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

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Monetary Policy Lags: *The KC Fed finds evidence that the a modern monetary policy lag maybe 12-months, instead of the typical 2-years. Raphael Bostic discusses the uncertainty with lags in a November speech and the Atlanta Fed covers the history of studying lags.*

KC Fed – Lags May have Shortened to 12-Months

- "In response to rising inflation, the Federal Open Market Committee (FOMC) tightened monetary policy significantly in 2022, raising the target federal funds rate to 4.25–4.50 percent as of December. Nonetheless, inflation has remained persistently high. Many policymakers expect changes in the federal funds rate—the FOMC's primary policy tool—to affect the macroeconomy with a lag. However, since 2009, the FOMC has also employed additional monetary policy tools. Financial markets may react to changes in forward guidance on the future path of the federal funds rate and changes in the Federal Reserve's balance sheet even before the FOMC changes the federal funds rate, suggesting lags in policy transmission may have shortened since 2009."
- "In summary, we find evidence for a shorter lag in the peak response of inflation to a policy shock in the post-2009 period even after we adjust the shock definition to incorporate forward guidance and balance sheet policy. Our results suggest the peak deceleration in inflation may occur about one year after policy tightening. However, the uncertainty associated with the response of inflation is high in the post-2009 period."

  KC Fed, Report: Have Lags in Monetary Policy Transmission Shortened? 12/21/22
  https://fedunfiltered.com/kc-fed-report-have-lags-in-monetary-policy-transmission-shortened/

Raphael Bostic – Uncertainty how Lags will Play Out

- "That happens gradually. A large body of research tells us it can take 18 months to two years or more for tighter monetary policy to materially affect inflation. You may be wondering: Why does it take so long?"
- "The US economy is a vast, complex ecosystem of interrelated forces. So, it takes businesses and consumers time to recognize, feel, and act on changes in financial conditions. For instance, firms are continually making capital investments that require financing. If a company has already started to build a factory or introduce a new product line, it will often continue to move forward rather than halt the project in midstream, even though financing costs have changed since it launched the venture. The bite comes for planned projects or expansions down the road; companies may be less likely to start these."
- "To be sure, there is considerable uncertainty about how these policy lags will play out … In fact, one school of thought suggests that the lags may be shorter in part because of policy guidance that, in effect, allows financial markets to react to policy before we implement it."

  Raphael Bostic, Essay: On Long and Variable Lags in Monetary Policy, 11/15/22
  https://fedunfiltered.com/raphael-bostic-essay-on-long-and-variable-lags-in-monetary-policy/

Atlanta Fed – Recent Study and History of Lags

- "People in monetary policy circles sometimes use the phrase "long and variable lags" to describe the delayed impact of the Fed's main policy tool on demand and inflation. The popularization of that phrase can be traced to a speech by Milton Friedman during the 1971 American Economic Association meetings, and since then people usually use it to describe the impact of Fed policy on economic output and inflation. Yet, during that speech, when summing up his work on the subject, he noted that "…monetary changes take much longer to affect prices than to affect output," adding that the maximum impact on prices is not apparent for about one and a half to two years."
- "Since Milton Friedman, many economists have studied these "long and variable lags" (including former Fed chair Ben Bernanke). And, while the length of the lag has proven "variable" as first suggested, the main result still rings true. Changes in the stance of monetary policy have the largest impact on output first and then, much later, on inflation. A large literature bears out this assertion. Bernanke et al. (1999) and Christiano, Eichenbaum, and Evans (2005) point to a two-year lag between monetary policy actions and their main effect on inflation. Gerlach and Svensson (2001) report an approximately 18-month lag in the euro area, while Batini and Nelson (2001) estimate that changes in the money supply have their peak impact on inflation in the UK after a year."

  Atlanta Fed, Report: Lessons from the Past: Can the 1970s Help Inform the Future Path of Monetary Policy? 8/31/22
  https://fedunfiltered.com/atlanta-fed-report-lessons-from-the-past-can-the-1970s-help-inform-the-future-path-of-monetary-policy/

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