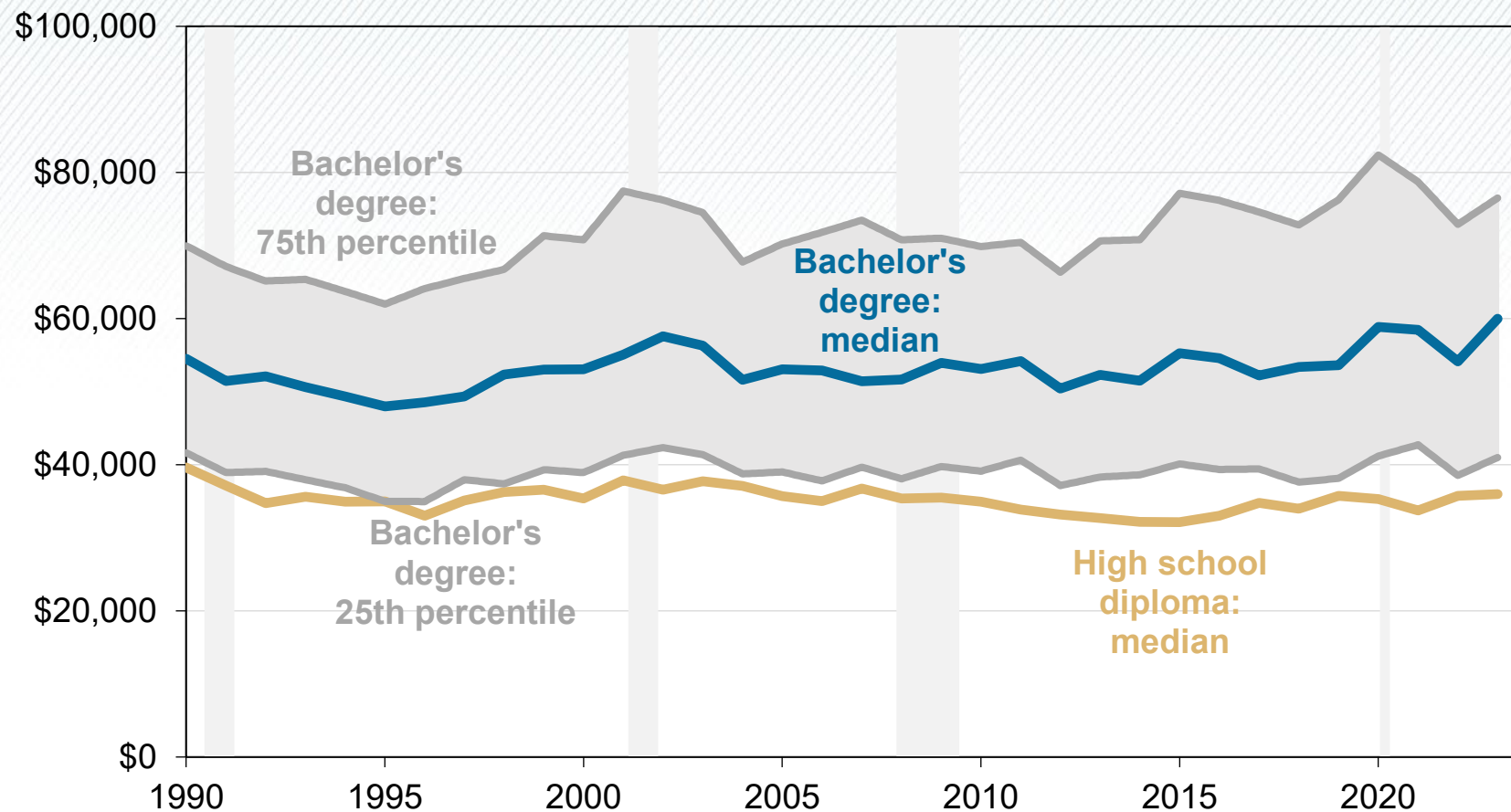
Appendix: Special Free Bonus Material!

College is Not Such a Bad Deal, Perhaps? Part One



Source: Federal Reserve Bank of New York, *The Labor Market for Recent College Graduates*

College is Not Such a Bad Deal, Perhaps? Part Two



Source: Federal Reserve Bank of New York, *The Labor Market for Recent College Graduates*

New York Fed Content That I Hope You'll Read!

- **Monetary Policy**
 - [The Central Banking Beauty Contest](#)
 - [On the Distributional Effects of Inflation and Inflation Stabilization](#)
 - [Why Do Forecasters Disagree about Their Monetary Policy Expectations?](#)
 - [The Federal Reserve and its Monetary Policy Implementation Framework](#)

- **Equitable Growth**
 - [Racial and Ethnic Inequalities in Household Wealth Persist](#)
 - [Borrower Expectations for the Return of Student Loan Repayment](#)
 - [Do Veterans Face Disparities in the Labor Market—And What Accounts for Them?](#)

- **Natural Disasters**
 - [Flood Risk Outside Flood Zones — A Look at Mortgage Lending in Risky Areas](#)
 - [Banks versus Hurricanes](#)
 - [The Adverse Effect of “Mandatory” Flood Insurance on Access to Credit](#)