Outlook Themes

• Despite tighter monetary policy, inflation remains stubbornly high driven by continued imbalances between supply and demand.

• These imbalances are unlikely to be resolved in the near term by increases in labor supply or manufacturing production.

• To bring inflation down, demand must ease. Thus far, however, consumer spending and production levels have yet to decline despite gloomy outlooks from both consumers and businesses.

• Overall, the FOMC is projecting that monetary policy will have to tighten further to bring inflation back down to its two-percent target.
Inflation remains stubbornly high for core goods and services.

Sources: BEA, Haver Analytics
Labor markets remain tight, leading to persistently elevated wage gains.

Sources: BLS, FRB Atlanta, Haver Analytics
Imbalances between supply and demand are unlikely to be resolved by further increases in labor supply.

Sources: BLS, staff calculations, Haver Analytics
Imbalances between supply and demand are also unlikely to be resolved by a pickup in manufacturing production.

Index, 2017=100
Consumers’ pessimistic outlook hasn’t slowed spending thus far.

Sources: University of Michigan, Haver Analytics
Elevated net worth has enabled strong consumer spending.
Businesses are also gloomy, but production and employment have held steady.

Sources: NFIB, ISM, Haver Analytics
Manufacturing backlogs have helped to keep production from declining thus far even as new orders weaken.

ISM Manufacturing Survey

50+ = Increasing

Sources: Institute for Supply Management, Haver Analytics
Labor demand remains elevated but has started to weaken.
Projections for the federal funds rate have moved higher as inflation and demand remain persistently elevated.
Summary

- Inflation remains elevated as imbalances between supply and demand persist.
- Increases in supply over the past couple of years have not led to sufficiently lower inflation. Thus, demand needs to weaken to push inflation down further.
- A tighter monetary policy path is projected to weaken demand over time and bring inflation back down to its two-percent target.