

WHAT IS THE FED DOING ABOUT INFLATION?

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OVERVIEW

- **Background**
- Why is inflation so high?
- What is the Fed doing about it?



THE FEDERAL RESERVE'S CONGRESSIONAL MANDATE

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.*”

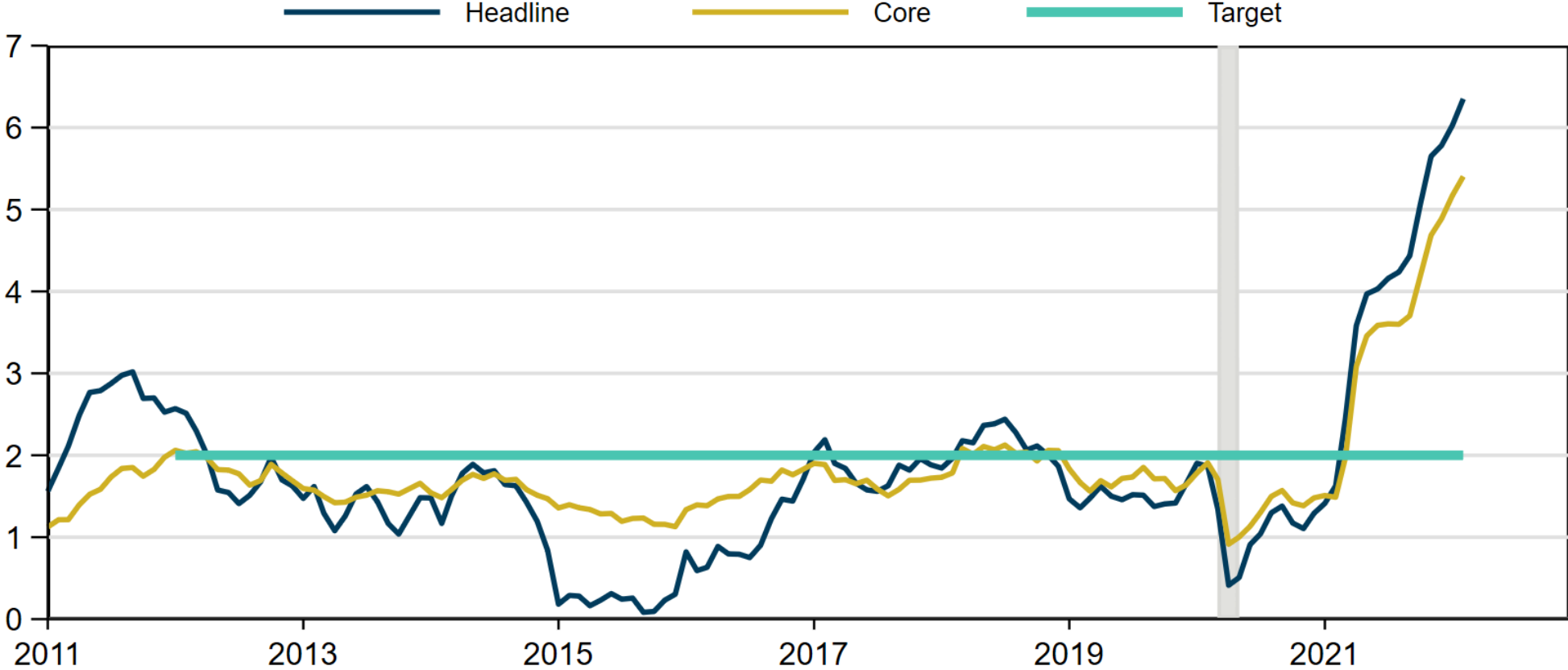
Dual Mandate: maximum employment and price stability



INFLATION IS WAY TOO HIGH



PCE INFLATION 12-MONTH PERCENT CHANGE

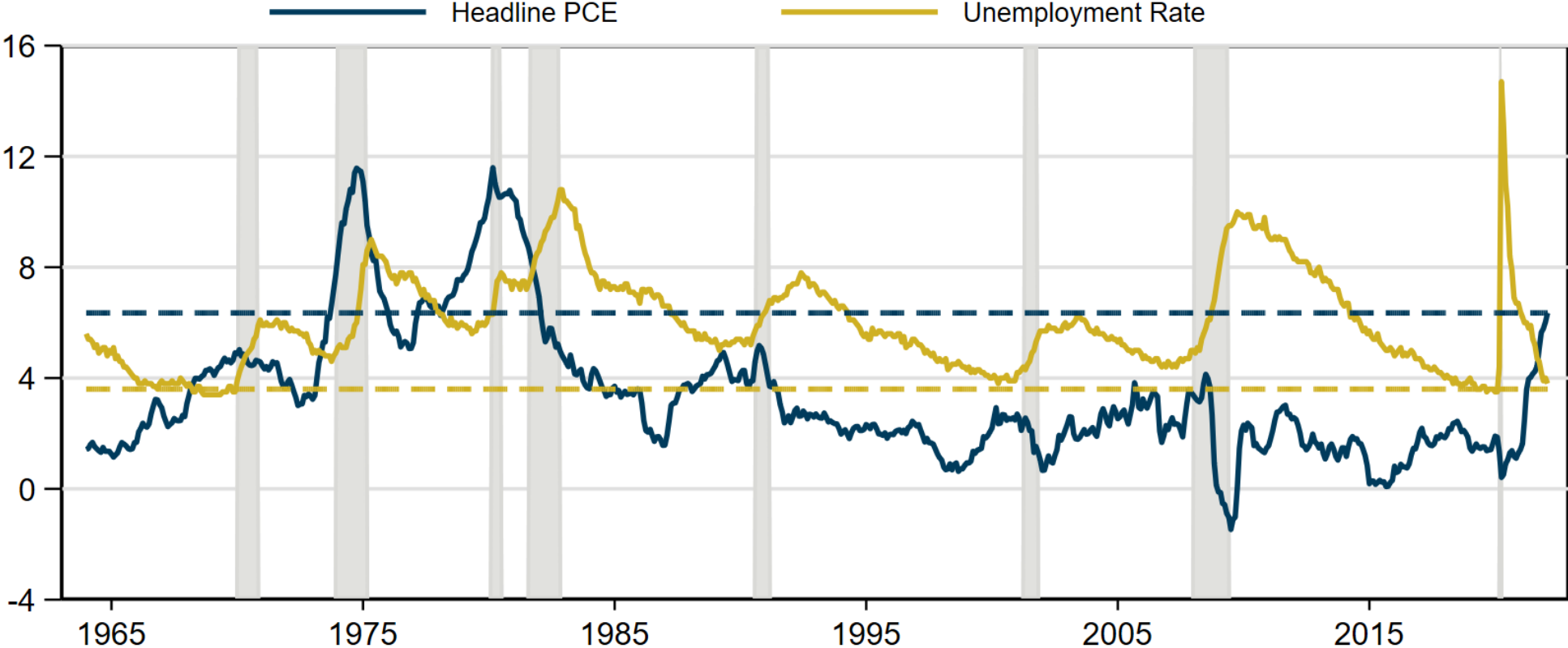


Source: U.S. Bureau of Economic Analysis.

INFLATION AT 40-YR HIGH, UNEMPLOYMENT NEAR 50-YR LOW

INFLATION AND UNEMPLOYMENT

PCE: 12-MONTH PERCENT CHANGE, 2012=100, UR: 16+, PERCENT



Note: Dashed lines reflect latest data.
Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics.

OVERVIEW

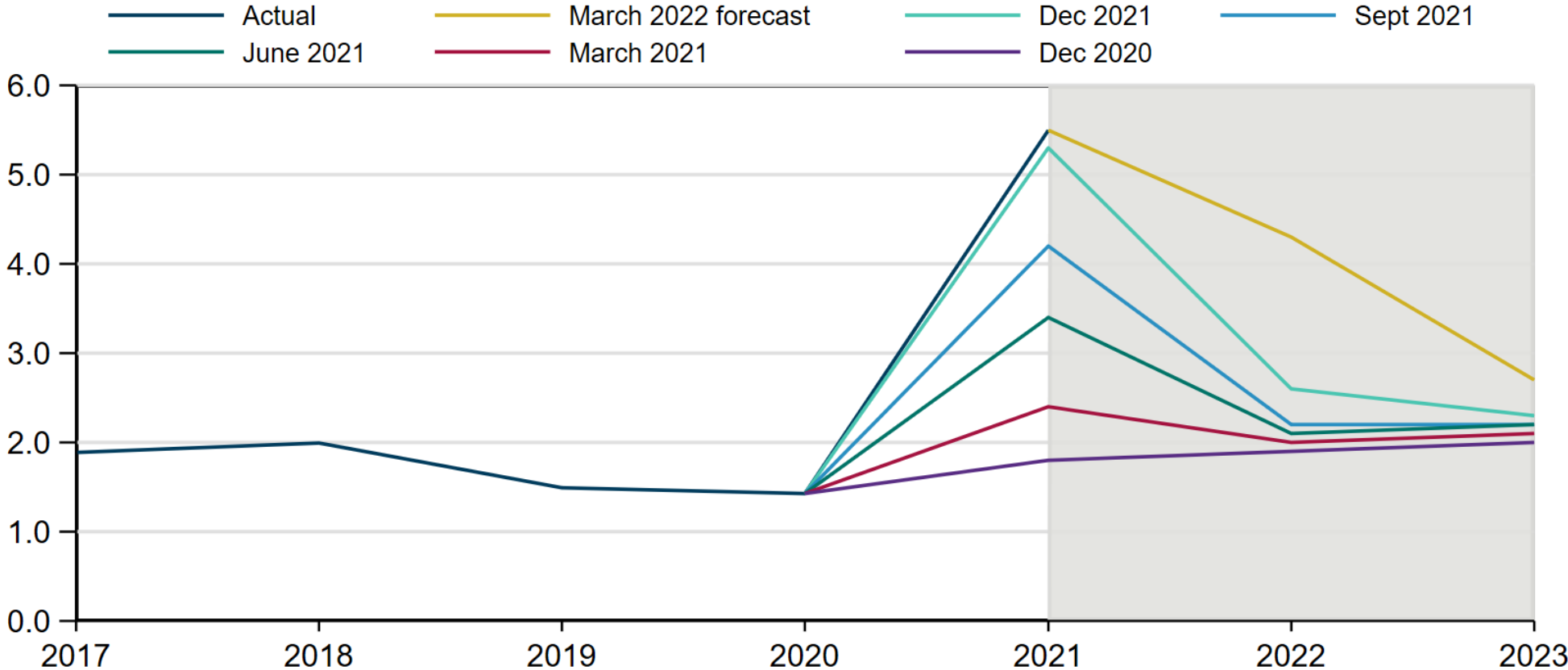
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HIGH INFLATION SURPRISED THE FED ...

PCE INFLATION AND FED FORECASTS

PERCENTAGE CHANGE FROM 4Q TO 4Q

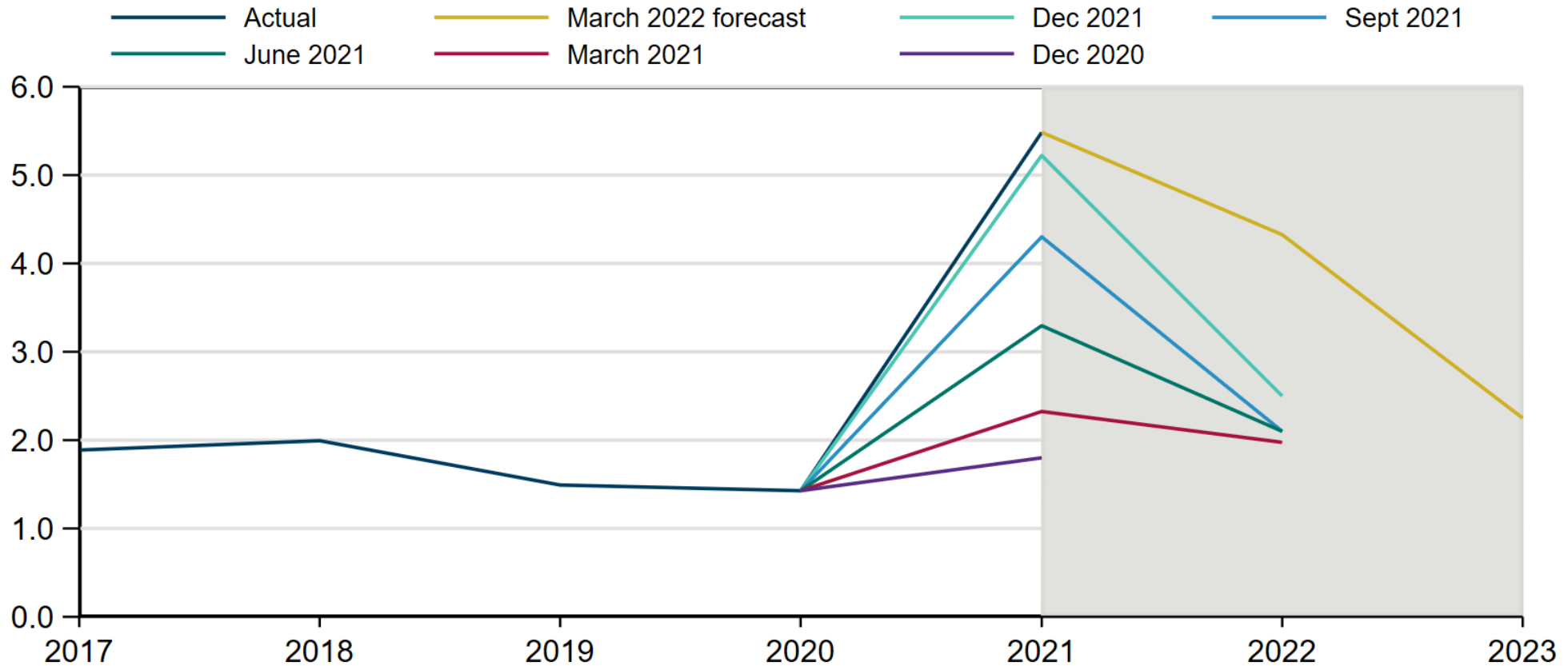


Source: Federal Reserve, U.S. Bureau of Economic Analysis.

... AND PROFESSIONAL FORECASTERS

PCE INFLATION AND PROFESSIONAL FORECASTS

PERCENTAGE CHANGE FROM 4Q TO 4Q

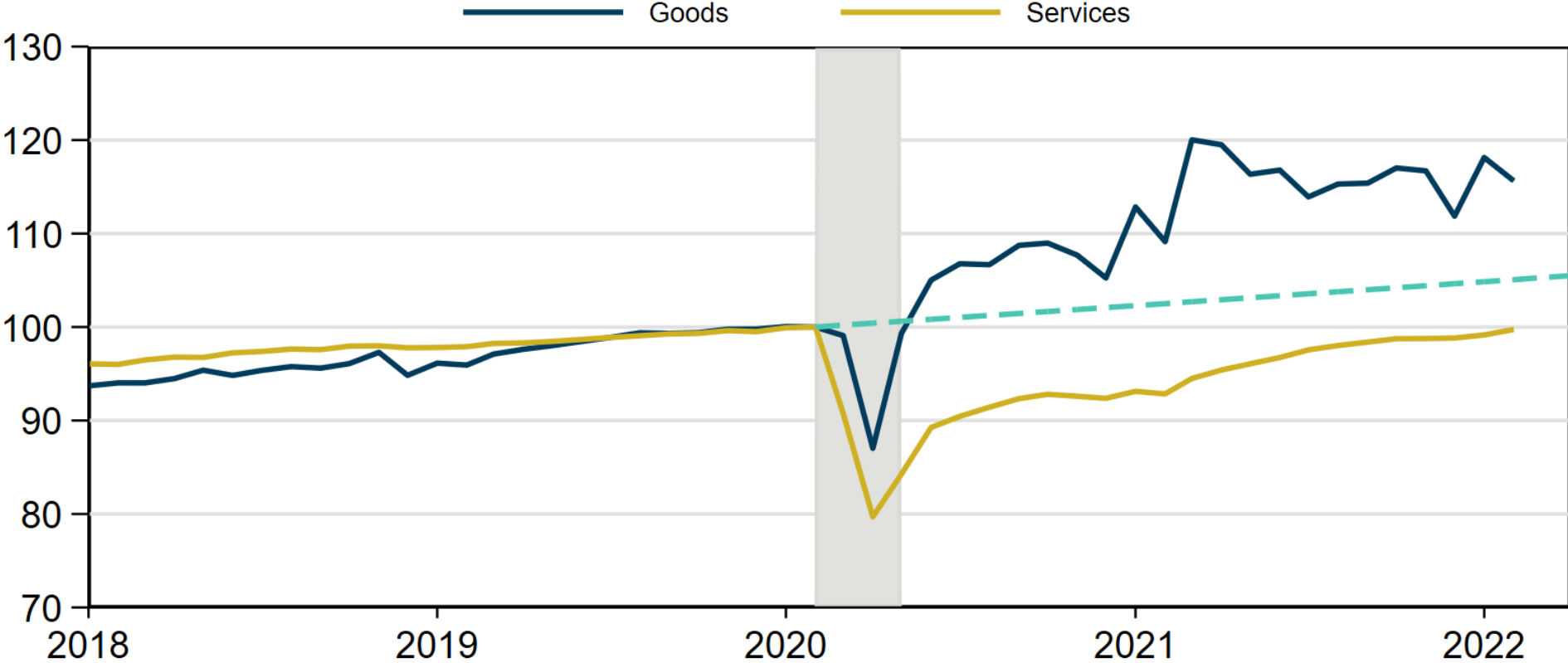


Source: Blue Chip, U.S. Bureau of Economic Analysis.

DURING COVID CONSUMERS SHIFTED TO BUYING GOODS

GOODS AND SERVICES CONSUMPTION

2012\$, FEB-2020=100

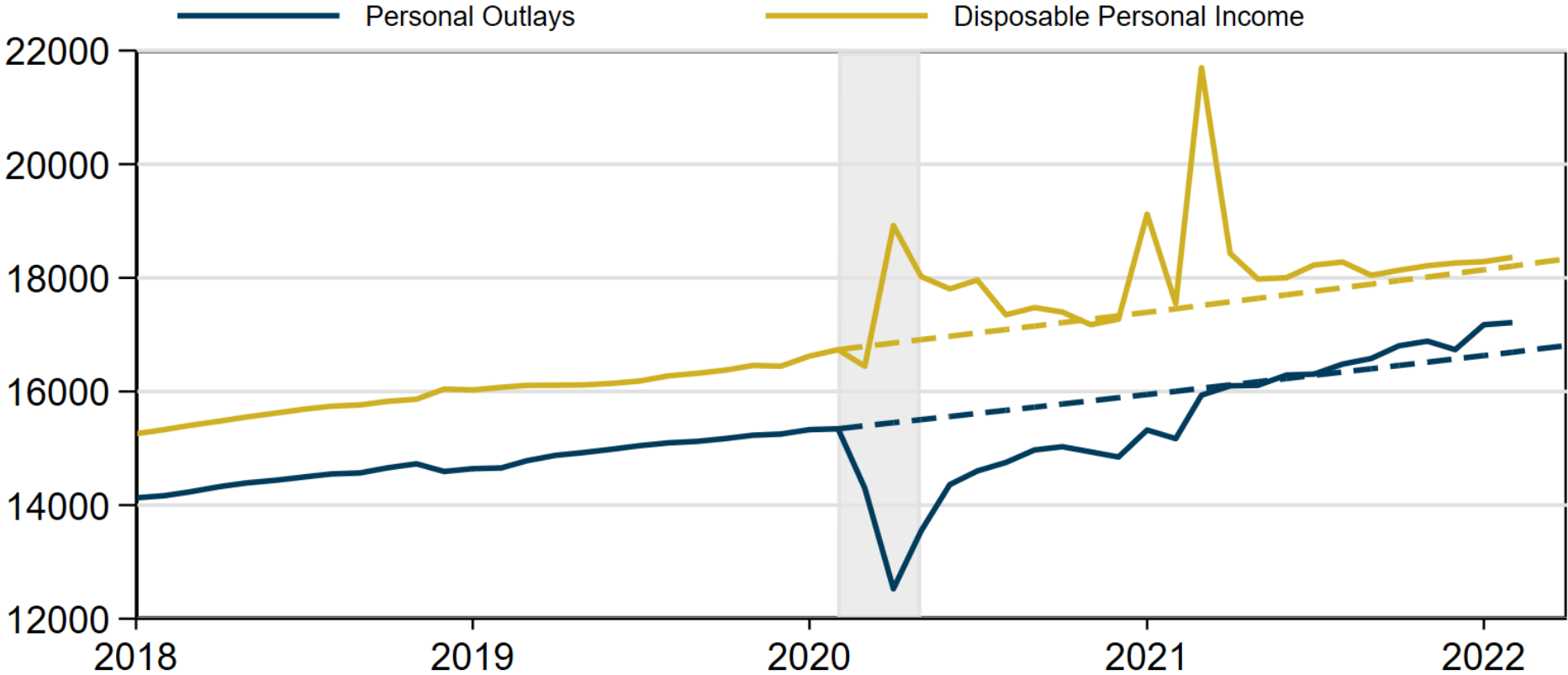


Note: Dashed line reflects pre-COVID trends.
Source: Bureau of Economic Analysis.

GOVERNMENT AID SUPPORTED INCOMES AND SPENDING

INCOME AND SPENDING

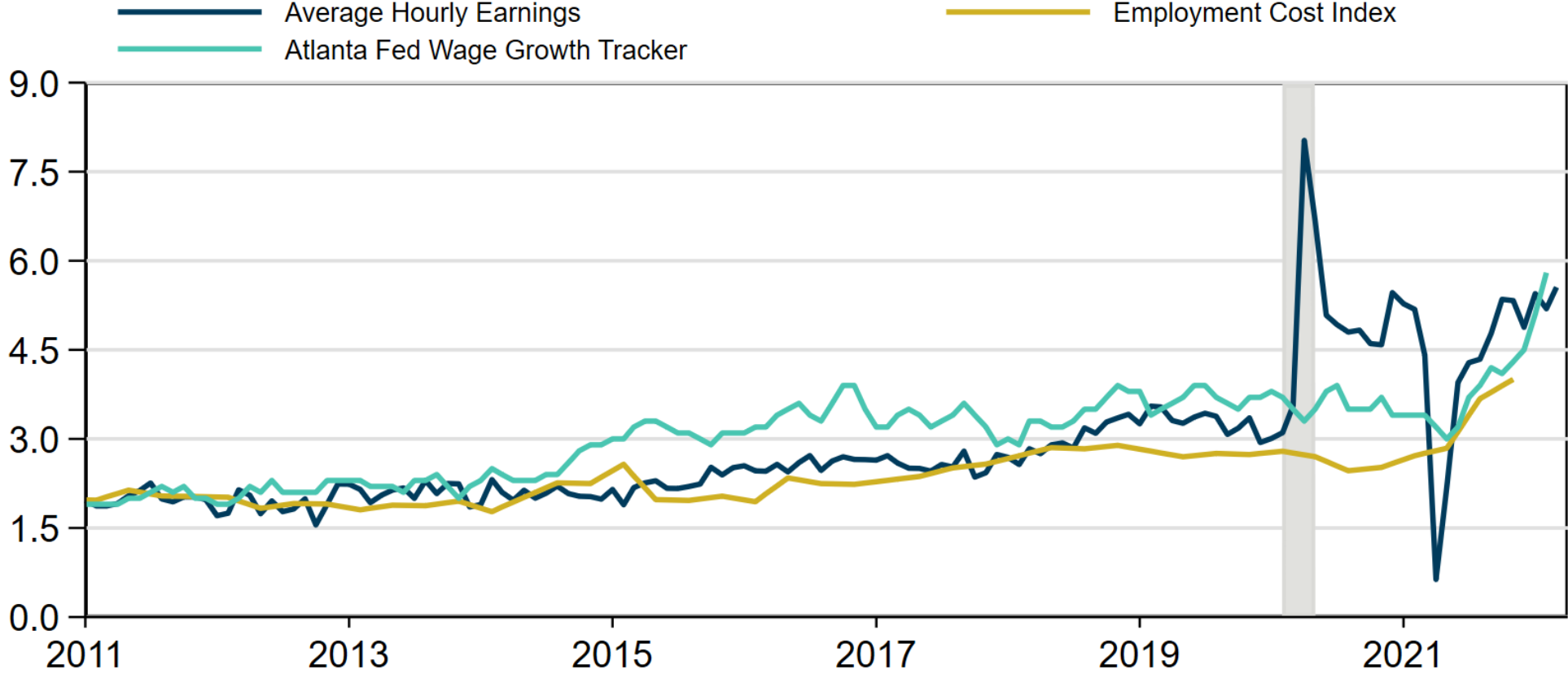
BIL. \$



Note: Dashed lines reflect pre-COVID trends.
Source: Bureau of Economic Analysis.

WAGES ARE RISING, ESPECIALLY FOR LOW-WAGE WORKERS

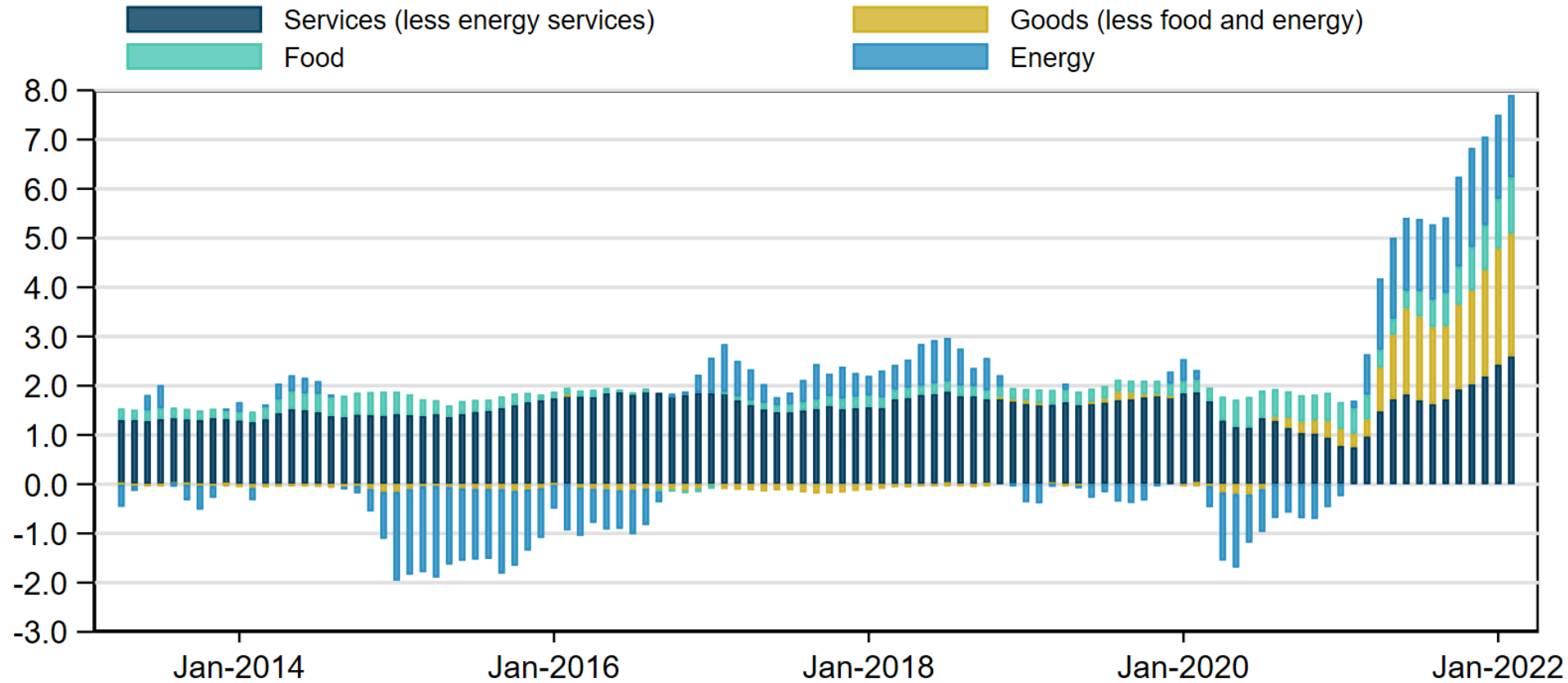
LABOR COSTS 12-MONTH PERCENT CHANGE



Source: Bureau of Labor Statistics, Federal Reserve Bank of Atlanta

GOODS, ENERGY PRICES ARE DRIVING INFLATION

COMPONENTS OF CPI PERCENTAGE POINT CONTRIBUTION, NSA

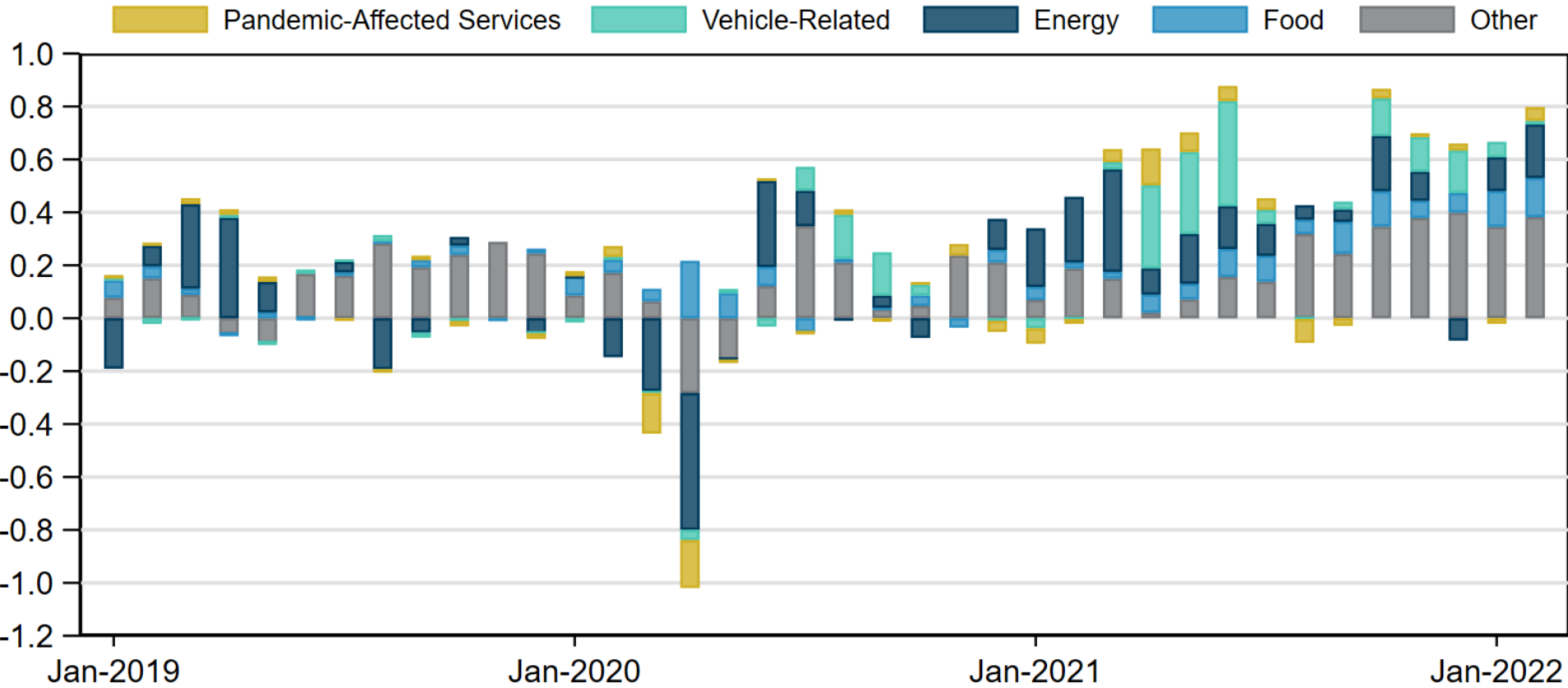


Source: U.S. Bureau of Labor Statistics.

DATA SUPPORTED TRANSITORY INFLATION STORY THRU OCT

CONTRIBUTIONS TO CPI INFLATION

PERCENTAGE POINT CONTRIBUTION, MONTHLY RATE, SA



Source: U.S. Bureau of Labor Statistics.

OVERVIEW

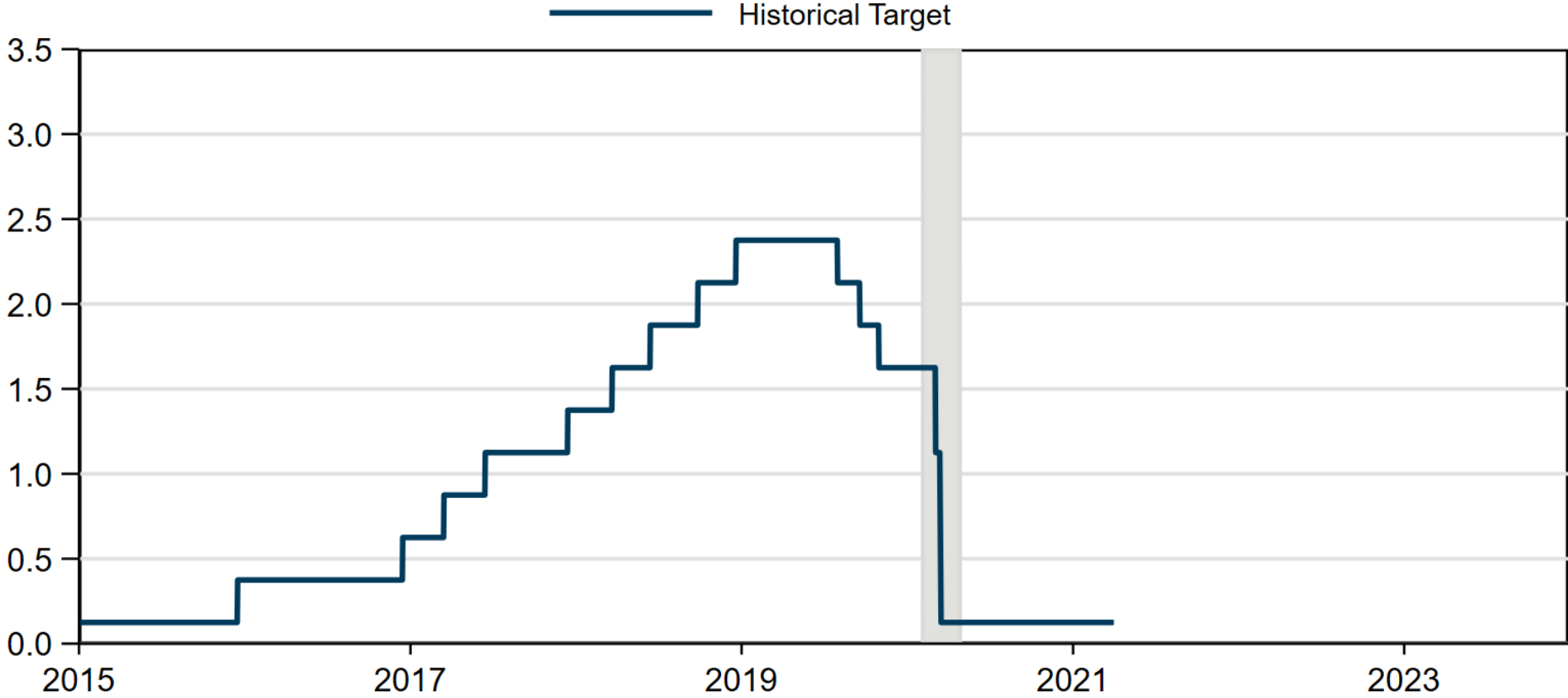
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THE FED ACTED QUICKLY WHEN COVID HIT



FEDERAL FUNDS RATE PERCENT

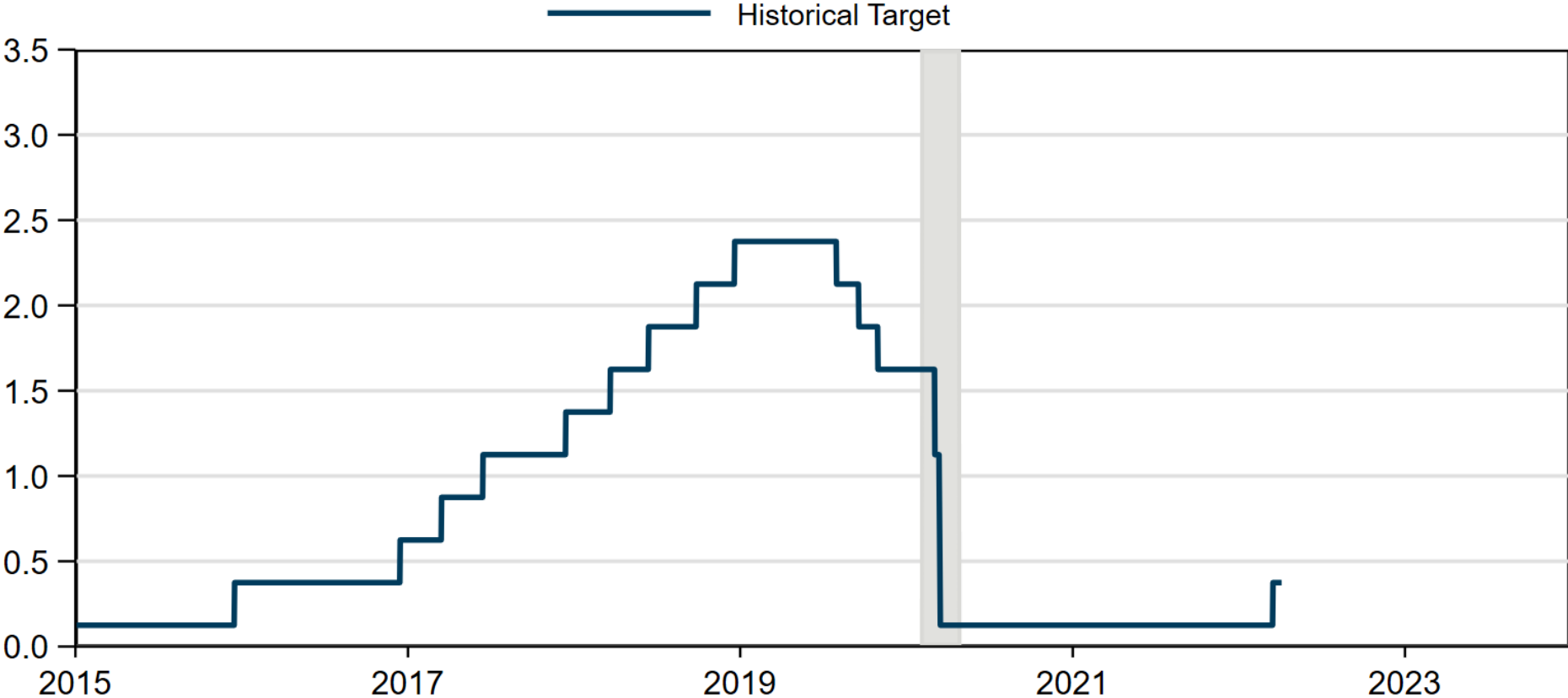


Source: Bloomberg, Federal Reserve Board of Governors.

THE FED HAS STARTED RAISING RATES ...



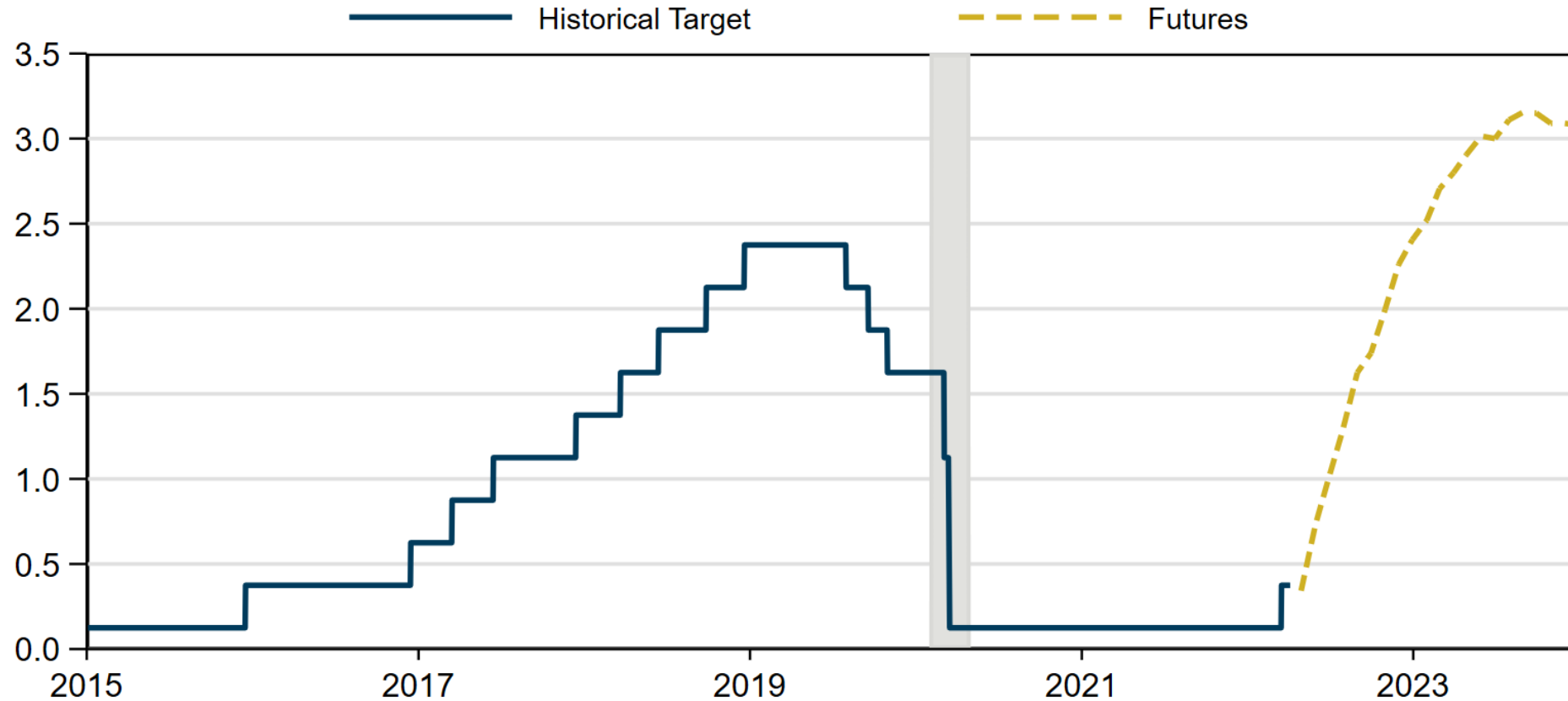
FEDERAL FUNDS RATE PERCENT



Source: Bloomberg, Federal Reserve Board of Governors.

... AND SIGNALLED THAT MORE INCREASES ARE COMING

FEDERAL FUNDS RATE PERCENT

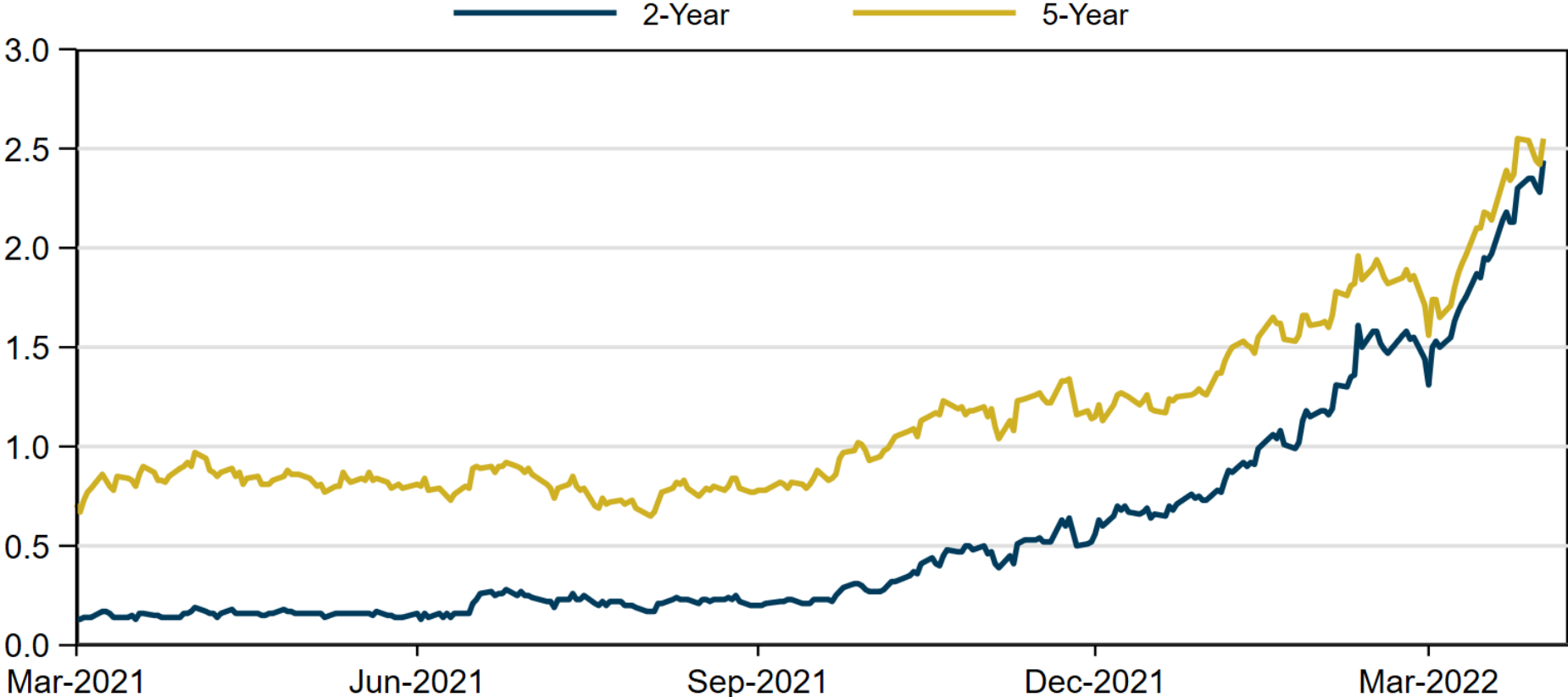


Source: Bloomberg, Federal Reserve Board of Governors.



RISING INTEREST RATES REFLECT THE FED'S TIGHTENING

U.S. TREASURY RATES PERCENT

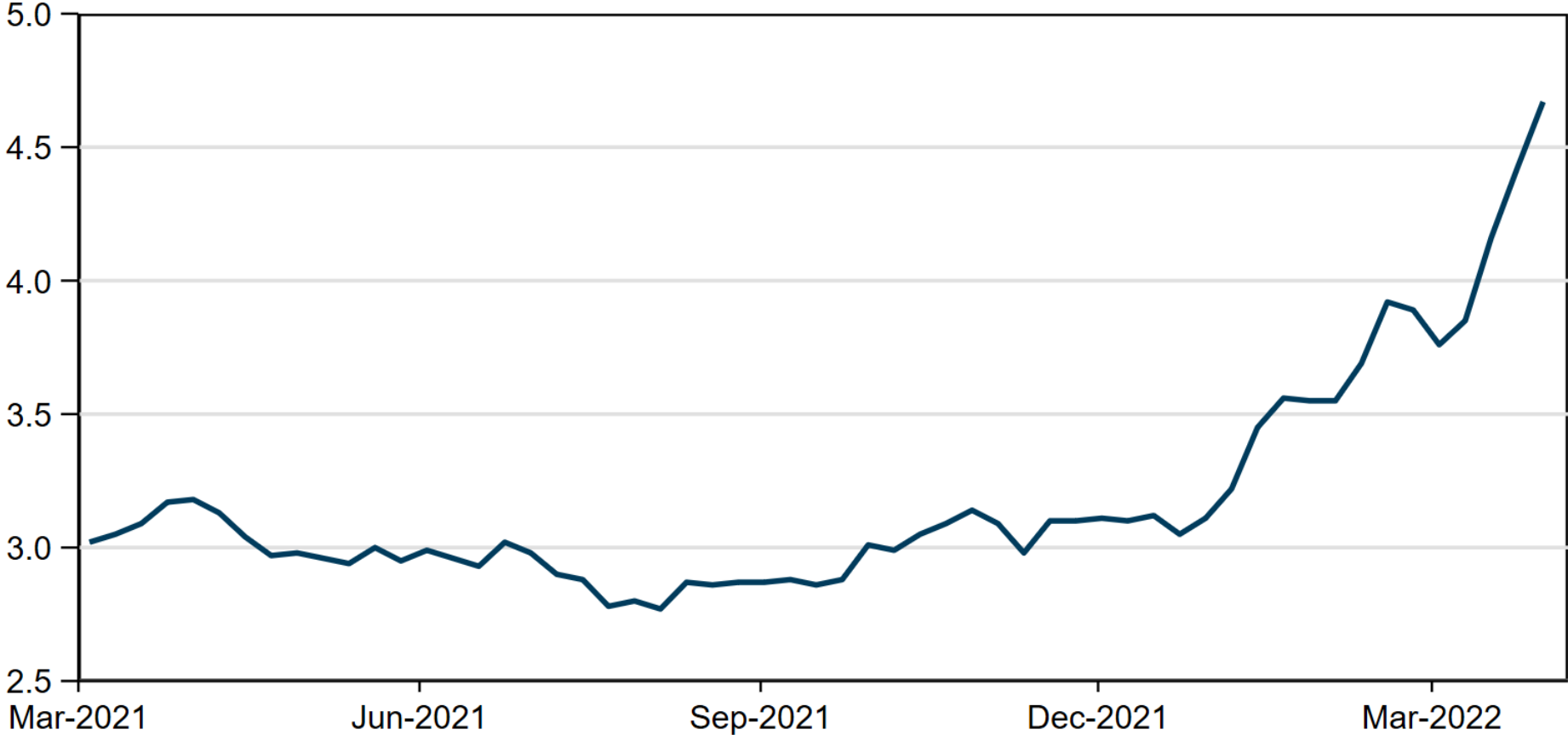


Source: Federal Reserve Board of Governors.

MORTGAGE RATES HAVE RISEN SUBSTANTIALLY

THIRTY-YEAR FIXED RATE MORTGAGES

PERCENT

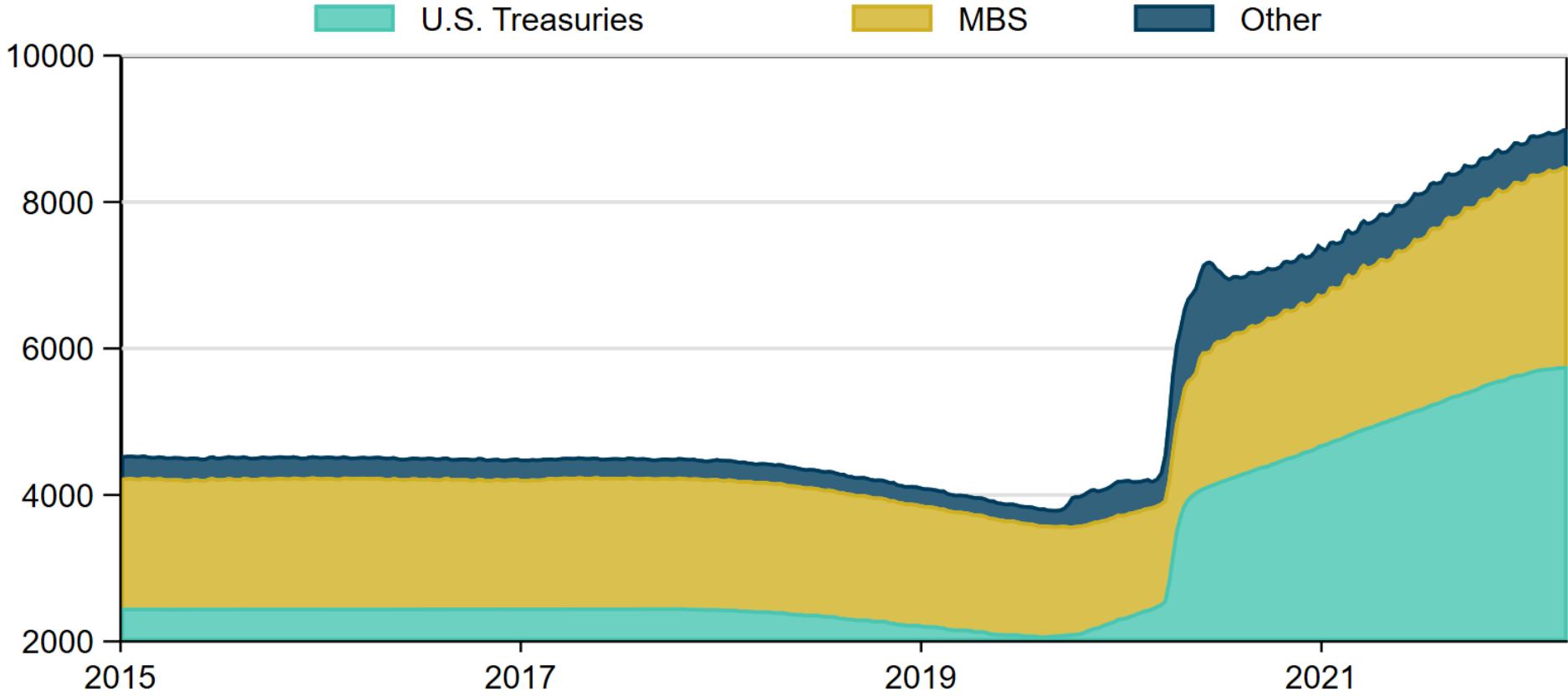


Source: Federal Home Loan Mortgage Corporation.

THE FED'S BALANCE SHEET HAS STOPPED GROWING

ASSETS OF THE FEDERAL RESERVE

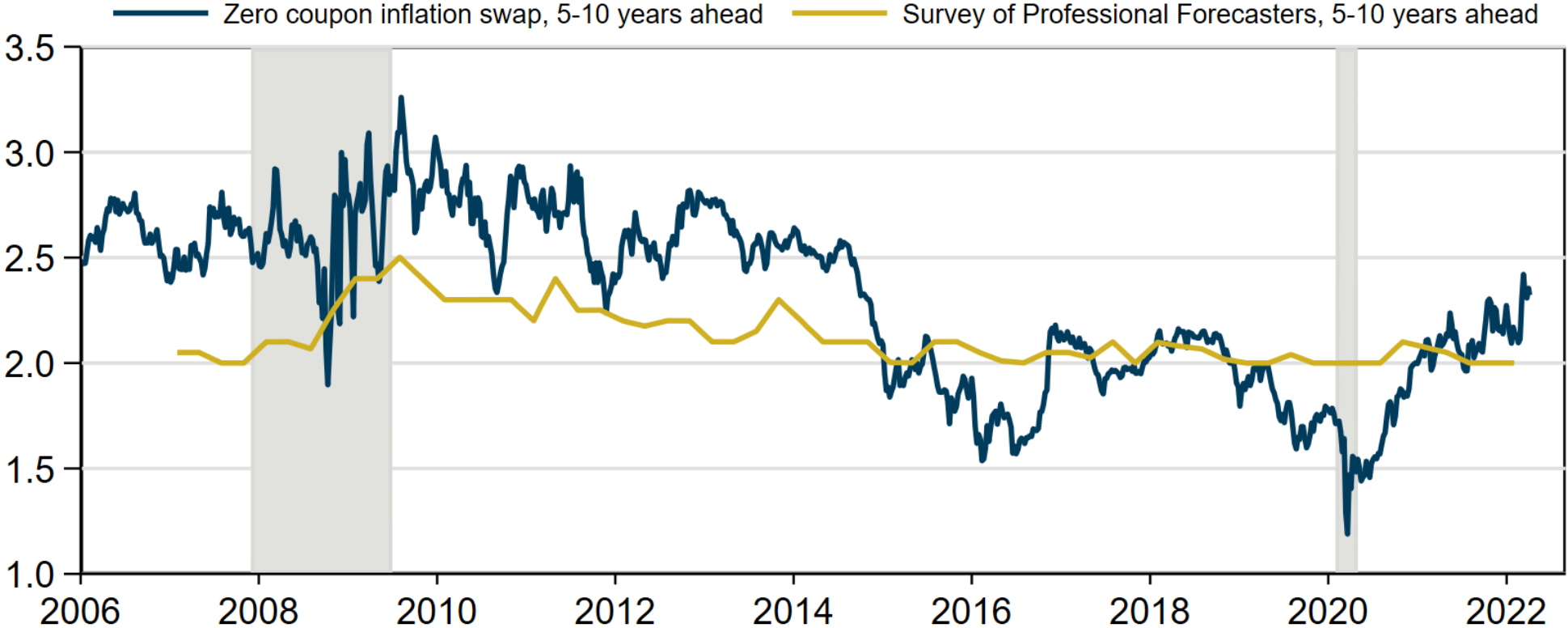
BIL. \$



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

INFLATION EXPECTATIONS REMAIN ANCHORED

LONG-TERM INFLATION EXPECTATIONS PERCENT



Note: Zero coupon adjusted to PCE basis by subtracting 30 basis points.
Source: Bloomberg, Federal Reserve Bank of Philadelphia Survey of Professional Forecasters.

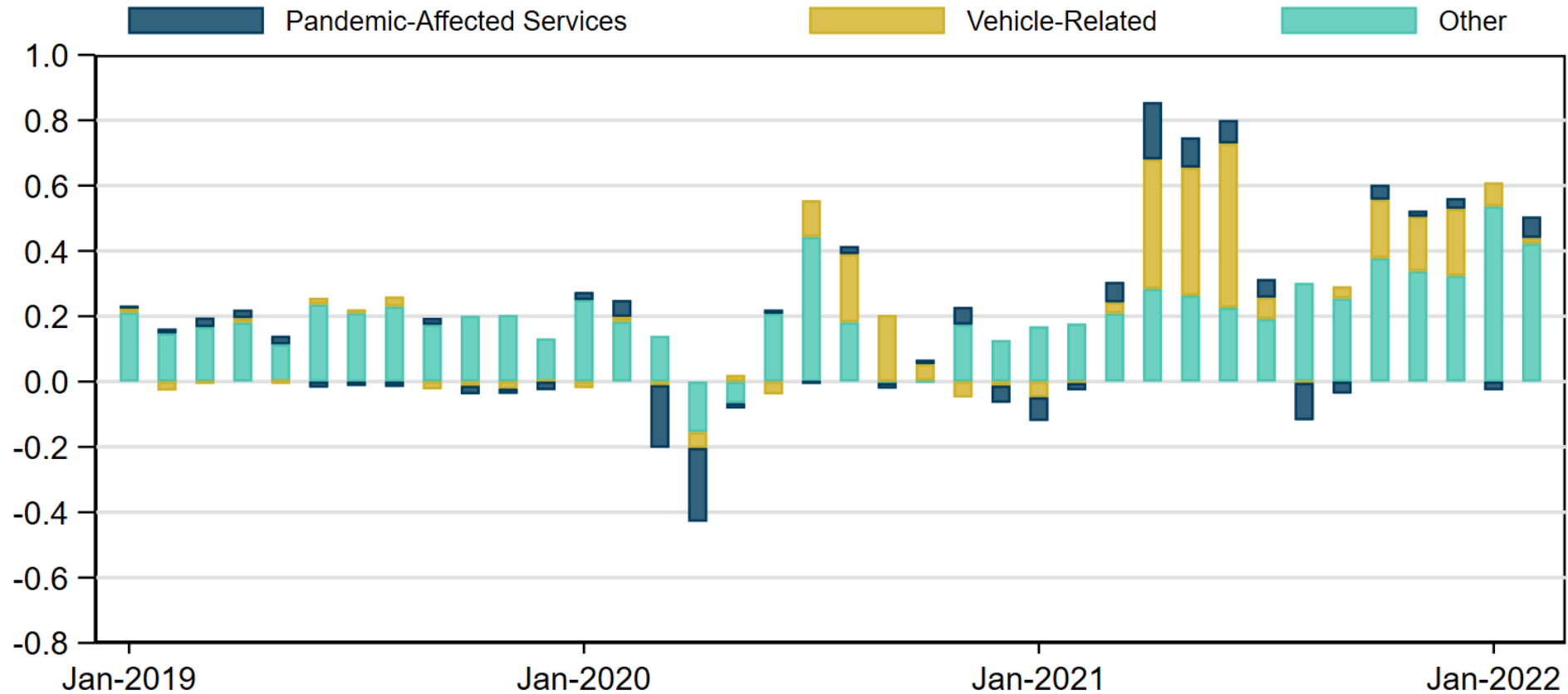
THANK YOU



**FEDERAL RESERVE BANK
OF MINNEAPOLIS**

CONTRIBUTIONS TO CORE CPI INFLATION

PERCENTAGE POINT CONTRIBUTION, MONTHLY RATE, SA



Source: U.S. Bureau of Labor Statistics.