Outlook Themes

- The economy has shown surprising resilience amid a rapid tightening in monetary policy.

- Labor markets remain tight, keeping pressure on wage growth.

- There are some signs of easing in labor market tightness, but not enough to tame inflation.

- The outlook for monetary policy is complicated by uncertainties about the debt-ceiling, banking turmoil, and the lagged effects of past policy actions.
Monetary policy has rapidly tightened over the last 15 months

Sources: FRB, Staff calculations, Haver Analytics

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Fed's Bond Holdings

- $250 Bn
- $750 Bn

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Previous 4 Tightening Cycles

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Federal Funds Rate

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Percent

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Trillions $
The economy has thus far proven resilient amid policy tightening.

Sources: BEA, Bloomberg LP, Haver Analytics
Labor markets remain tight, keeping pressure on wage growth

Sources: BLS, FRB Atlanta, Haver Analytics
There are some signs of easing in labor market tightness, but not enough to tame inflation
High inflation is proving to be much more persistent than expected

Year/Year % Change

Core PCE Inflation

Mar-20 Forecast: 2.3%
Mar-22 Forecast: 3.5%

Sources: BEA, Wolters Kluwer, Haver Analytics
As high inflation lingers, longer-term expectations bear watching

Sources: University of Michigan, Haver Analytics
Proposed debt-ceiling resolution avoids default with little economic effect

Sources: U.S. Treasury, Haver Analytics
Banking turmoil could slow growth, but may do little to lower inflation

Index, above zero denotes financial stress

March-2023 Regional Bank Failures

Share of Lending by Bank Size

Sources: Federal Reserve Bank of Kansas City, FRB, Staff calculations, Haver Analytics
Many businesses are not yet feeling the effects of higher rates

Corporate Debt Maturing Each Year

Source: Bloomberg LP
The outlook for monetary policy is unsettled given uncertainties around the debt ceiling, banking stresses, and policy lags.

Sources: FRB, Haver Analytics, Chicago Mercantile Exchange, Staff calculations.
Summary

• The economy’s resilience has been surprising to date, complicating efforts to reduce inflation.

• More policy tightening, or a prolonged period of maintaining elevated policy rates, could be needed to bring inflation down to 2 percent.

• A slew of uncertainties accompany the policy rate outlook.