Key themes for the US economic outlook

• US demand is outstripping US production by a wide margin

• Imports are increasingly being relied upon to fulfill domestic demand, pushing up import prices

• Policy tightening is underway to gate some of this demand and cool inflation

• However, the amount of policy tightening needed is uncertain as supply remains in flux and the demand response to higher rates could be attenuated by excess household savings
US demand is outstripping US production by a wide margin

Index, 2019 = 100
Leaving imports to fill the shortfall of domestic supply

Sources: Census Bureau, NBER, Haver Analytics
Imports are being supplied at higher prices

Sources: BEA, BLS, Haver Analytics
As inflation is high abroad and foreign labor markets are tight

Sources: Statistics Canada, Statistical Office of the European Communities, Office for National Statistics, Haver Analytics
Supply chain impairments are compounding supply and demand imbalances

Source: FRB NY
Strong demand amid constrained supply has lifted underlying inflation

Sources: BEA, Haver Analytics, Staff Calculations
Reducing inflation will require slowing demand

Sources: BEA, NBER, Haver Analytics

Growth in Aggregate Labor Compensation


Percent

-8 0 4 8 12 16
Policy tightening is in train through the balance sheet

Sources: FRB, FRB NY, Haver Analytics
And more tightening is expected through the funds rate

Sources: FRB, CBOT, Haver Analytics
How much tightening is needed is uncertain as supply remains in flux and the demand response to higher rates could be attenuated.
Conclusion

• Domestic demand and production are historically imbalanced

• Foreign supply has filled this gap, but at higher prices

• Reducing inflation will require cooling US demand, in part through tighter monetary policy

• The amount of policy tightening needed is uncertain as supply remains in flux and the demand response to higher rates could be attenuated by excess household savings