Fed Reports
Best of the Week

Fed Unfiltered

January 13, 2022

Cleveland Fed

Recession necessary to bring inflation down

Hard Landing vs. Soft Landing

"Will a recession be necessary, or even more than mildly helpful, in achieving a return to low and stable inflation? One viewpoint is that long-term inflation expectations exert a strong force on inflation, so that a recession is not necessary."

"But some others are not nearly so upbeat. For instance, former Treasury Secretary Lawrence Summers believes that, just like in the early 1980s, a very long, or very sharp, recession will be necessary to cool off inflation."

"We provide evidence that neither viewpoint is correct. Inflation is very persistent, and anchored inflation expectations exert only a modest force; so, contra those who believe a soft landing is achievable, we demonstrate that a recession will be necessary to bring PCE inflation down to anywhere near 2 percent by the end of 2025. However, the recession need not be very long or very sharp."

Conclusion
"Looking ahead, our model projects that inflation only very gradually falls back to 2 percent. Moreover, this inflation projection (baseline) is strongly influenced by the projected recession. This recession will both remove an upward force on inflation – one that stems from overheating – and impose a downward force on inflation – one that stems from recessionary pressures. In contrast, a counterfactual "soft landing" simulation indicates that without this recession, inflation would remain much more elevated for longer. Lastly, a simple welfare analysis based on a standard quadratic loss function favors a realistic hard landing over both the soft landing and the baseline scenarios. Any concern about the unanchoring of inflation expectations will only reinforce this conclusion."

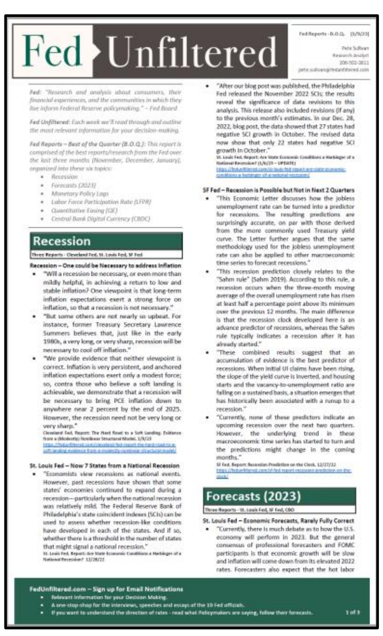
Cleveland Fed, Report: The Hard Road to a Soft Landing, Evidence from a (Modestly) Nonlinear Structural Model 1/9/23

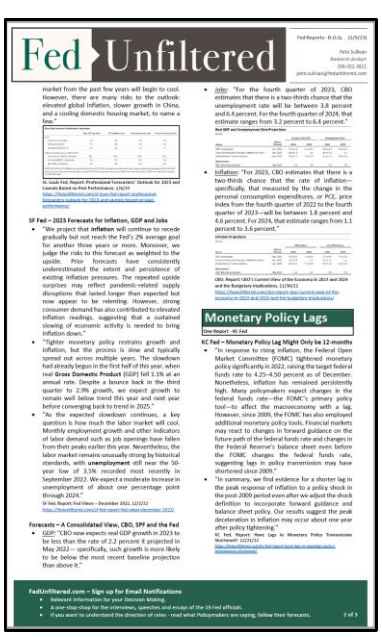
Fed
"Research and analysis about consumers, their financial experiences, and the communities in which they live inform Federal Reserve policymaking." – Fed Board

Fed Unfiltered
Each week we'll read through and outline the most relevant information for your decision-making.

Fed Reports – Best of the Quarter – A report outlining the best research reports published by the Fed over the last three months, organized by topic:

Recession
Forecasts (2023)
Monetary Policy Lags
LF Participation Rate
Quantitative Easing
CB Digital Currency





Fed Unfiltered, Up to Speed: Fed Reports – Best of the Quarter (Nov, Dec, Jan)

Fed Board

Price increases exacerbated

Inflation has not fallen according to expectations

"Broadening price pressures in advanced economies can be attributed to several factors, and the uncertainty is large around how quickly these drivers will recede. Strong demand for goods that was amplified by lockdown-induced supply bottlenecks for inputs and industrial goods resulted in large contributions to core inflation. As consumption has shifted towards services, an increasingly large share of categories of core CPI is showing high rates of increase, and core goods inflation has not yet fallen according to expectations. Price increases have further been exacerbated by reduced supply capacity, prompted by high job vacancies related in part to declines in labor force participation. How these demand-supply imbalances will evolve going forward is difficult to predict but has important implications for the medium-term inflation outlook."

Fed Board, Report: Drivers of Post-pandemic Inflation in Selected Advanced Economies and Implications for the Outlook 1/13/23

Richmond Fed

No moderation yet

Non-housing services

"In his post-FOMC press conference last month, FOMC Chair Jerome Powell specifically mentioned non-housing-related core services (where the biggest components are health care, financial services and insurance, food services, and recreation and transportation services) as important to watch for two reasons:

"Its large contribution to core inflation (about 55 percent)."

"Its close relationship to the labor market, as labor costs are the biggest costs for these services providers."

"Are there signs of moderation in this important indicator? Recent months do not yet show a clear downward trend in this component … As of November, the three-month run rate of core services excluding housing was 4.6 percent, higher than but still close to the average for the past 18 months (4.48 percent)."

Richmond Fed, Report: Watching Services Inflation in 2023 1/10/23

Fed Unfiltered, Up to Speed: F.O.F. – In the Box