Outlook themes

- Growth outlook remains strong, notwithstanding concerns over inflation.
- Inflation pressures have been persistent and broadening.
- Monetary policy set to tighten with discussion of appropriate pace and composition (policy rate and balance sheet.)
Growth outlook supported by strong consumption fundamentals
Consumption support by strong labor market, …
..., rising wages, ...

Wage Growth

Year/Year % Change

Sources: FRB Atlanta, Haver Analytics
..., and healthy household balance sheets.

Sources: BLS, FRB, Haver Analytics
But threatened by falling consumer confidence.

Index of Current Economic Conditions

Index, Q1-1966 = 100

Buying Conditions for Large Household Goods

Sources: University of Michigan, Haver Analytics
Inflation is at a 40-year high

12-month % Change

Sources: BEA, Haver Analytics
Outlook for inflation: Broadening price pressures

Year/Year % Change

Sources: BEA, FRB SF, Haver Analytics

Durable Goods  Services

Share of Expenditures with Large Price Declines
Share of Expenditures with Large Price Increases

Sources: BEA, FRB SF, Haver Analytics
Outlook for inflation: Little fallback in pandemic-elevated prices

Index, 2012 = 100

Sources: BEA, Haver Analytics
Outlook for inflation: Global pressures

Year/Year % Change

Euro Area CPI

China CPI

Non-Fuel Import Price Index

Sources Statistical Office of European Communities, China National Bureau of statistics, BLS, Haver Analytics
Outlook for inflation: Inflation expectations

Sources: FRBNY, Haver Analytics

One-Year Ahead Expected Inflation Rate
Three-Year Ahead Expected Inflation Rate
Monetary policy remains very accommodative

Sources: BEA, Haver Analytics
Growing expectations of a pull back in policy accommodation

The Federal Open Market Committee agreed that it is appropriate at this time to provide information regarding its planned approach for significantly reducing the size of the Federal Reserve’s balance sheet. All participants agreed on the following elements:

- The Committee views changes in the target range for the federal funds rate as its primary means of adjusting the stance of monetary policy.
- The Committee will determine the timing and pace of reducing the size of the Federal Reserve’s balance sheet so as to promote its maximum employment and price stability goals. The Committee expects that reducing the size of the Federal Reserve’s balance sheet will commence after the process of increasing the target range for the federal funds rate has begun.
- The Committee intends to reduce the Federal Reserve’s securities holdings over time in a predictable manner primarily by adjusting the amounts reinvested of principal payments received from securities held in the System Open Market Account (SOMA).
- Over time, the Committee intends to maintain securities holdings in amounts needed to implement monetary policy efficiently and effectively in its ample reserves regime.
- In the longer run, the Committee intends to hold primarily Treasury securities in the SOMA, thereby minimizing the effect of Federal Reserve holdings on the allocation of credit across sectors of the economy.
- The Committee is prepared to adjust any of the details of its approach to reducing the size of the balance sheet in light of economic and financial developments.
The pace of tightening: Financial market considerations

Fed Funds Rate Implied by 12-month Futures Price
Fed Funds Rate

Sources: CME, FRB, Haver Analytics
The pace of tightening: Risks remain

Sources: EIA Daily Energy Prices, Haver Analytics
The pace of tightening: Flattening of the yield curve

Sources: FRB and Haver Analytics
Bank demand for reserves is uncertain