

# Disinflation...and Whose Inflation?

## Junior Economic Club of New York City

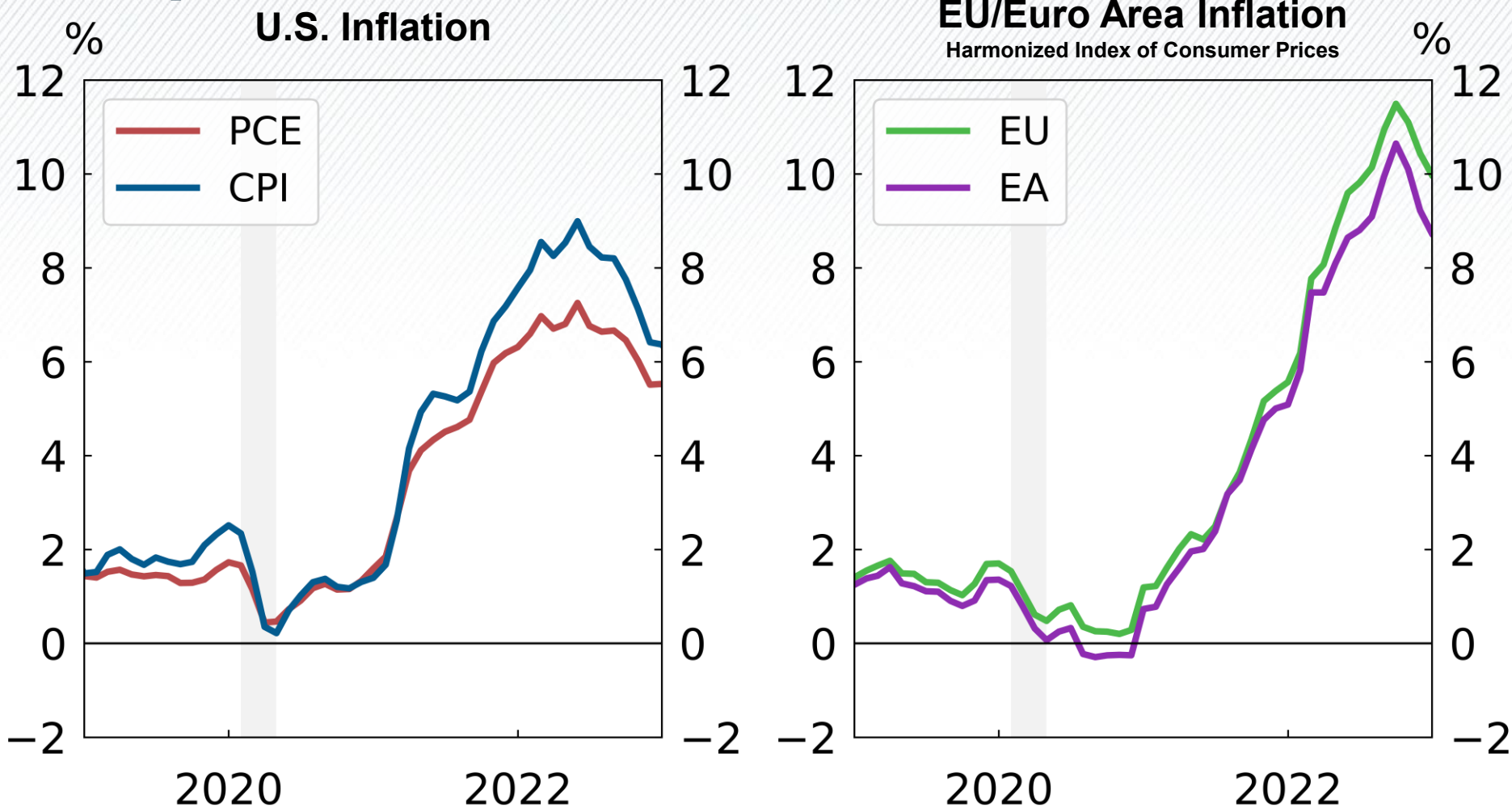
January 14, 2025

**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

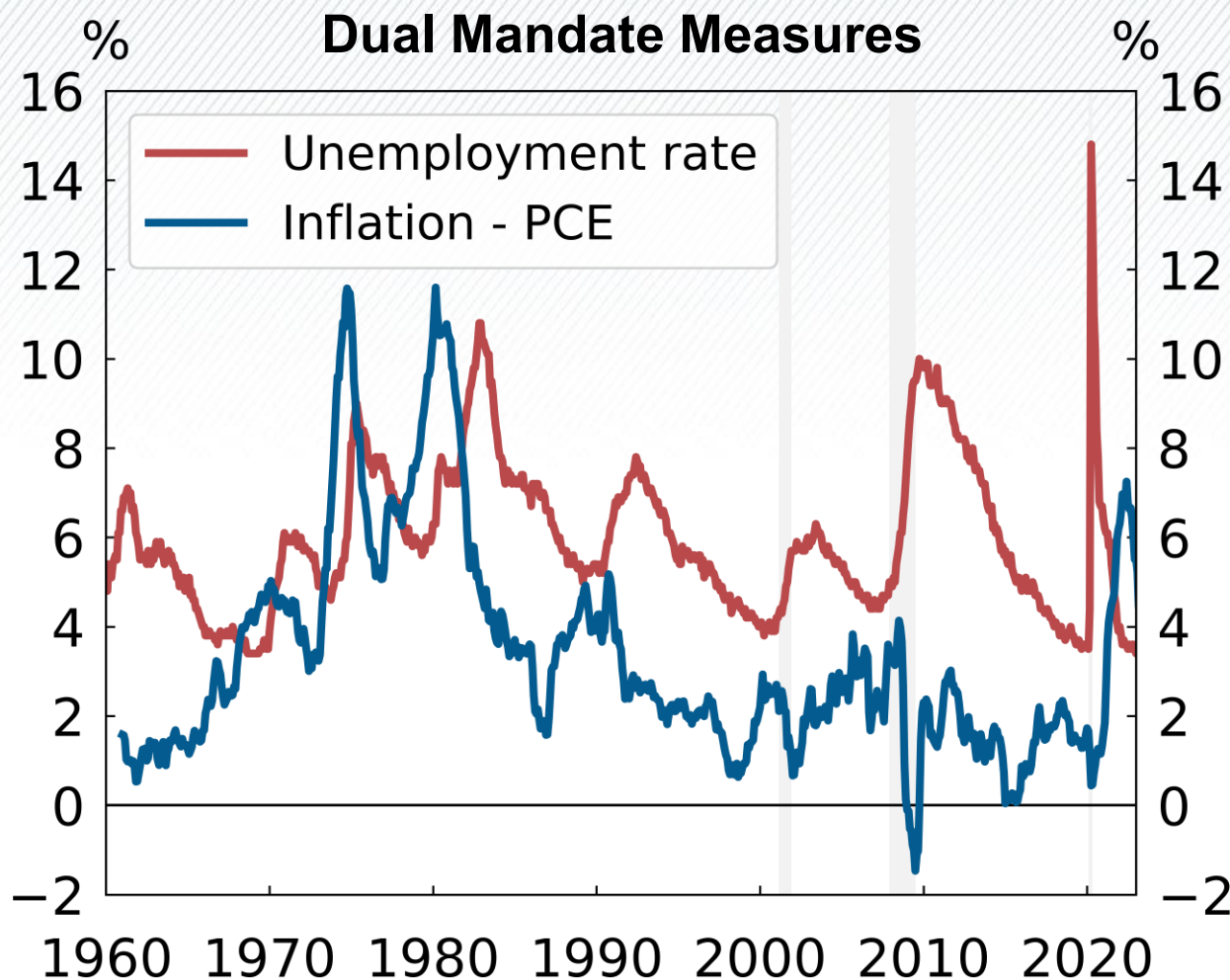


Sources: Haver Analytics, Bureau of Labor Statistics, European Central Bank, Statistical Office of the European Communities

# The Challenge: Could Disinflation be Done Without a Recession?

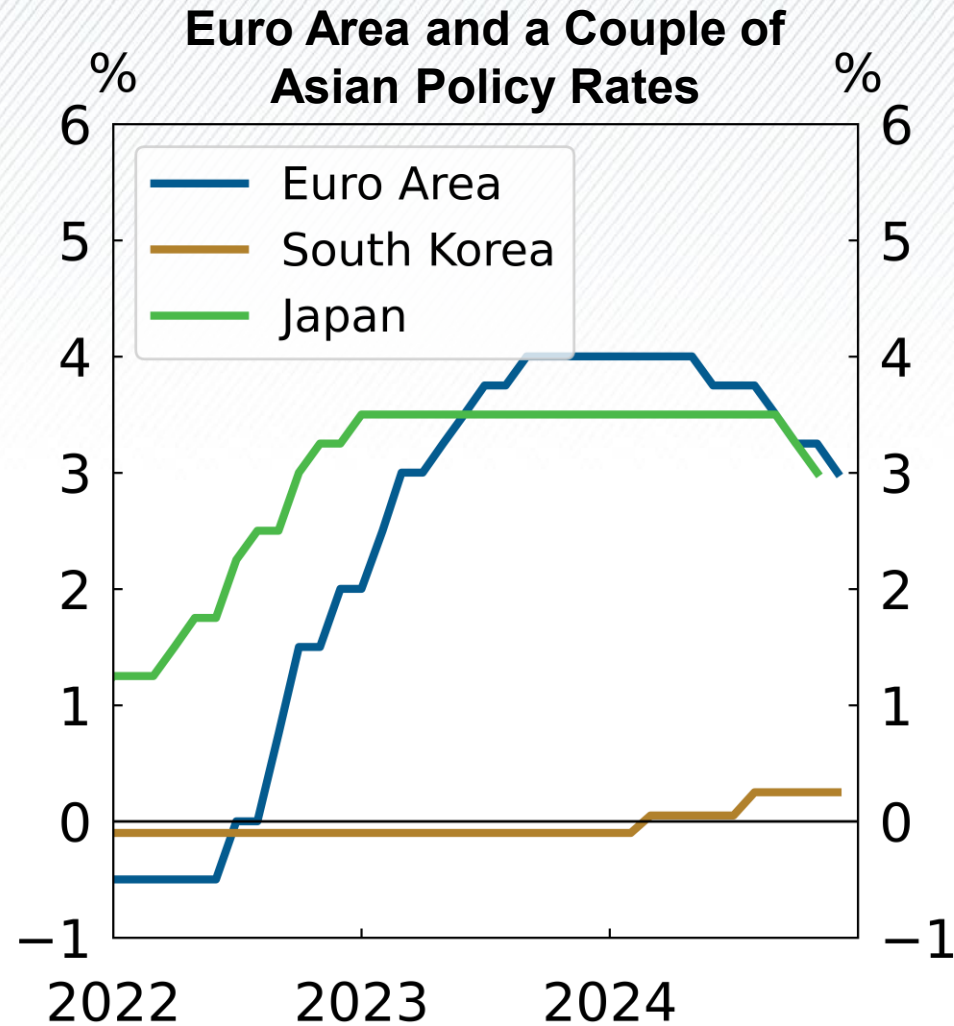
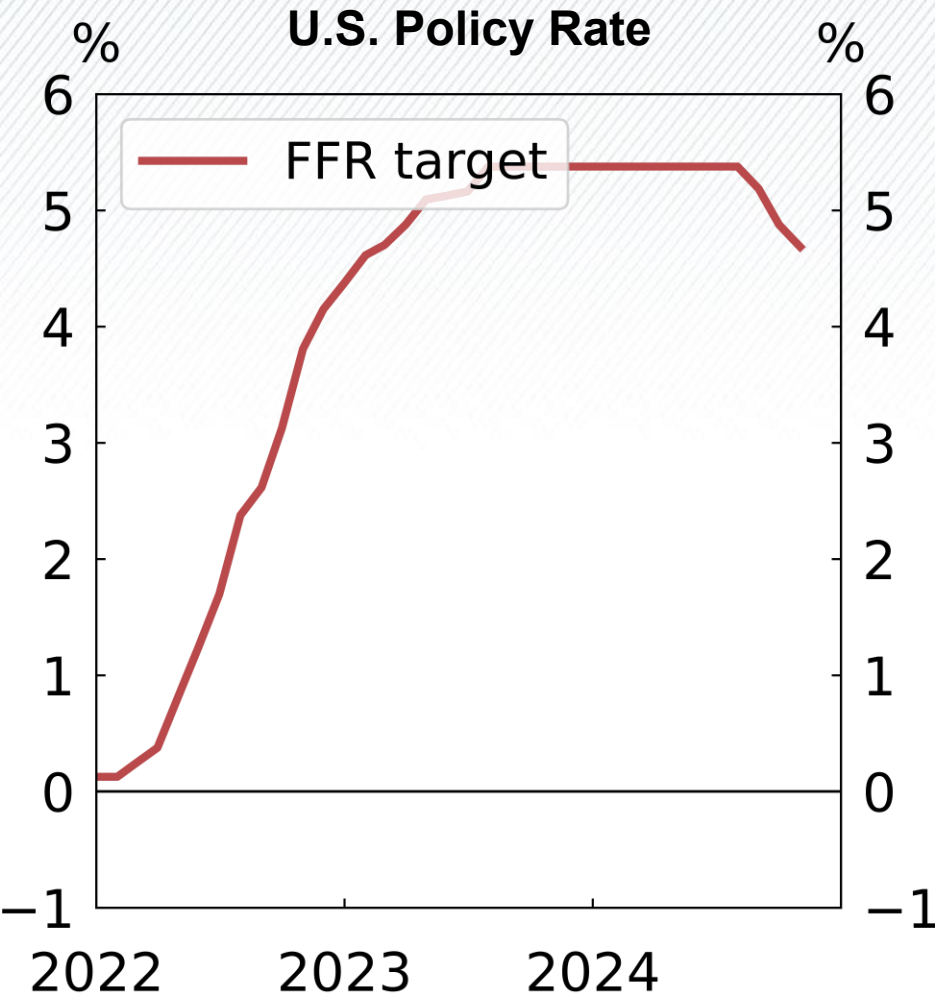
Why was this seen as a challenge?

- 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!)



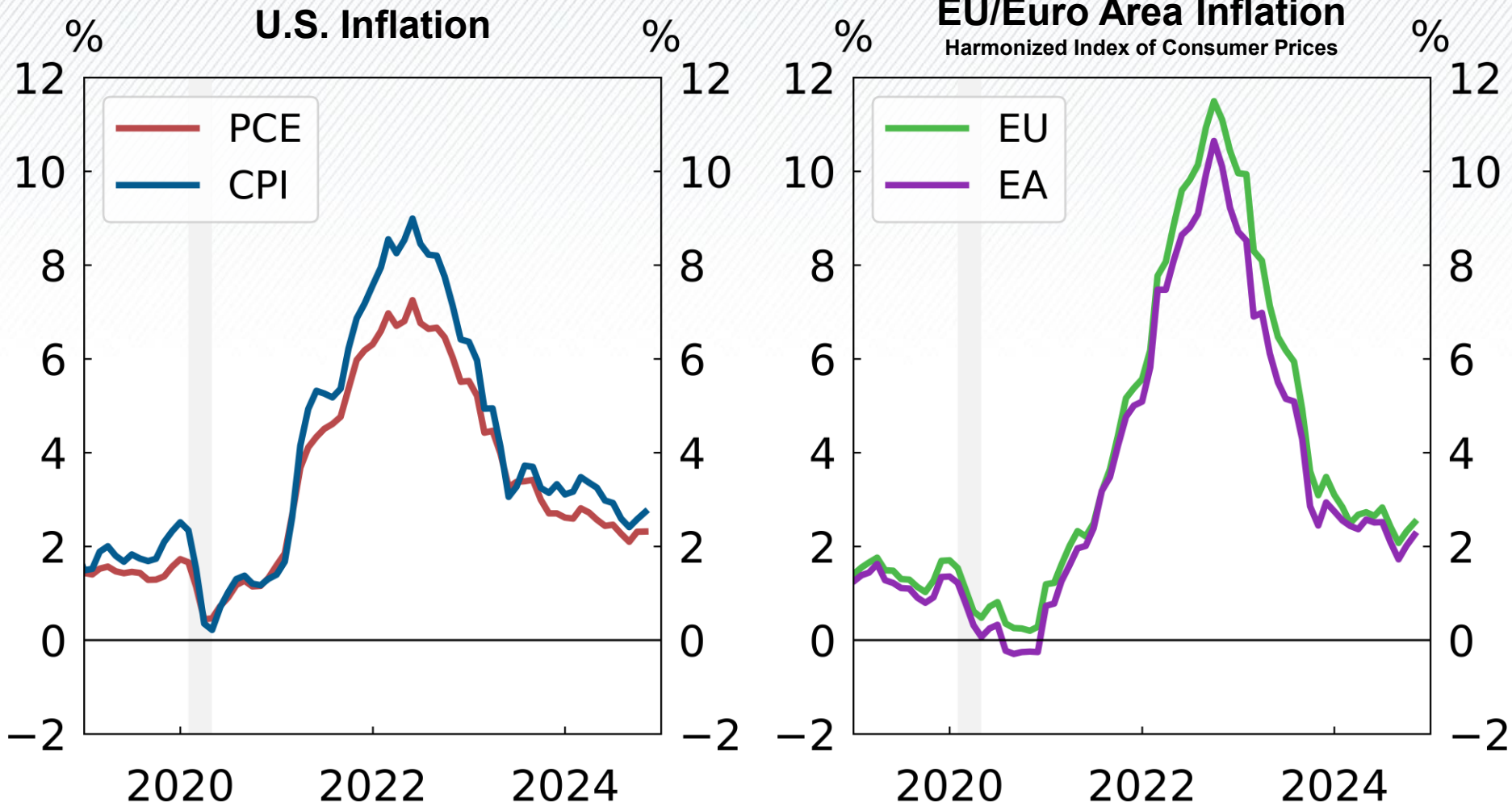
Sources: Haver Analytics, Bureau of Labor Statistics

## Challenge... Accepted



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

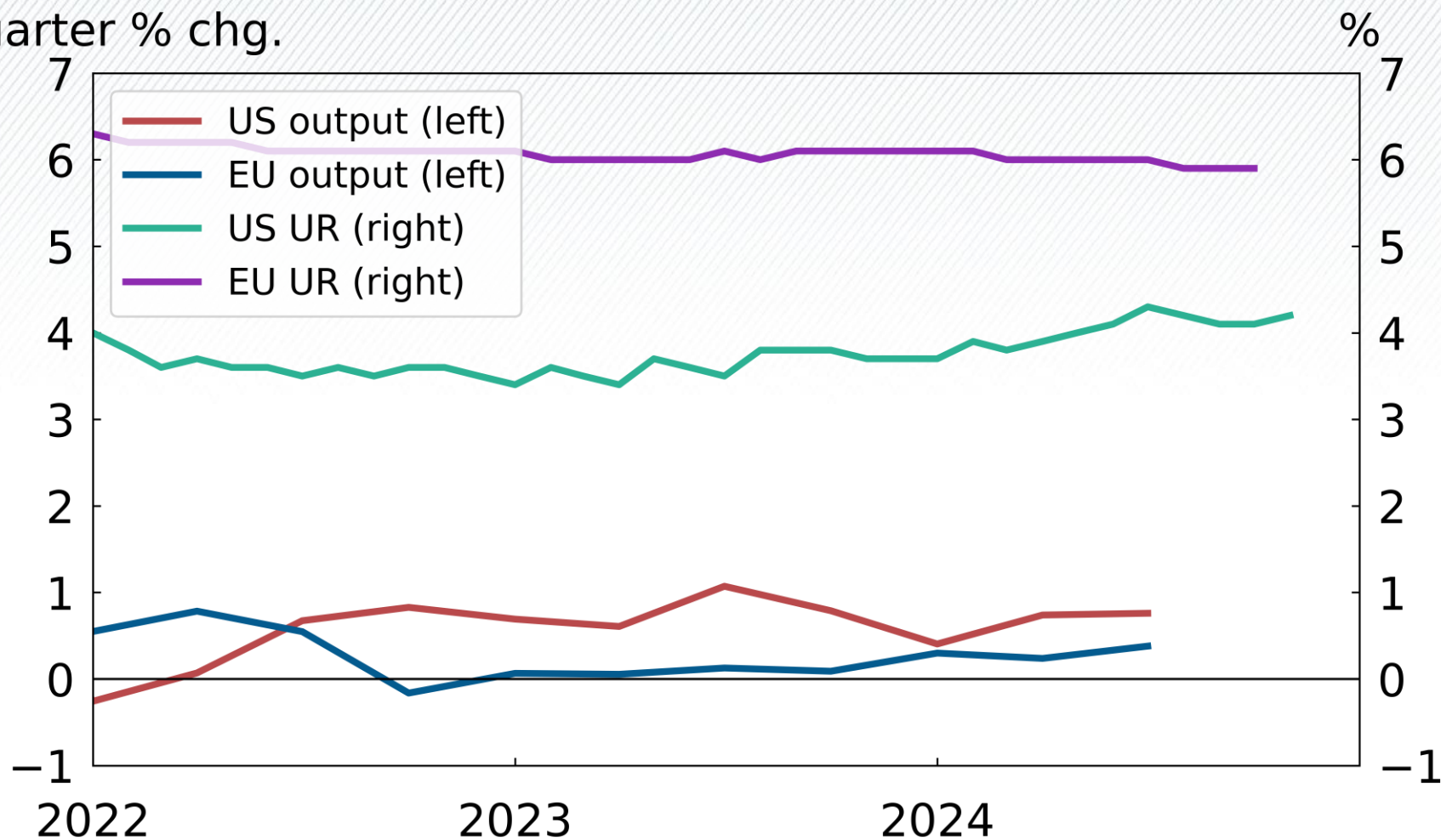
## So Far: Challenge... Met



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

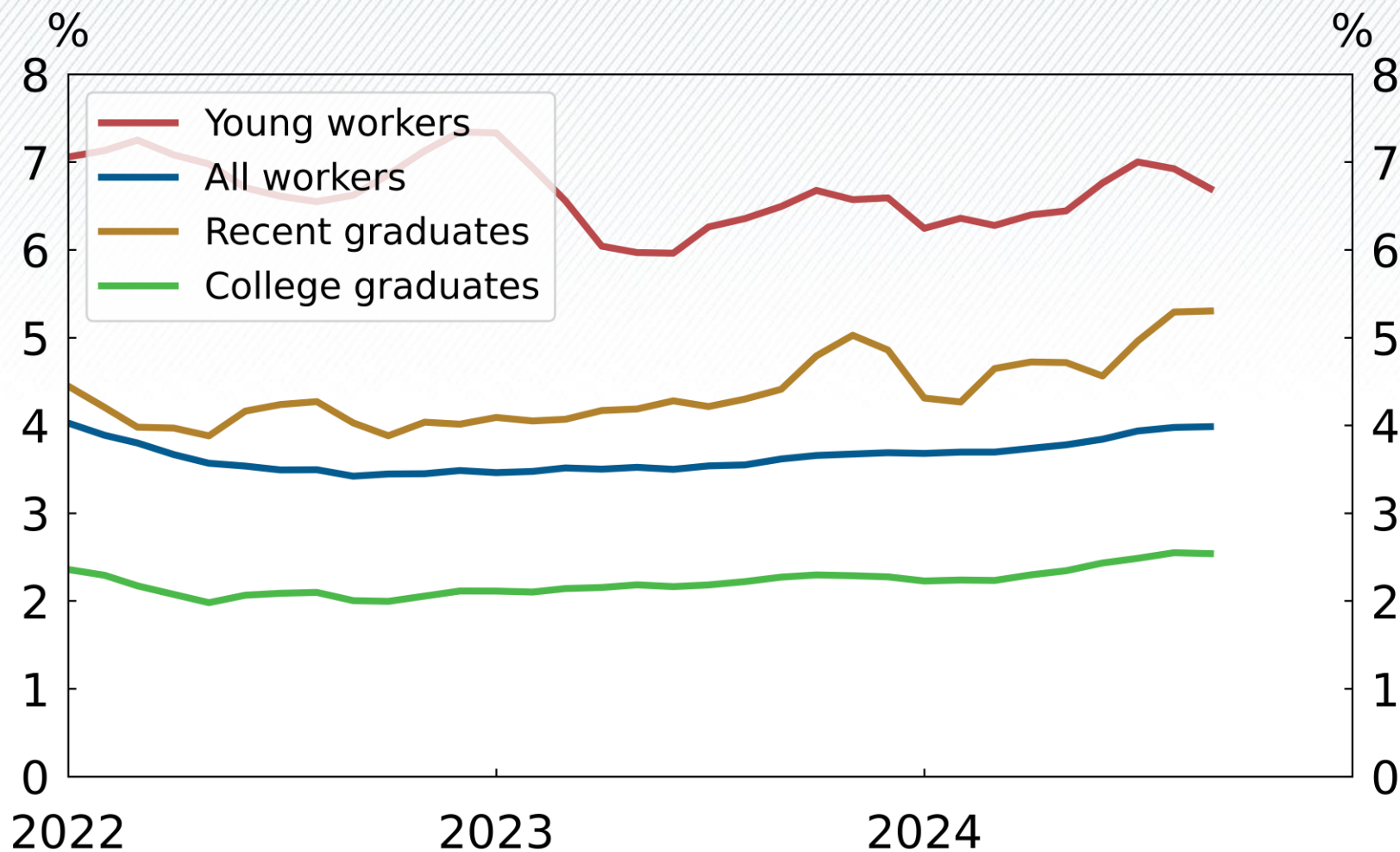
## And So Far, A Smooth — Not Traumatic — Disinflation...

1-quarter % chg.



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

## Unemployment Rate Did Not Spike

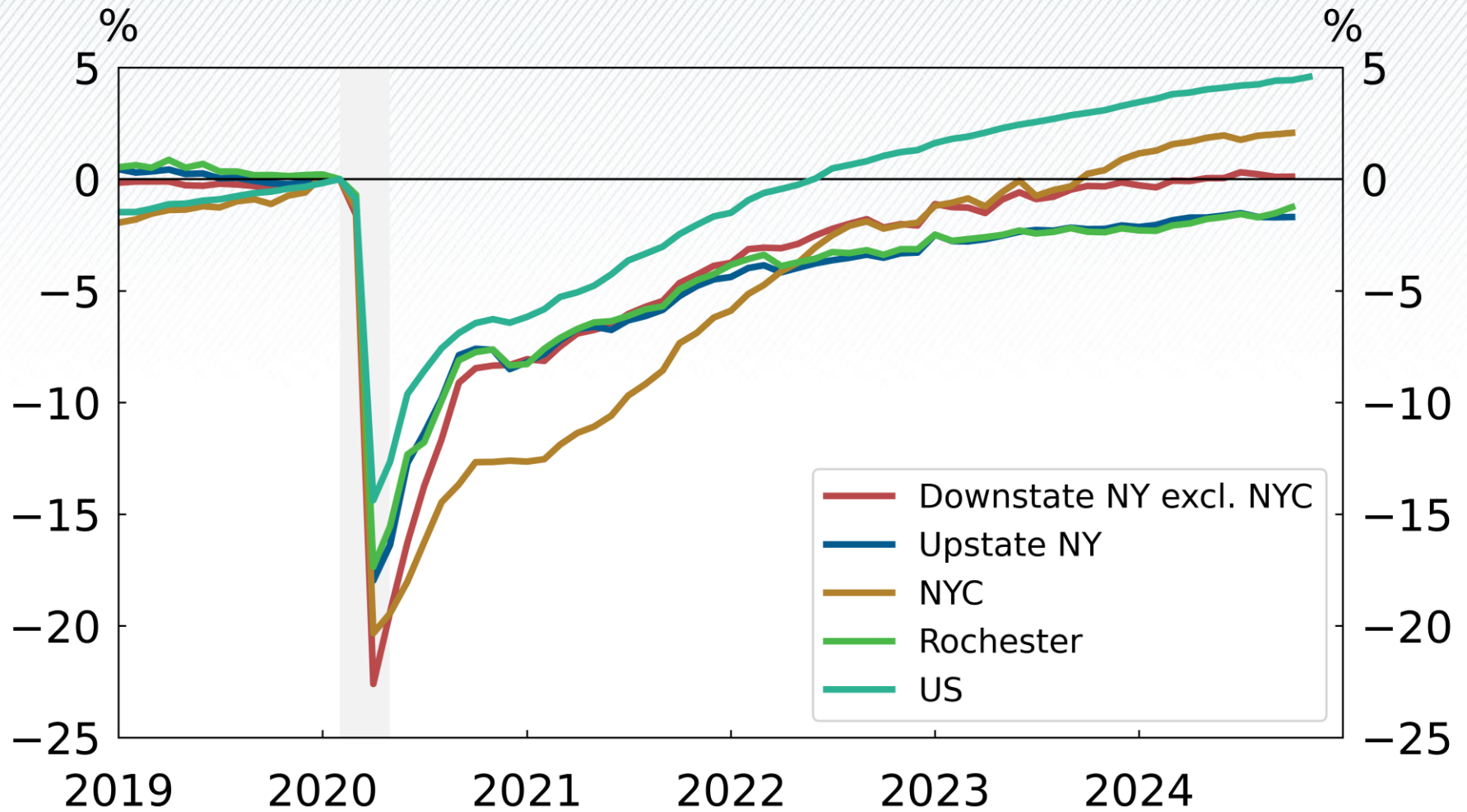


Sources: BLS Consumer Expenditure Survey microdata, CPI

Notes: Expenditure shares use 2021 CEX microdata



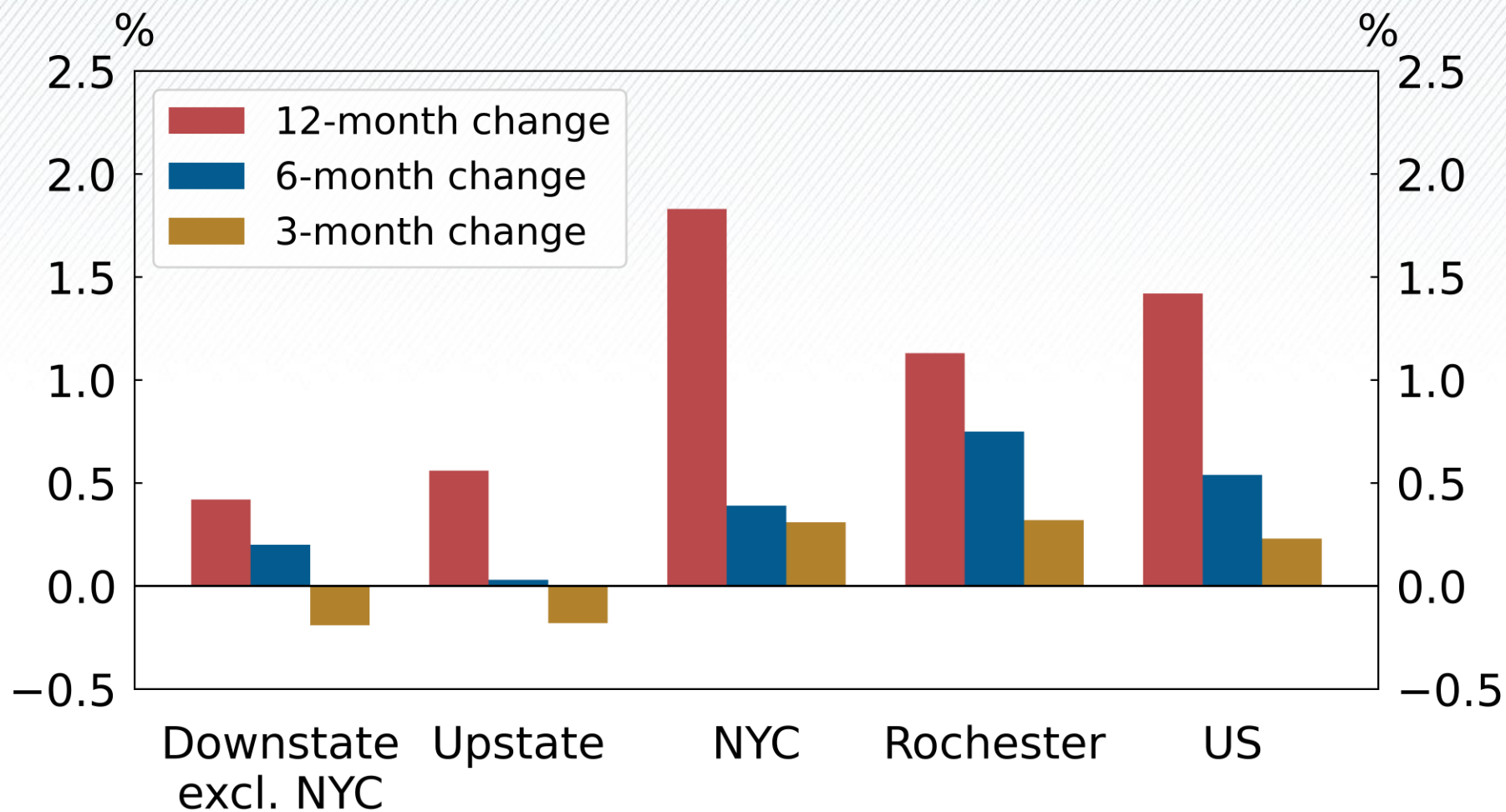
## Job Growth Has Been Sustained



Sources: BLS, Moody's Economy.com

Notes: Regional data early benchmarked by NY Fed staff

## Our Region's Growth Has Been Solid



Sources: BLS, Moody's Economy.com

Notes: Regional data early benchmarked by NY Fed staff

# **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

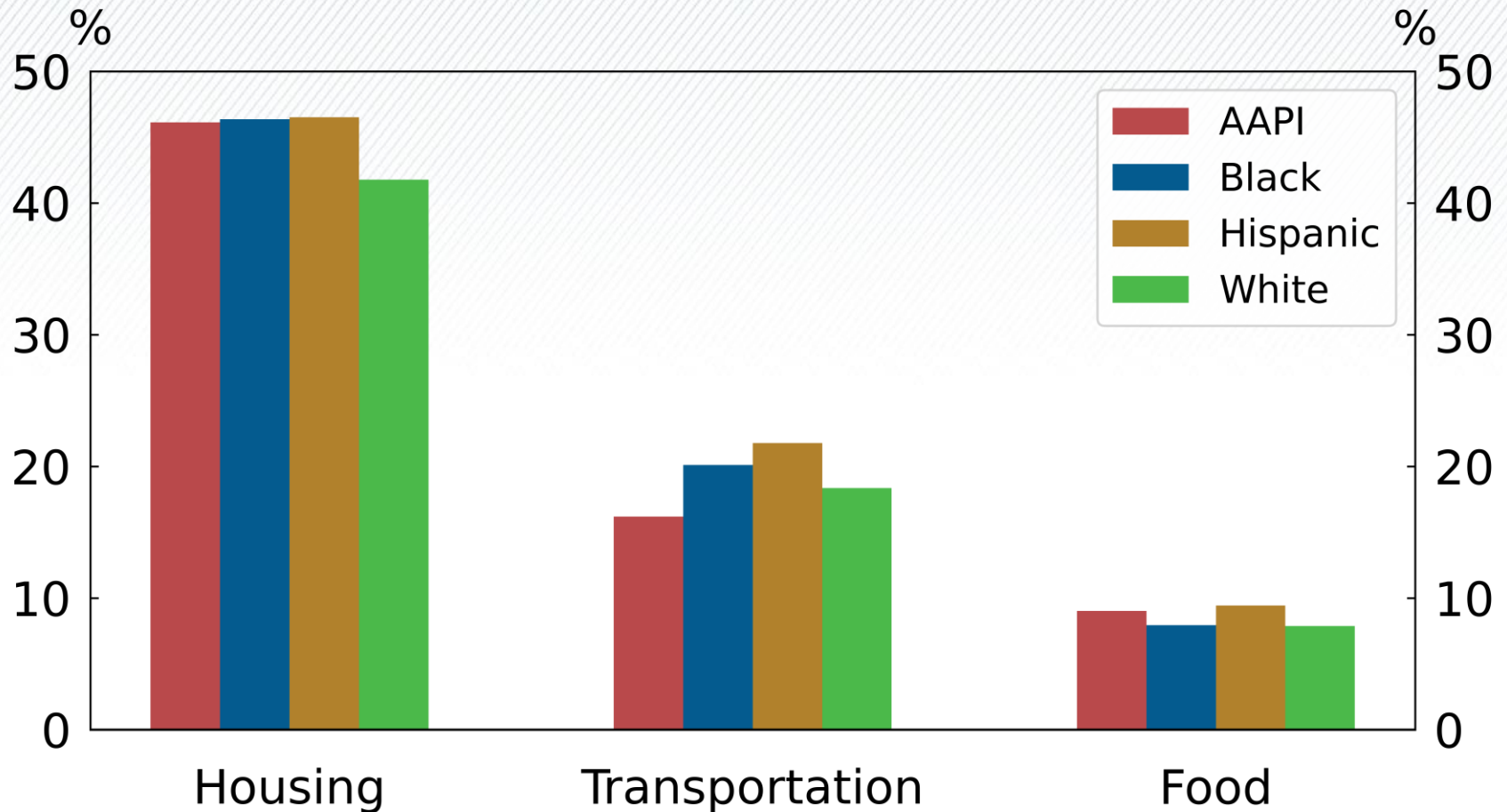
Stable inflation expectations + rate hikes means:

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

# **Whose Inflation?**

# Whose Inflation Was/Is it Anyway? Part One

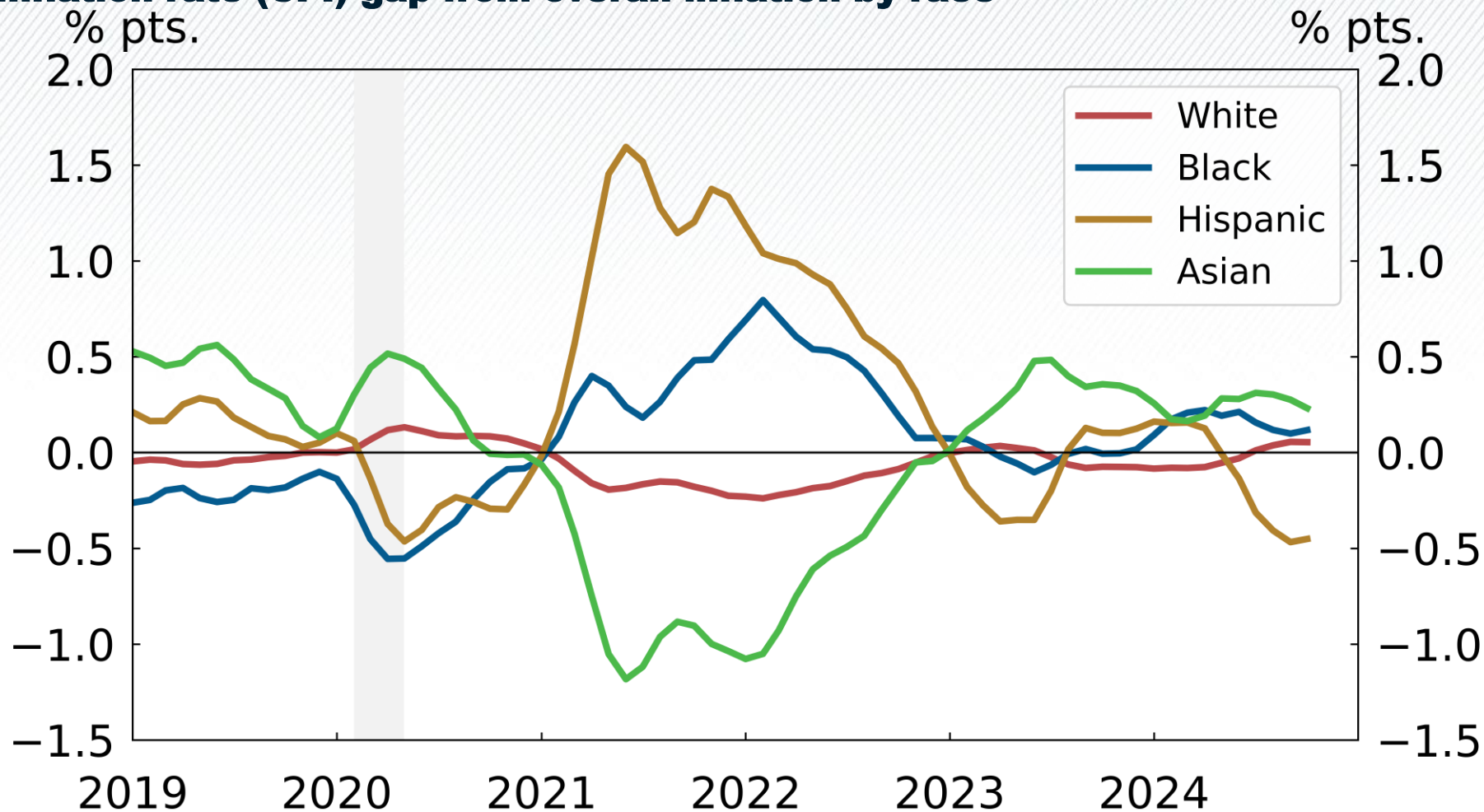
## Percent share of expenses by race



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

# Whose Inflation Was/Is it Anyway? Part One

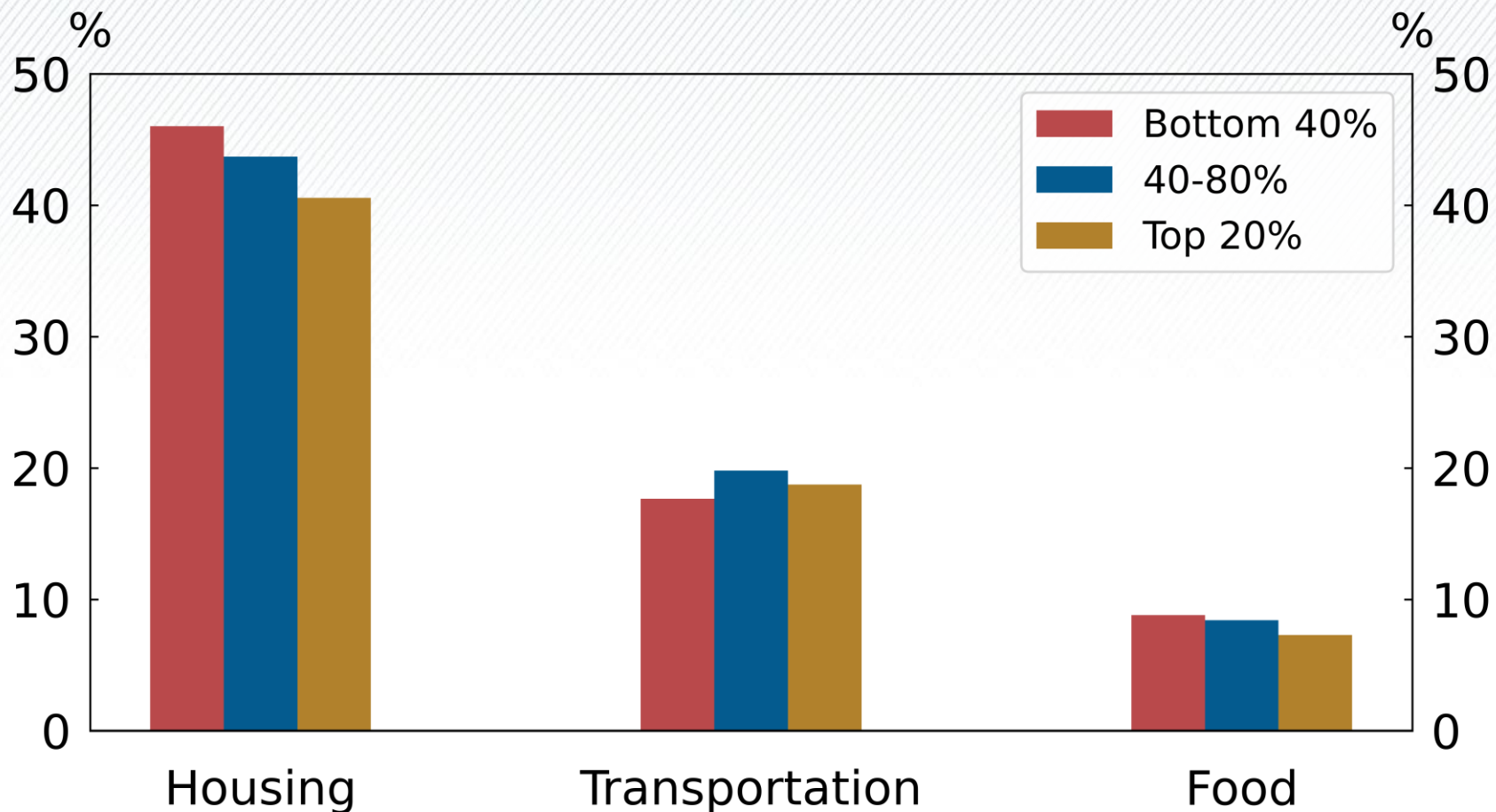
## Inflation rate (CPI) gap from overall inflation by race



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

## Whose Inflation Was/Is it Anyway? Part Two

### Percent share of expenses by income group

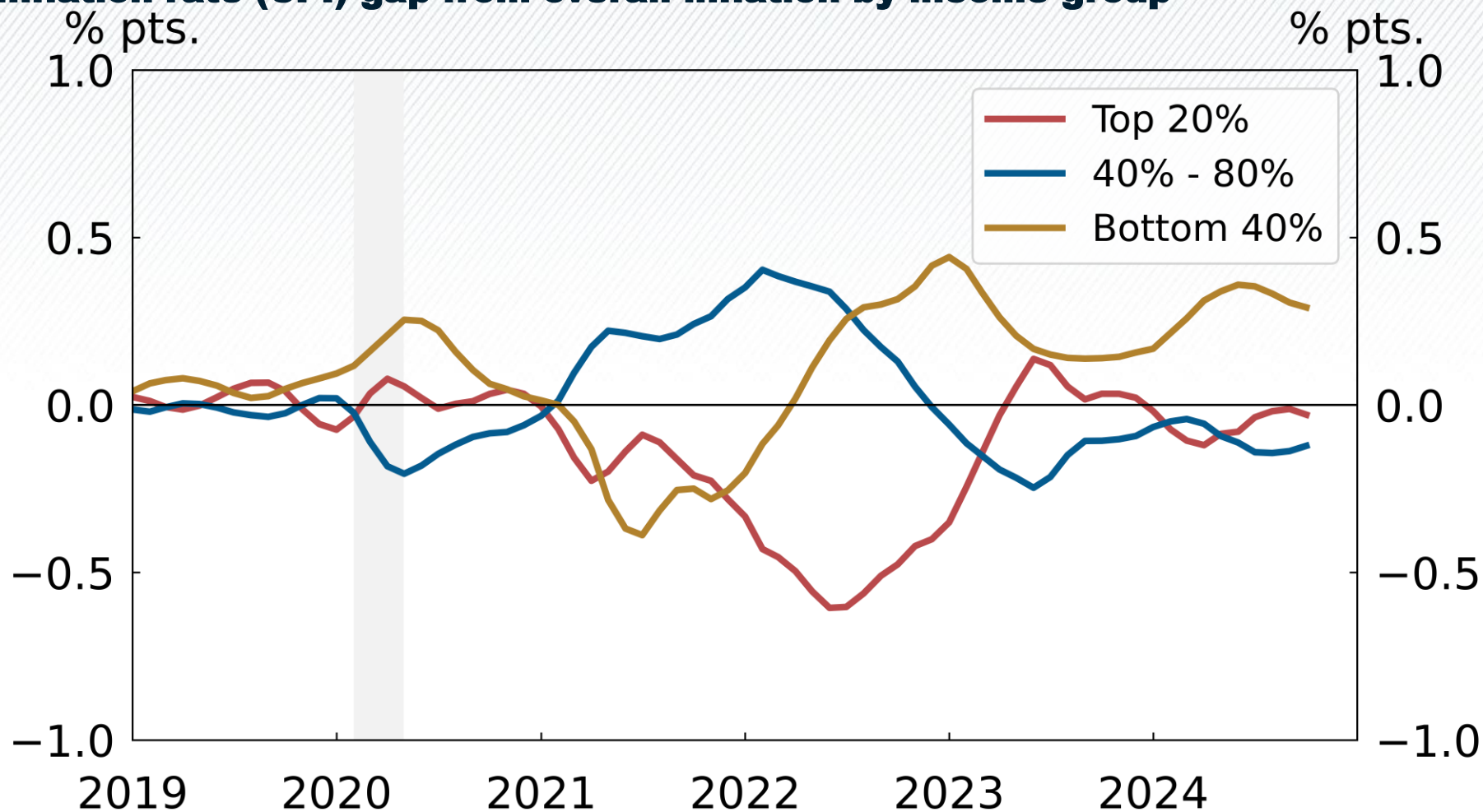


Sources: Federal Reserve Bank of New York, *Equitable Growth Indicators*



## Whose Inflation Was/Is it Anyway? Part Two

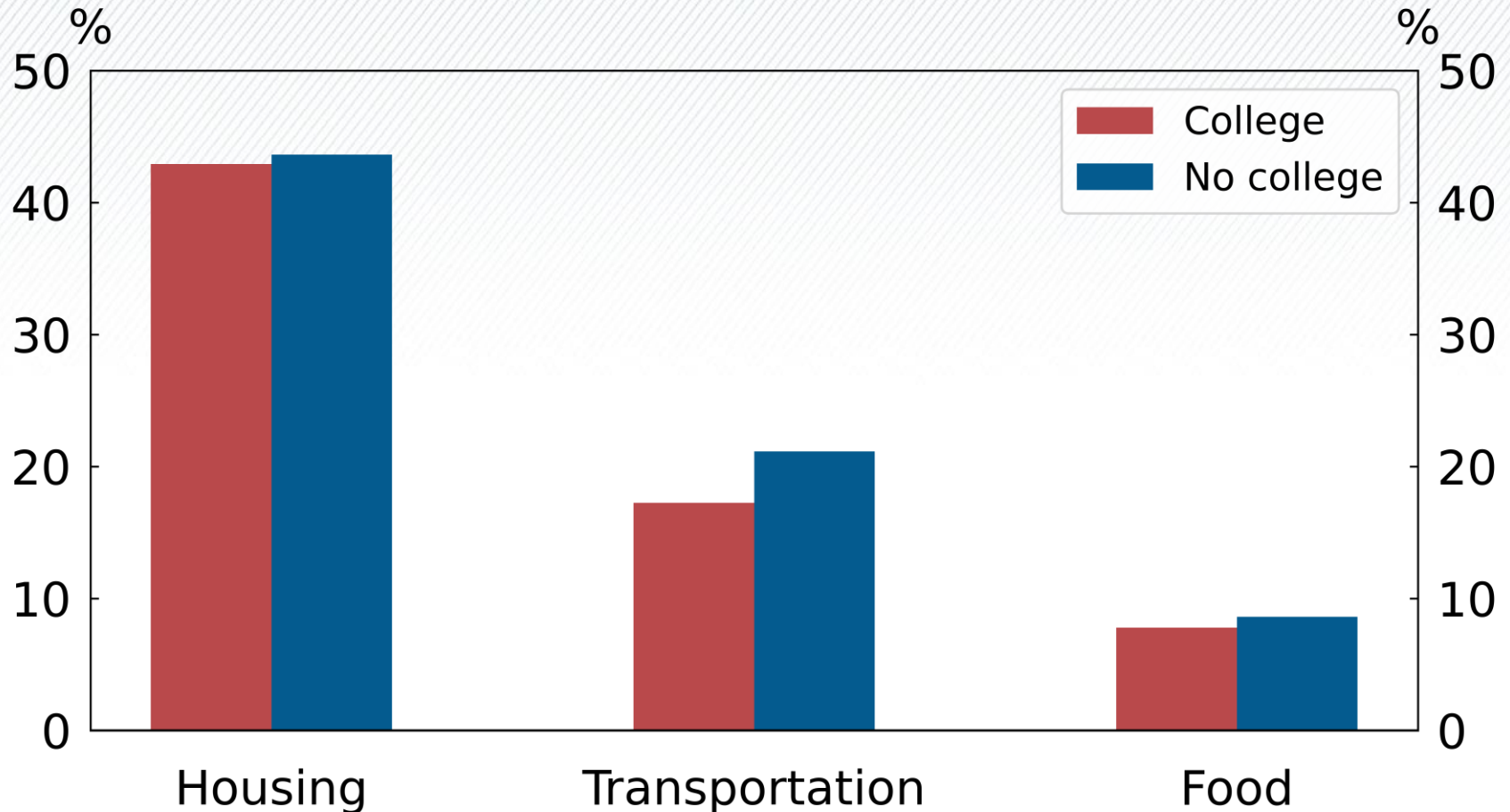
### Inflation rate (CPI) gap from overall inflation by income group



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

# Whose Inflation Was/Is it Anyway? Part Three

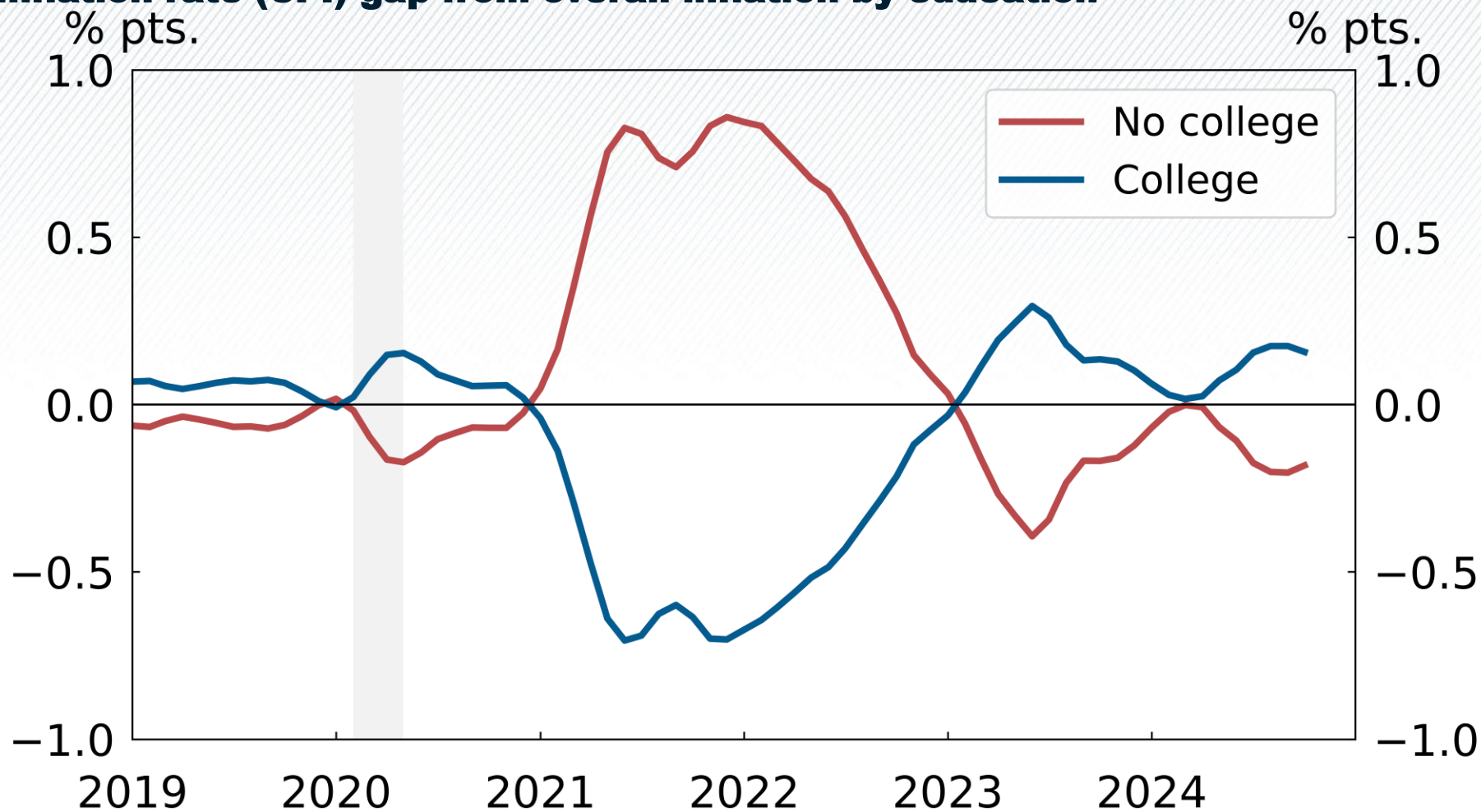
## Percent share of expenses by education



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

# Whose Inflation Was/Is it Anyway? Part Three

## Inflation rate (CPI) gap from overall inflation by education



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

# **Connecting the Dots...**

# **The Effects of Macroeconomic Shocks: Household Financial Distress Matters**

**Kartik Athreya, Ryan Mather, Jose Mustre-del-Rio, and Juan M. Sanchez**

- Households subject to financial distress and thus differential access to credit experience macroeconomic shocks more intensely than households with healthier balance sheets.
- Heterogeneity in financial distress matters more than dispersion in shock severity with regards to the responses of individual and aggregate consumption.

**Questions, Comments, Thoughts?**

# **Appendix: Special Free Bonus Material**

## Modern Central Banking Means Communication...

"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."

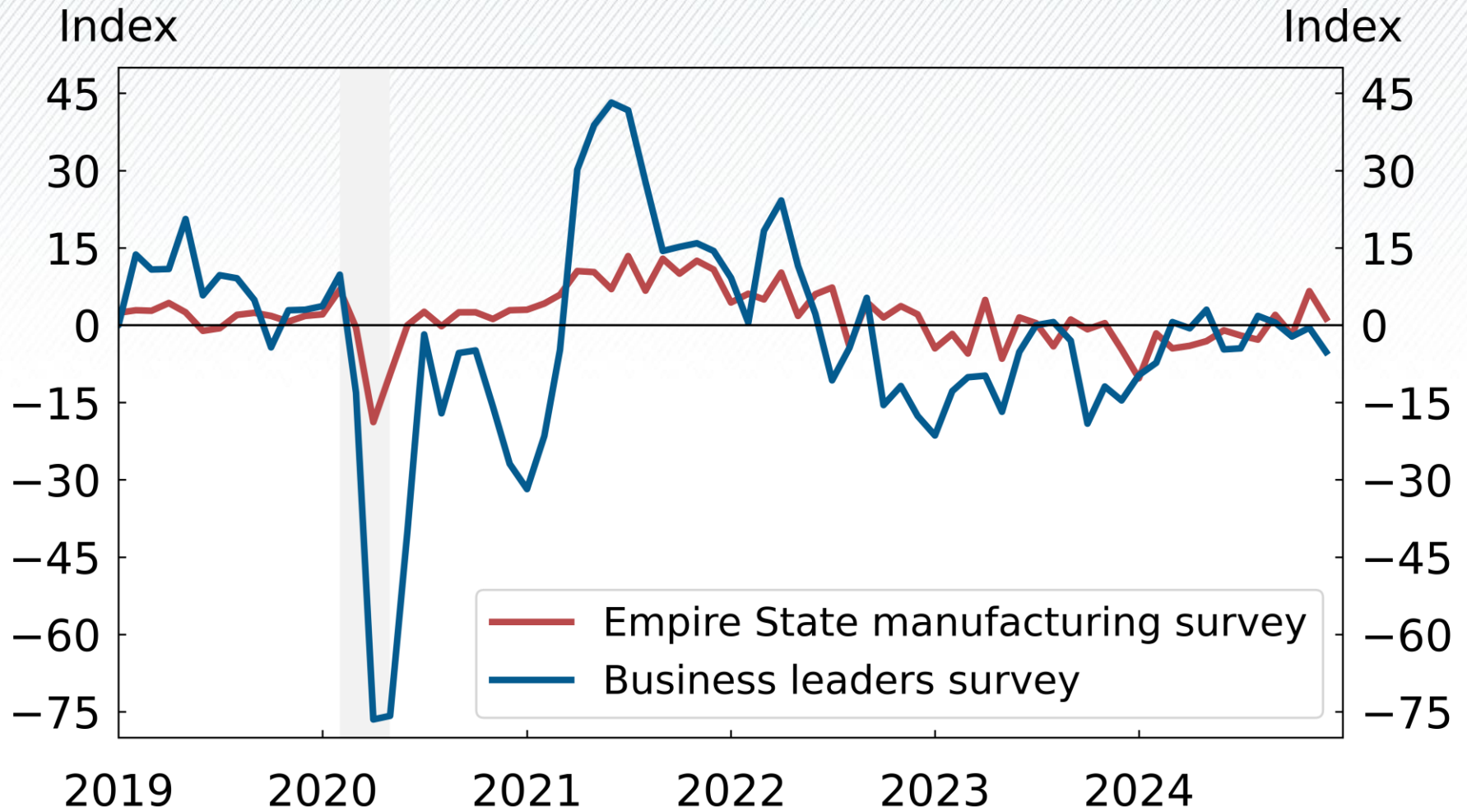
- NY Fed President Williams at NYU (April 19, 2023)

"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)

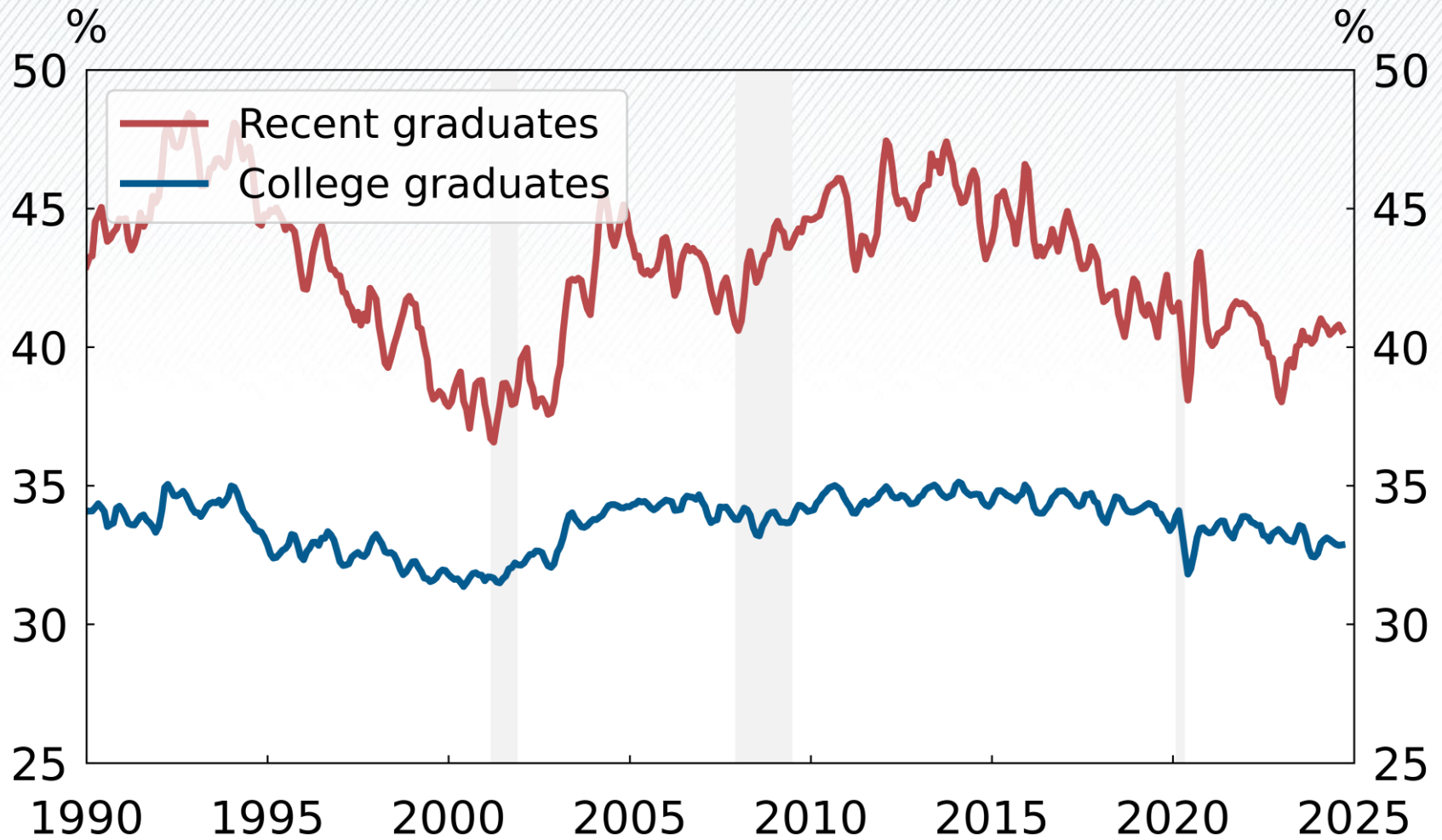


## Our Region's Growth Has Been Solid



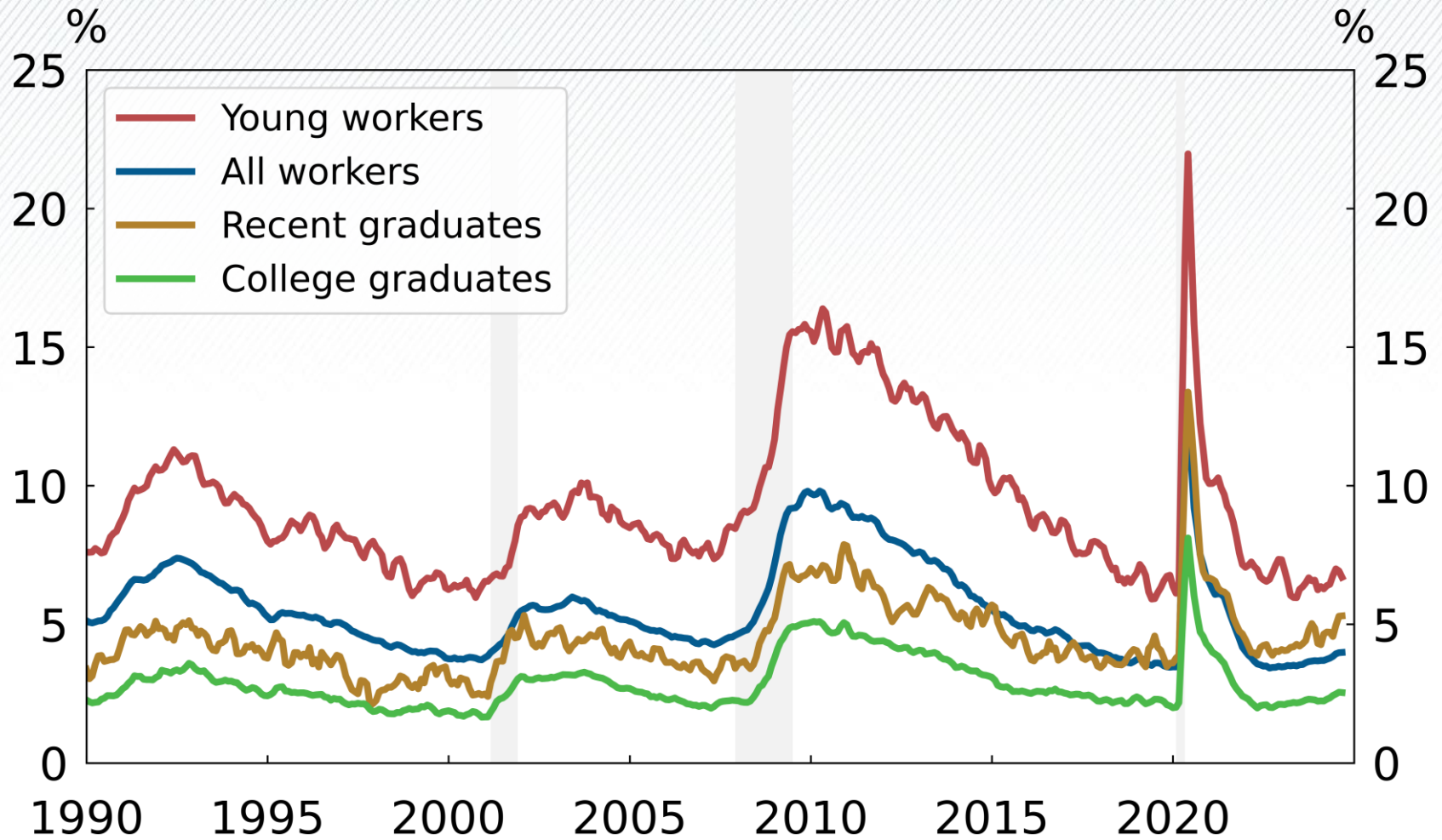
Sources: Haver Analytics, Federal Reserve Bank of New York

## Underemployment in Line with Past Trends



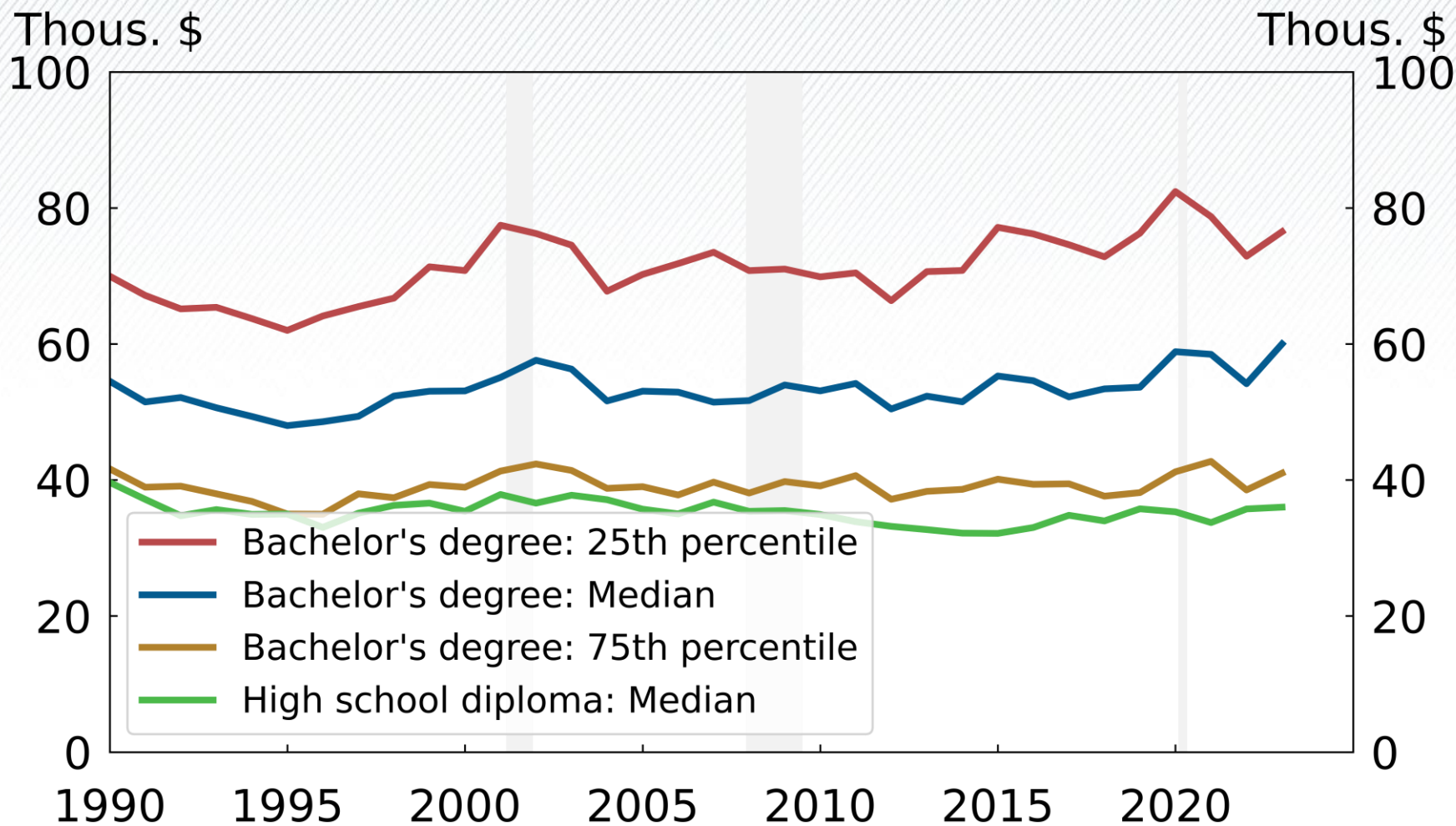
Sources: Federal Reserve Bank of New York, *The Labor Market for Recent College Graduates*

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



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

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



Sources: 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