Outlook themes

• Overall growth is expected to remain above trend this year.

• Demand continues to exceed available supply, leading to higher prices.

• The pickup in inflation is broad based across components.

• With elevated inflation and continued tight labor market conditions, the FOMC has begun the process of normalizing the stance of policy.
Overall growth is expected to remain above trend this year.

Sources: BEA, NBER, FRB, Haver Analytics
Strong demand continues to exceed available supply.

Real Gross Domestic Product

- 3.1% higher than before pandemic

Payroll Employment

- 1.2 Million fewer jobs than before the pandemic

Sources: BLS, BEA, Haver Analytics
This imbalance between demand & supply has led to higher prices.
The increase in inflation is broad based across components.
Food & energy prices surged after the invasion.

Sources: Food and Agricultural Organization of the UN
An acute imbalance between supply & demand raised automobile prices.

Sources: FRB, NBER, University of Michigan, Manheim, Haver Analytics
A strong labor market, limited supply, and demand for additional space has led to higher housing prices.

Sources: BEA, BLS, NBER, Haver Analytics

Reminder: All Board meeting materials and discussion are considered confidential

Sources: BEA, BLS, NBER, Haver Analytics
Policymakers have started to normalize the funds rate.

Sources: FRB, NBER, Haver Analytics

Federal Funds Rate

Percent


0.0 0.5 1.0 1.5 2.0 2.5 3.0

Policy Interest Rate  Mar 2022 FOMC Forecast

Sources: FRB, NBER, Haver Analytics
The FOMC has announced balance sheet runoff will begin in June.

- For Treasury securities, the cap will initially be set at $30 billion per month and after three months will increase to $60 billion per month.

- For agency mortgage-backed securities, the cap will initially be set at $17.5 billion per month and after three months will increase to $35 billion per month.

- This reflects a faster pace of decline than the 2017-19 runoff period.

- Discussion in March FOMC meeting minutes suggests monthly caps will likely bind for Treasuries but redemption of mortgage-backed securities may not hit proposed caps.
Conclusions

- The U.S. economy continues to experience solid demand in the context of hampered supply.

- This imbalance between demand and supply has led to a broad-based pickup in inflation.

- Policymakers are responding to elevated inflation and tight labor markets by removing accommodation through both the funds rate and balance sheet.