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Key Questions on the Path to “Normal”: The U.S. Case

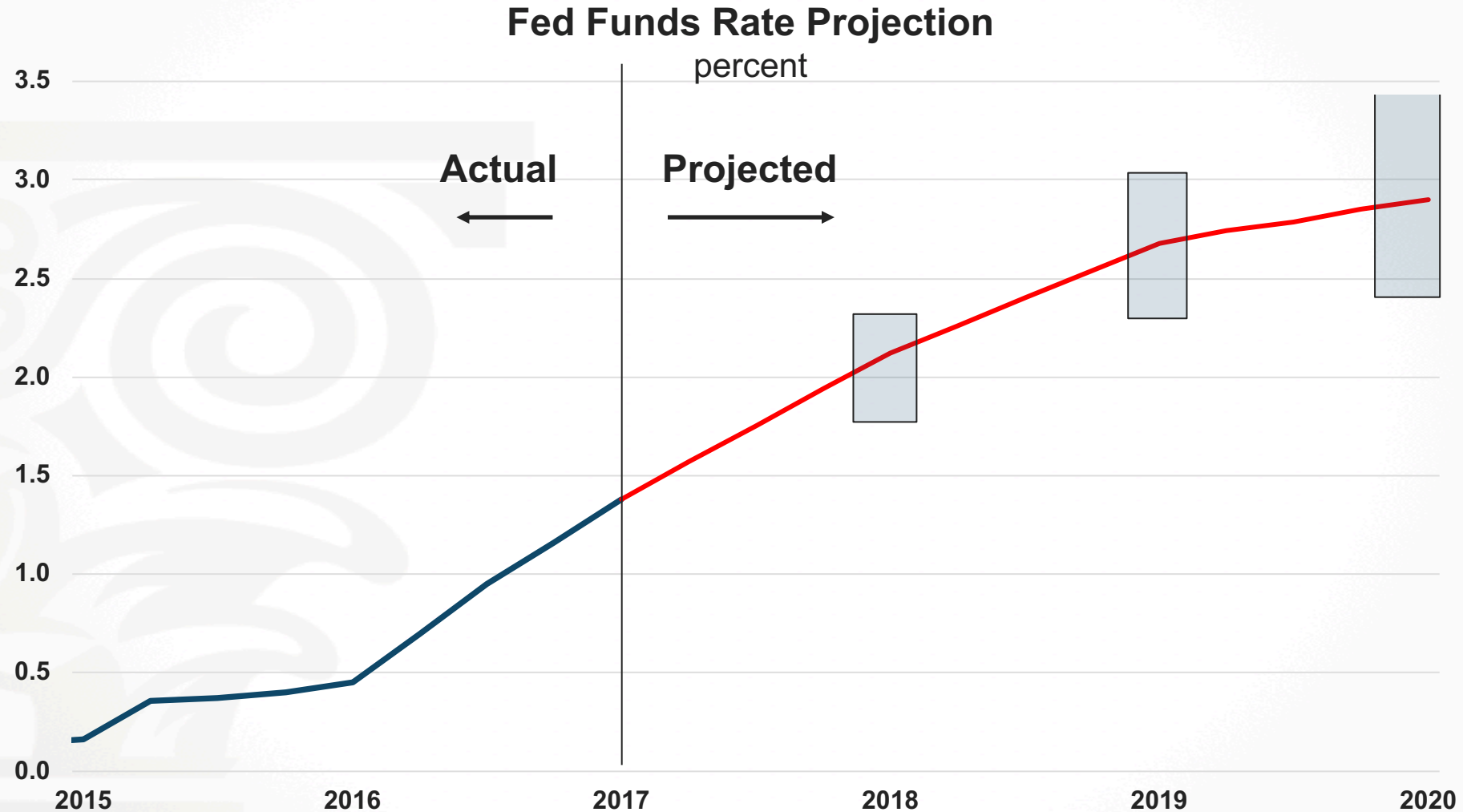
Global Interdependence Center,
SUERF -The European Money
and Finance Forum and Deutsche
Bundesbank Conference

Frankfurt, Germany

February 8, 2018

The views expressed in this presentation do not represent those of the Federal Reserve Bank of Atlanta, the Federal Reserve System, or anyone other than the presenter. If you think you heard otherwise, you are mistaken.

The view from the FOMC (as of December): Slow and steady goes the policy rate.

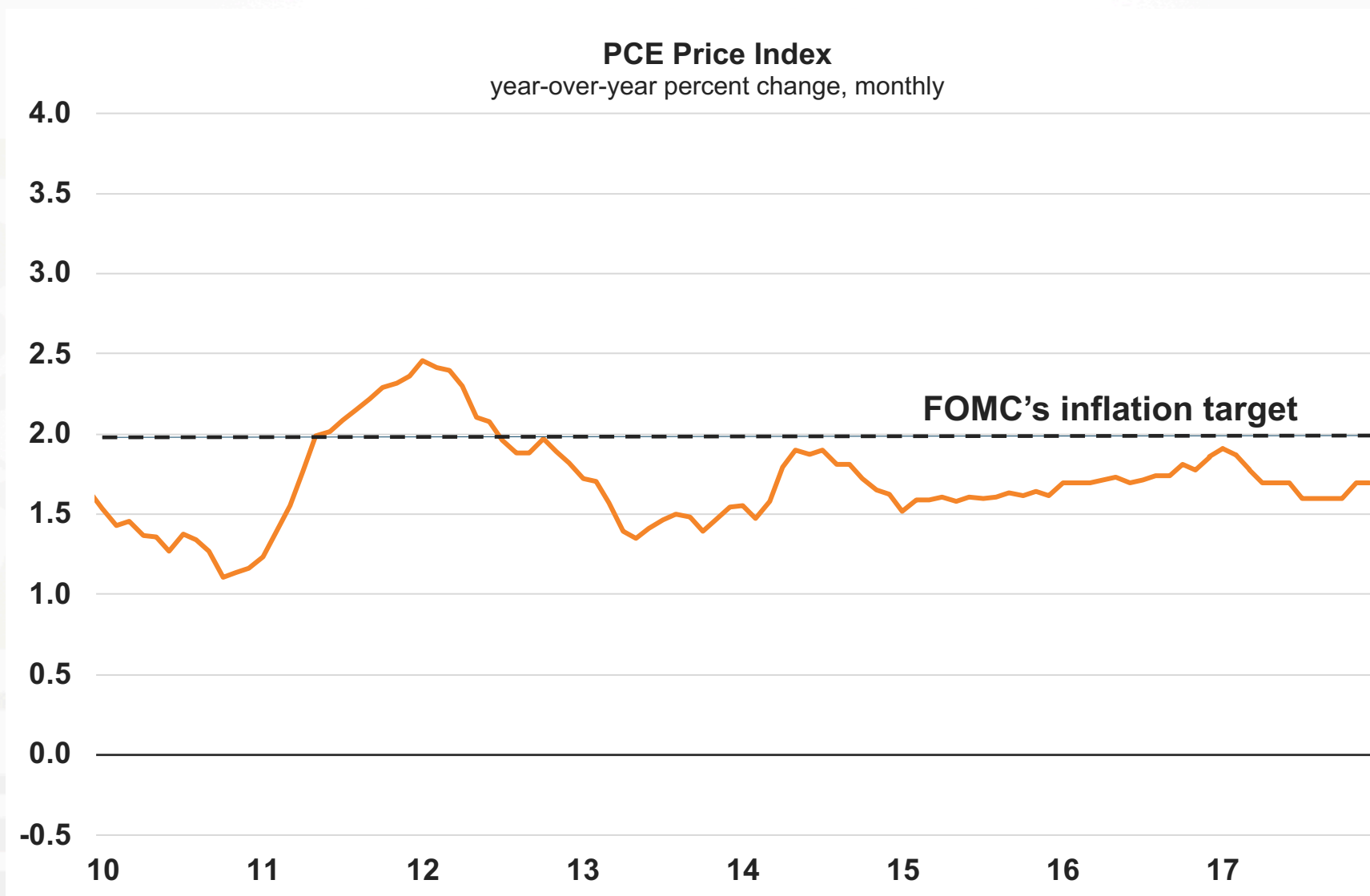


The red line is the median projection; shaded bars represent the “central tendency” of projections.

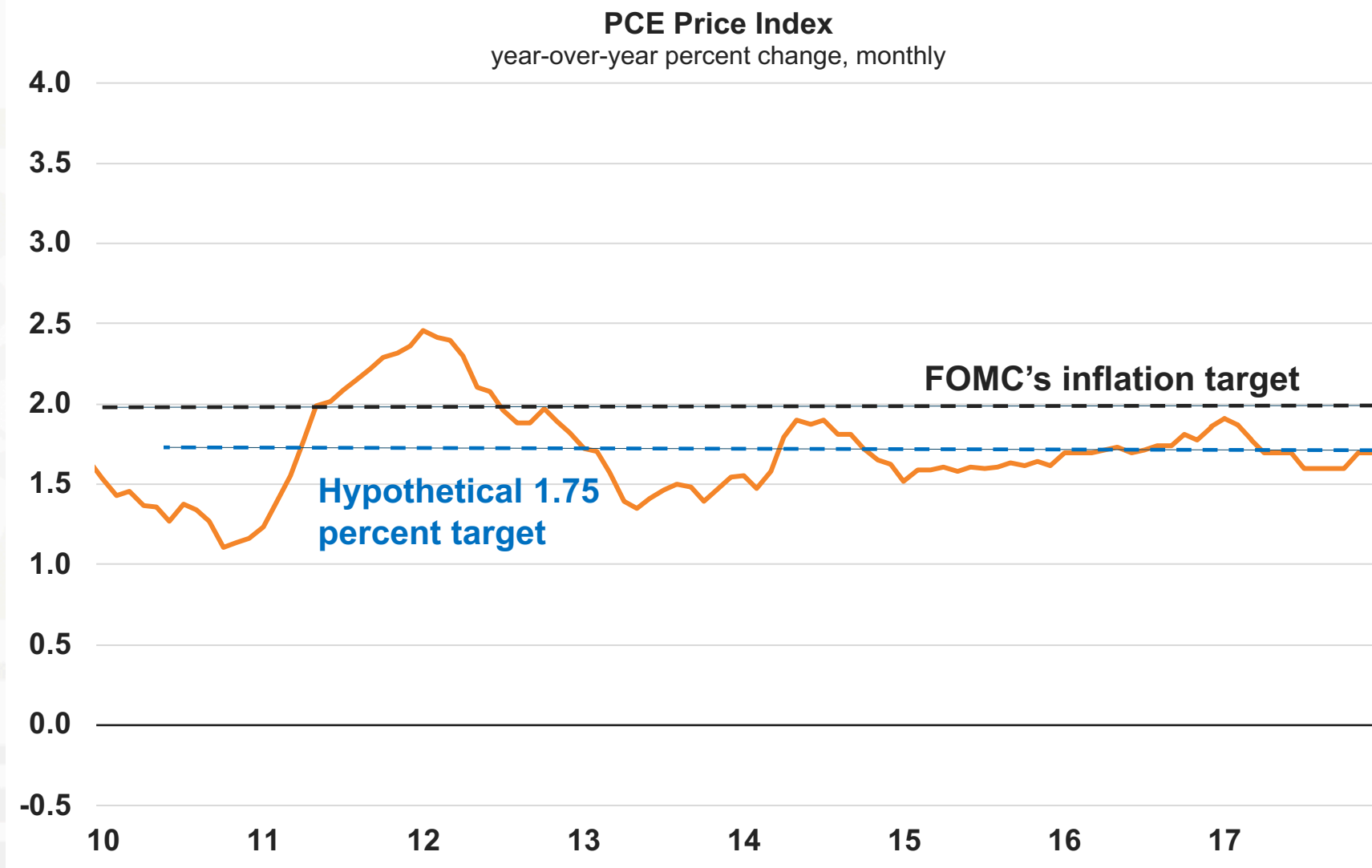
The watch list

- **Will inflation finally (b)reach the 2 percent longer-run target?**
- **How big a bump from tax reform?**
- **Whither r^* ?**

A concern: If the inflation goal is 2 percent, we have running soft for 5 years.

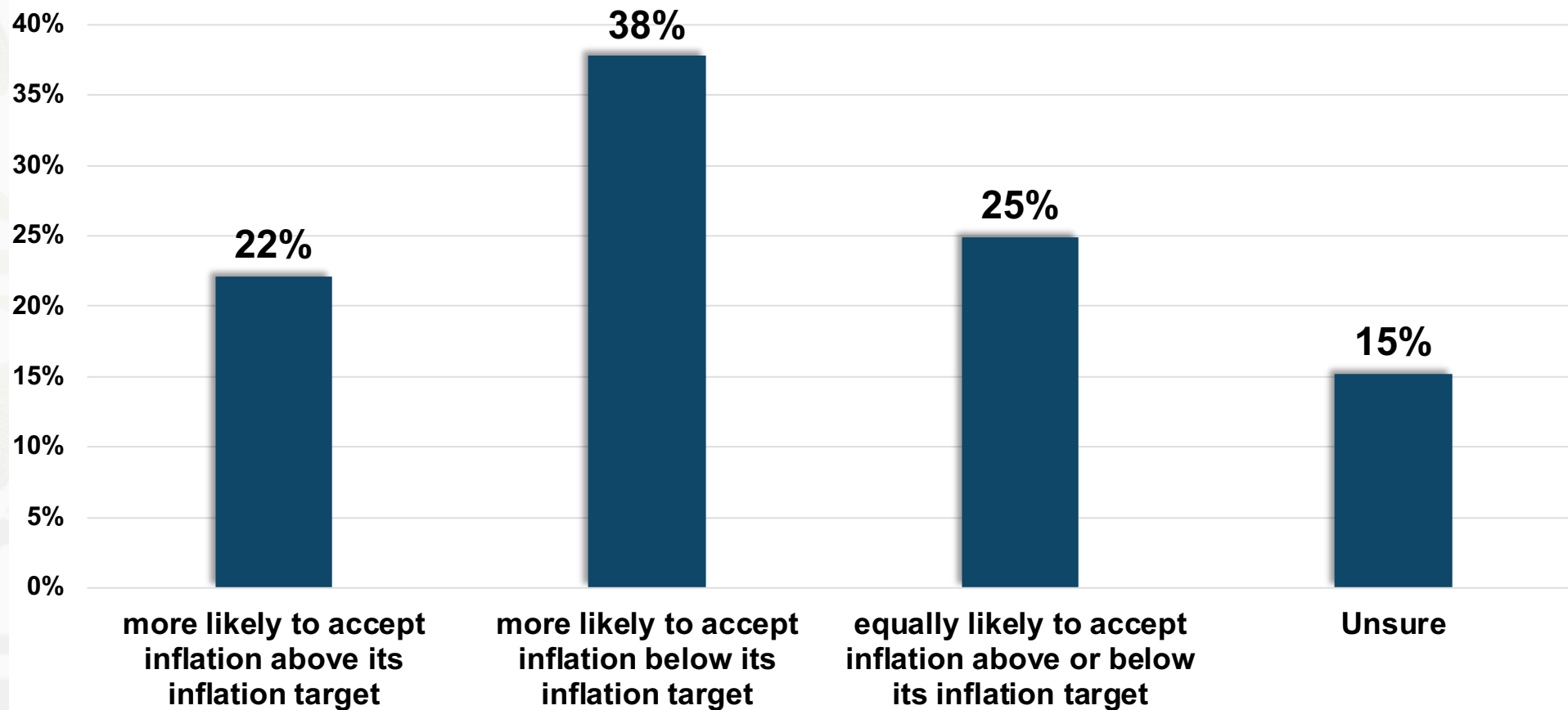


An observation: If the inflation goal was 1.75 percent, the inflation rate of the past 5 years would look just about right.

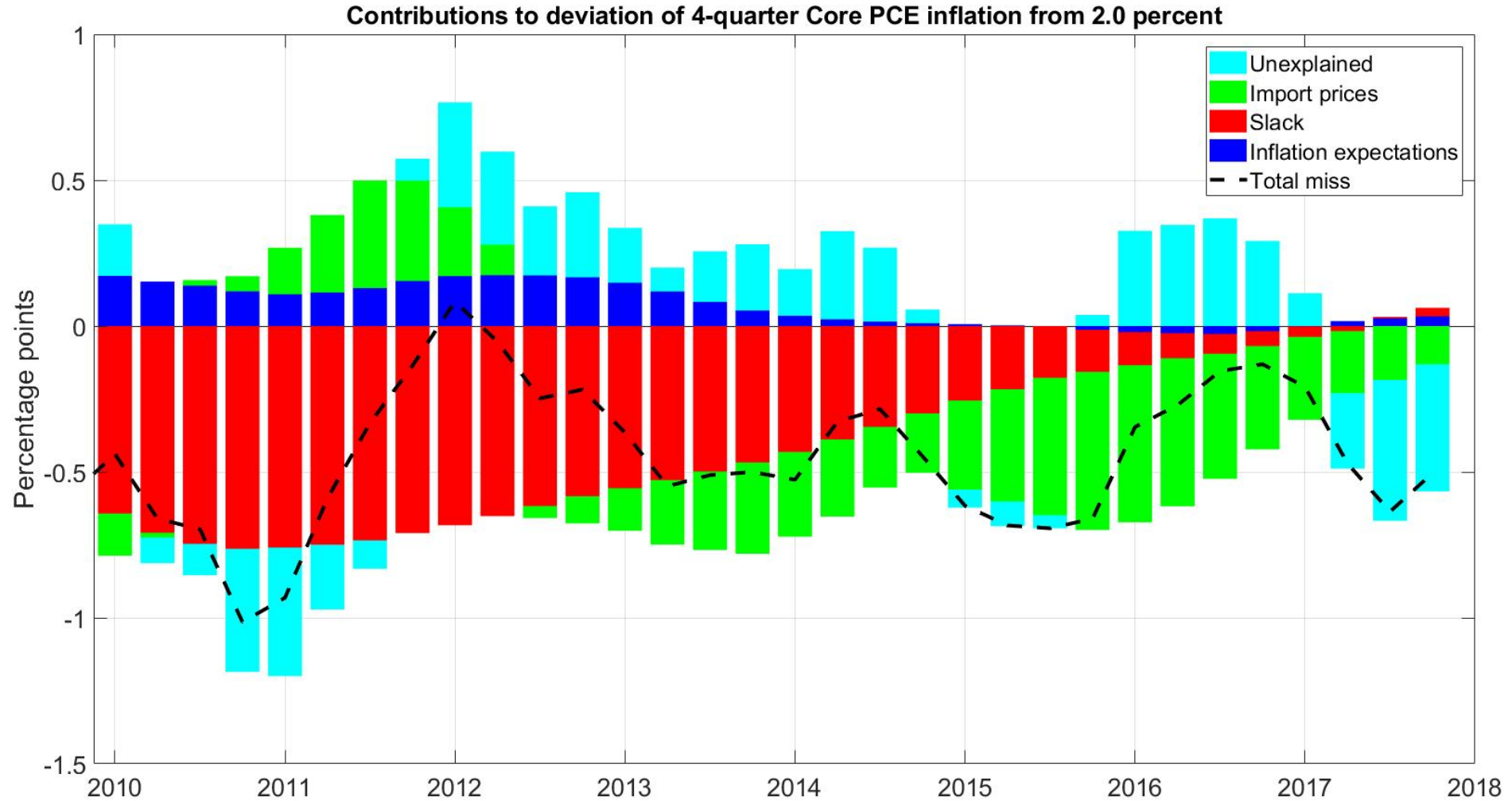


Our survey indicates many businesses believe the Fed is most worried about inflation rising above 2%.

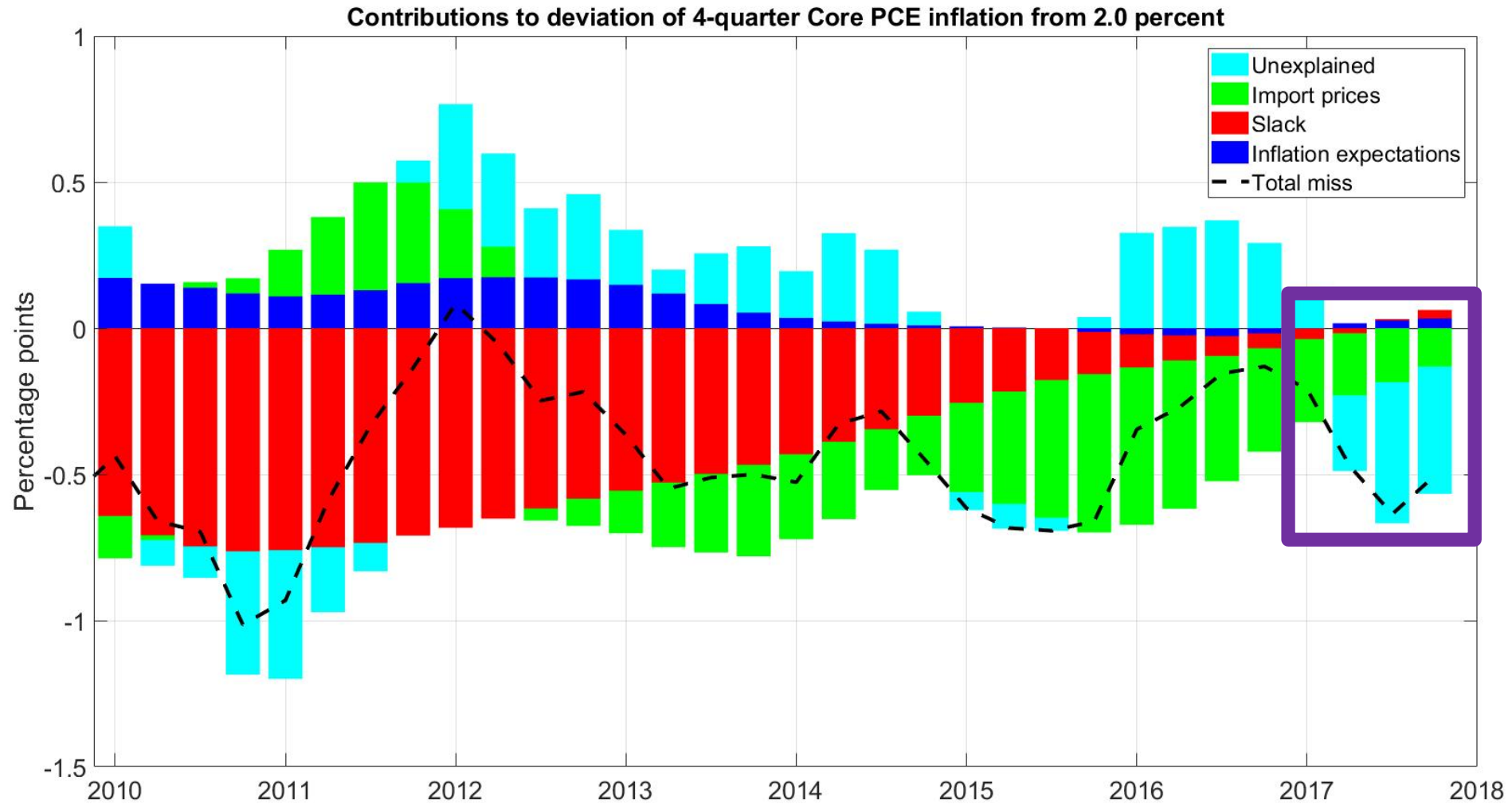
Firms' Perception of Federal Reserve's Tolerance for Inflation Above/Below its Inflation Target
percentage of responses



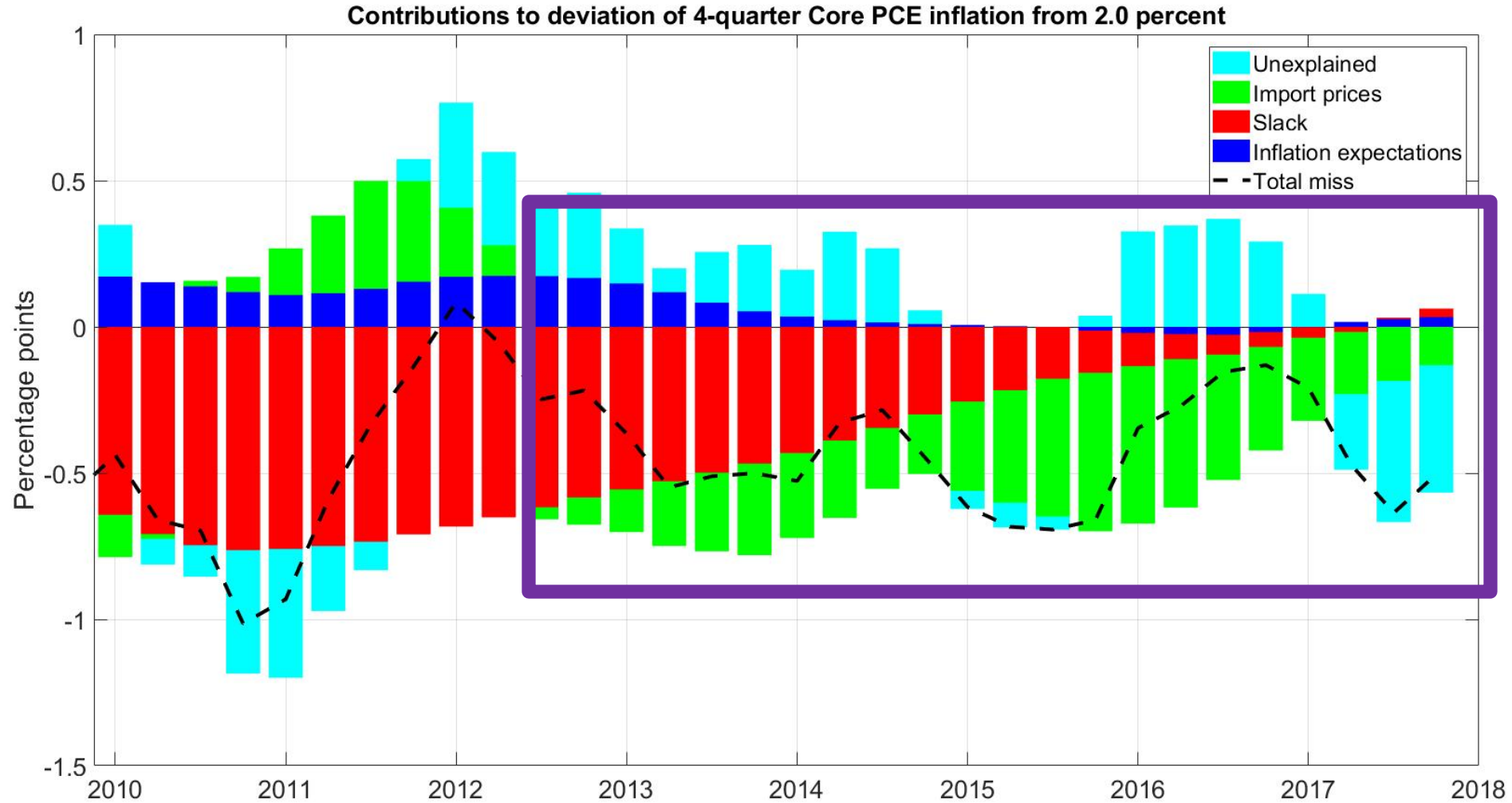
Decomposing the recovery's soft inflation numbers: Expectations, slack, import prices, and we just don't know.



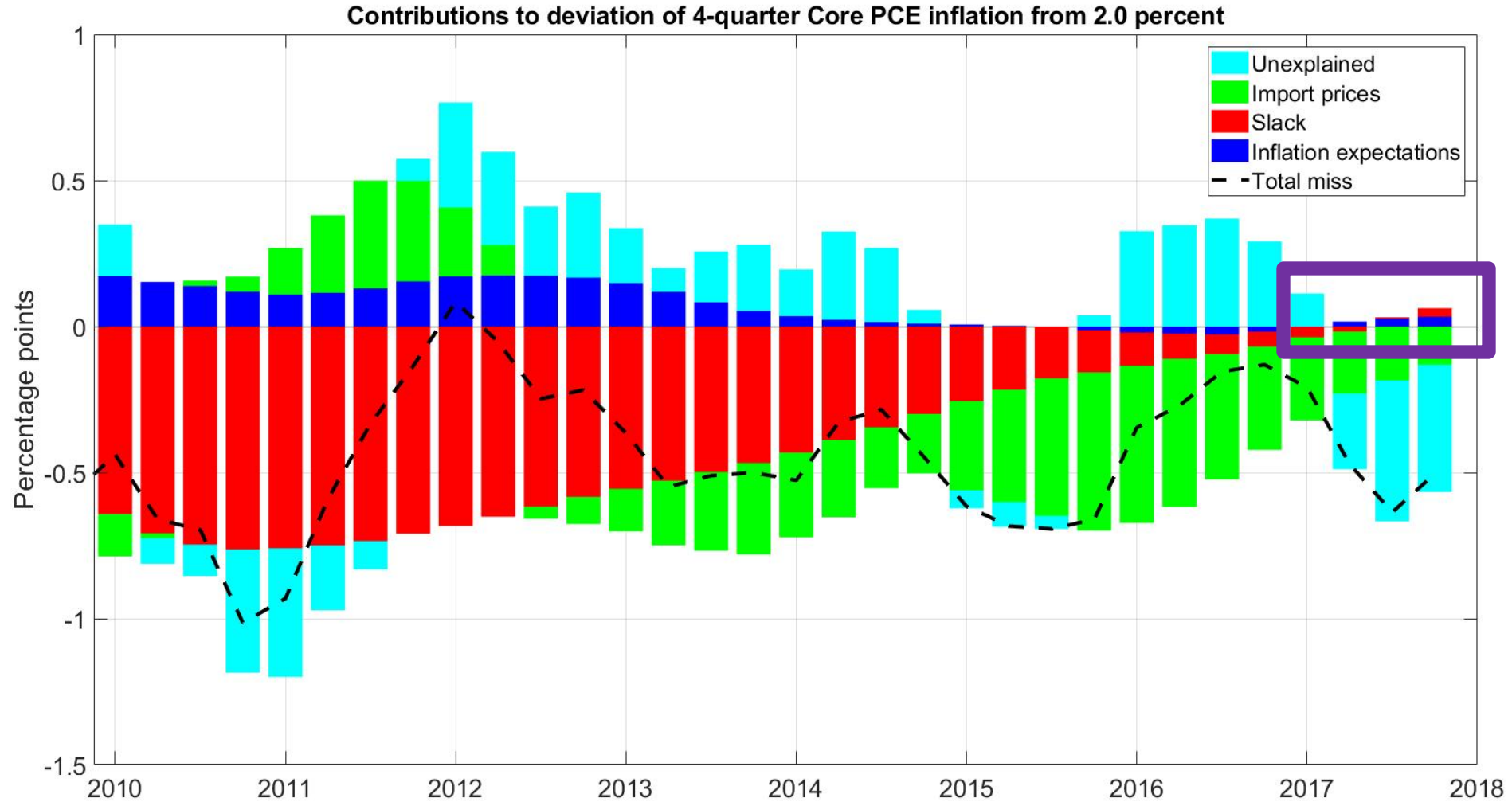
Why was inflation below target in 2017: “We just don’t know.”



Notable: The contribution of import prices (the green areas) has been negative for nearly 5 years – substantially so as the dollar was appreciating.



Also notable: The contribution of ‘slack’ (the red areas) has disappeared.



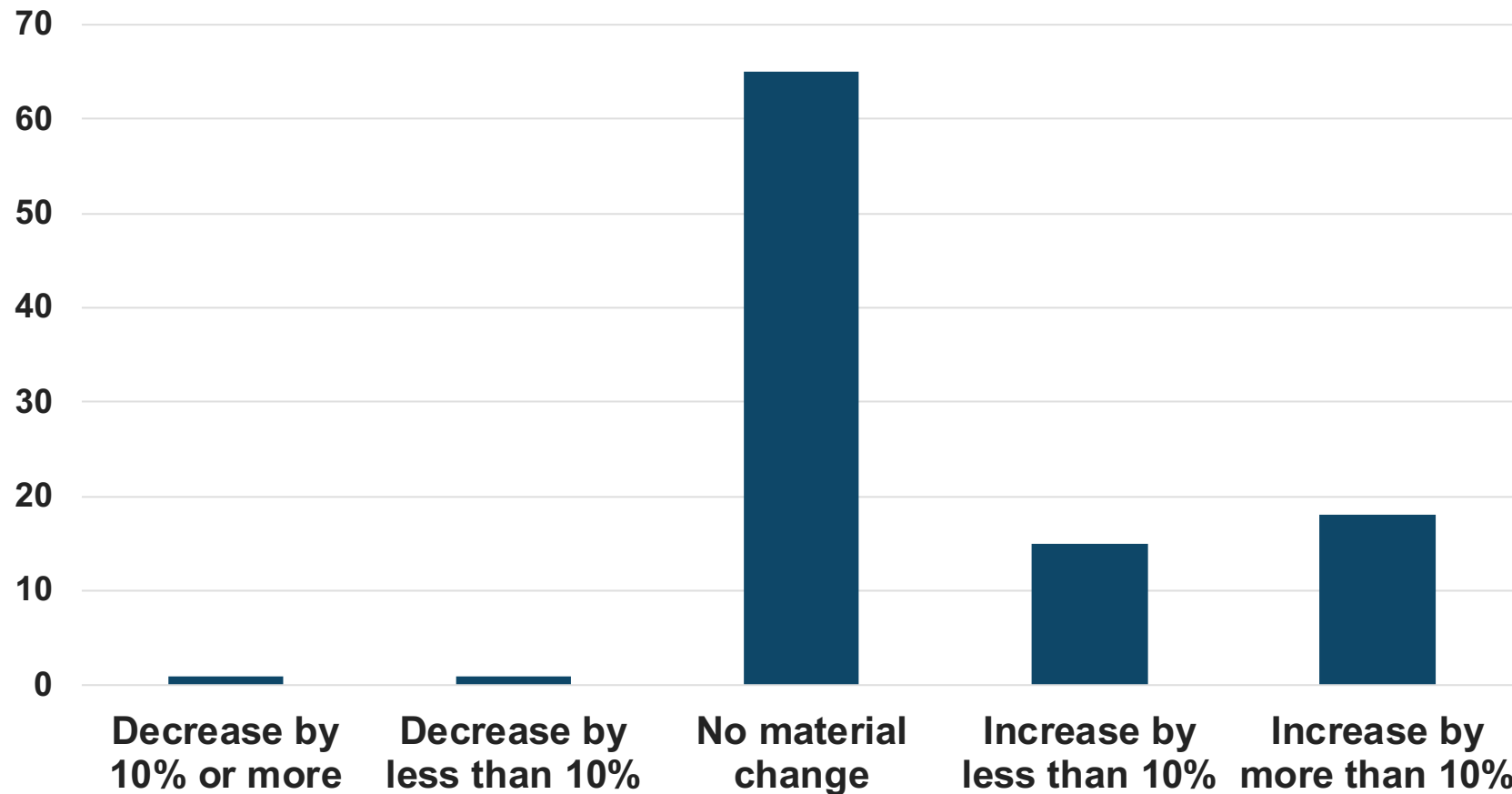
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The question: If passed in its current form, how would the Tax Cuts and Jobs Act affect your capital expenditures in 2018?

Results from the Survey of Business Executives, Nov. 13-24 2017

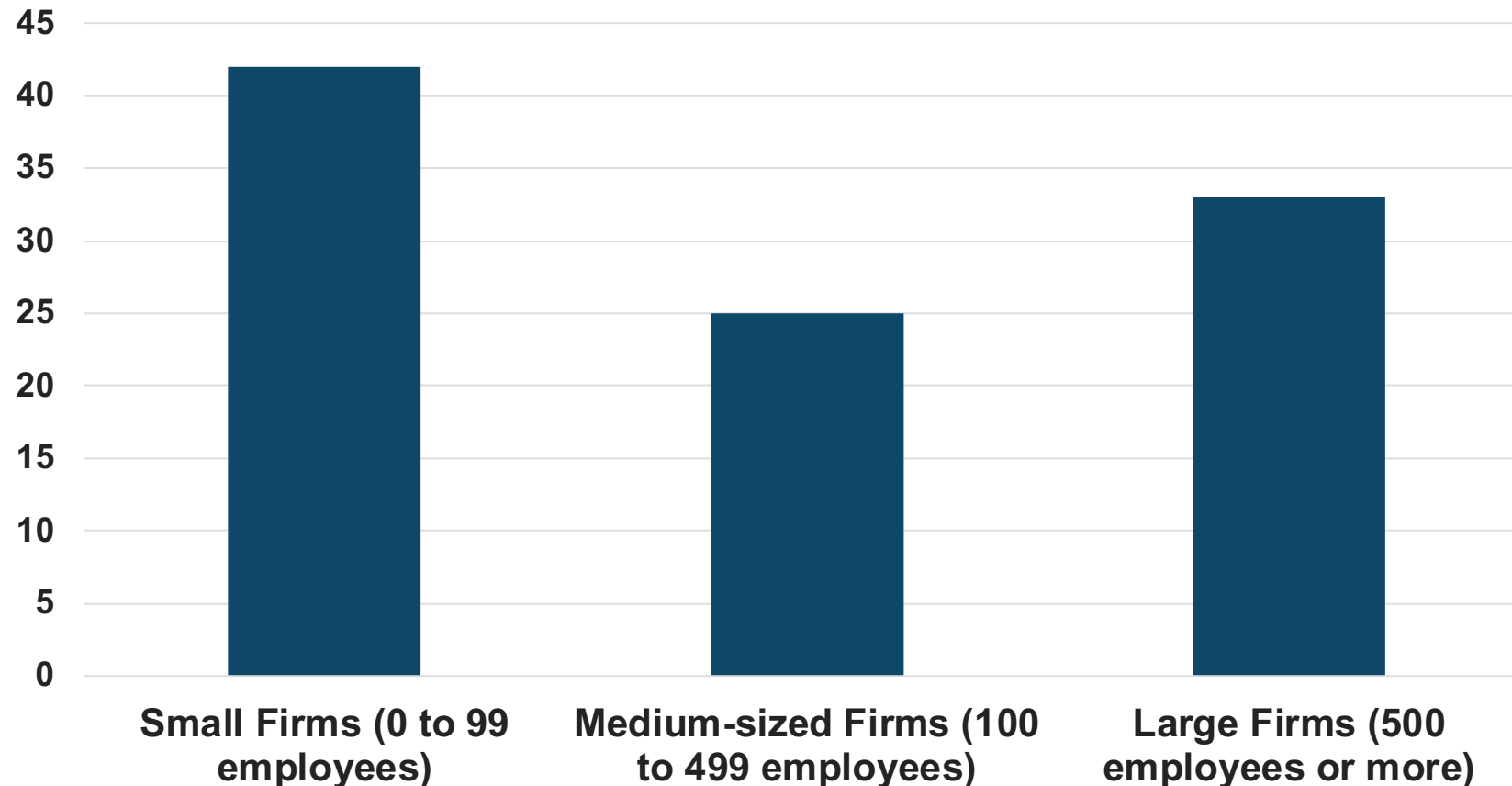
Percent of total responses



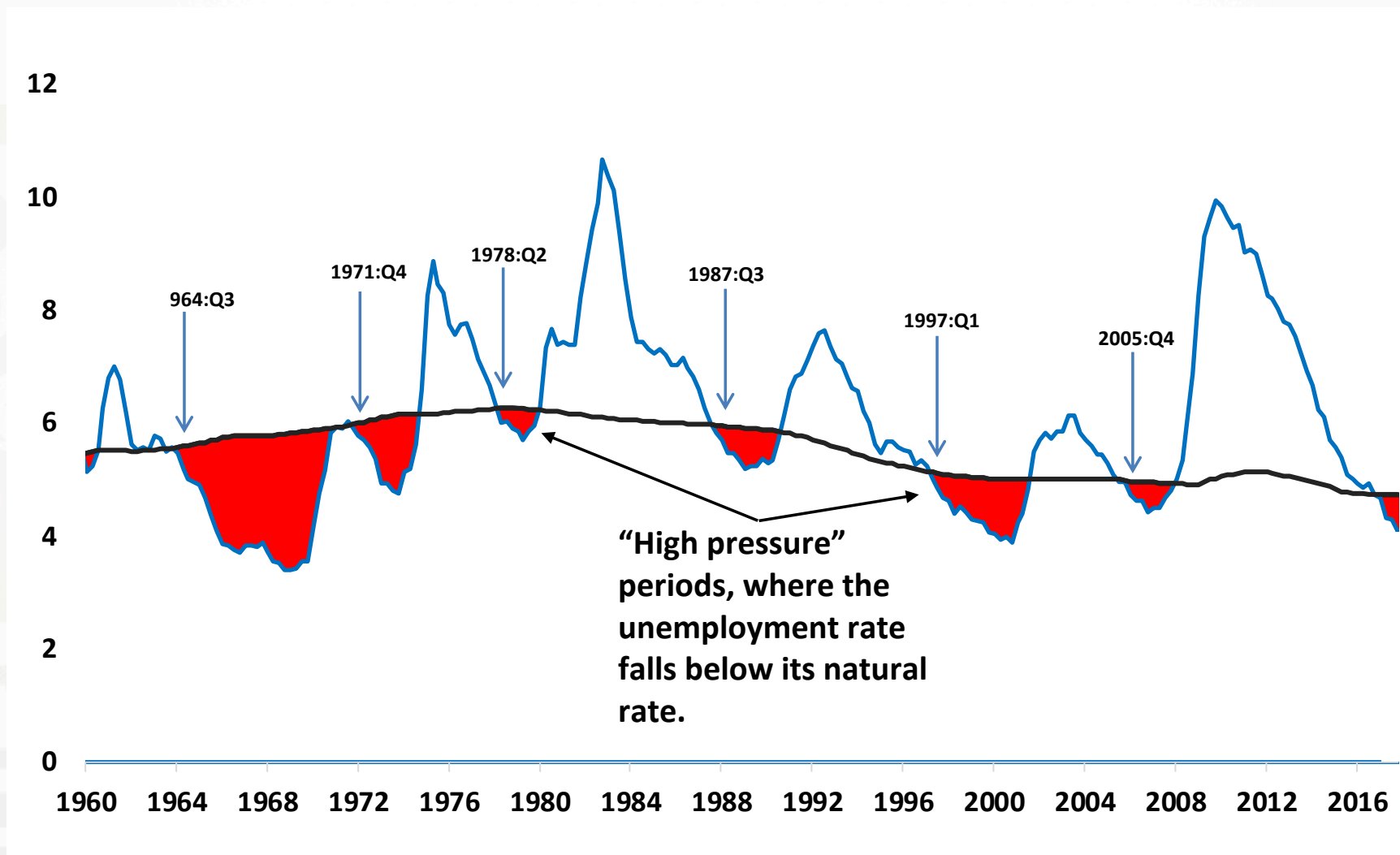
Survey results: Positive responses to the capital expenditures skewed to smaller firms

Results from the Survey of Business Executives, Nov. 13-24 2017

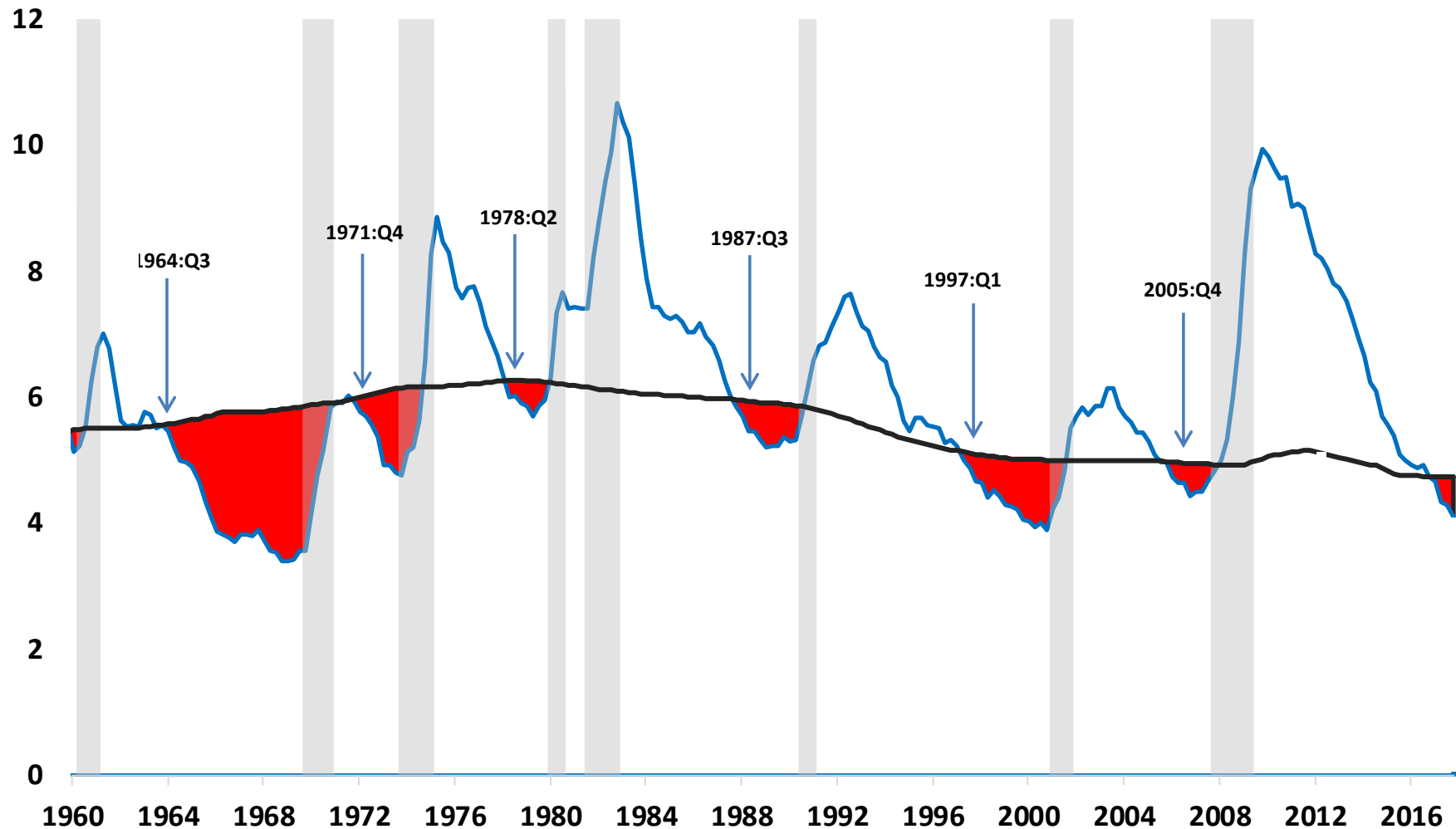
Percent of responses indicating increases in planned capital spending



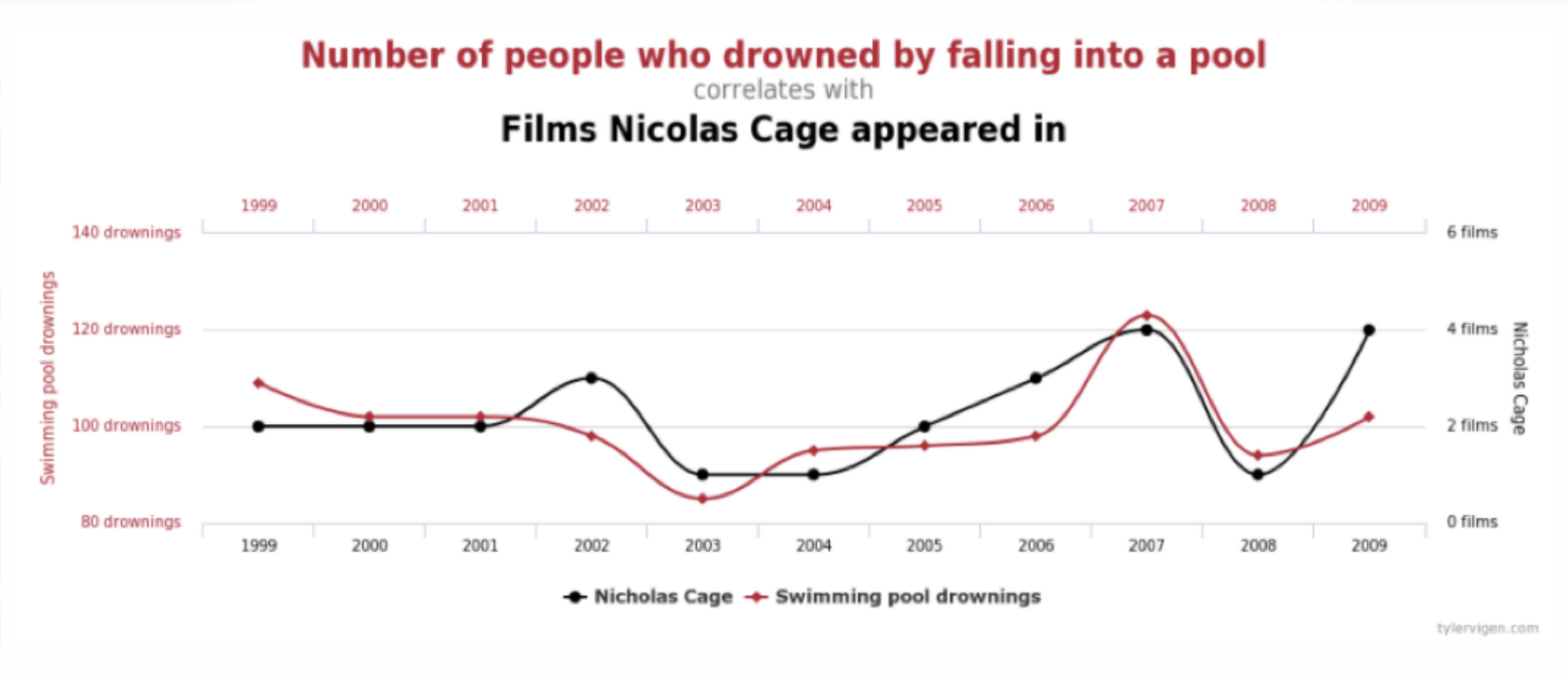
Tax reform hits just as the U.S. economy is (arguably) entering the “high pressure” zone.



Historically, “high pressure” periods have not ended well.

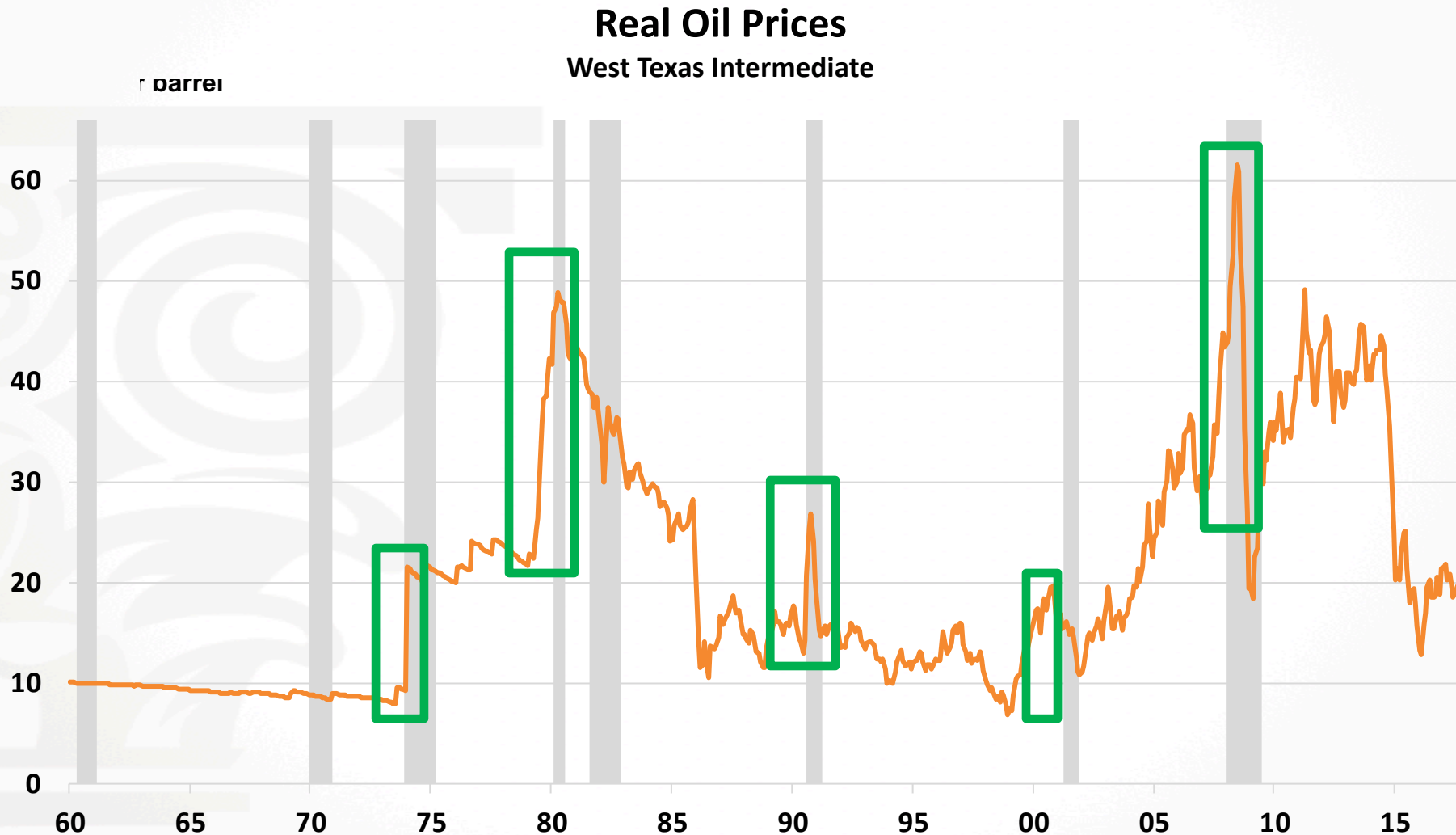


Beware the spurious correlation: Case study 2



Source: <http://www.tylervigen.com/spurious-correlations>

Worth noting: Historically, expansions have also ended (and inflation has risen) when oil prices spike.

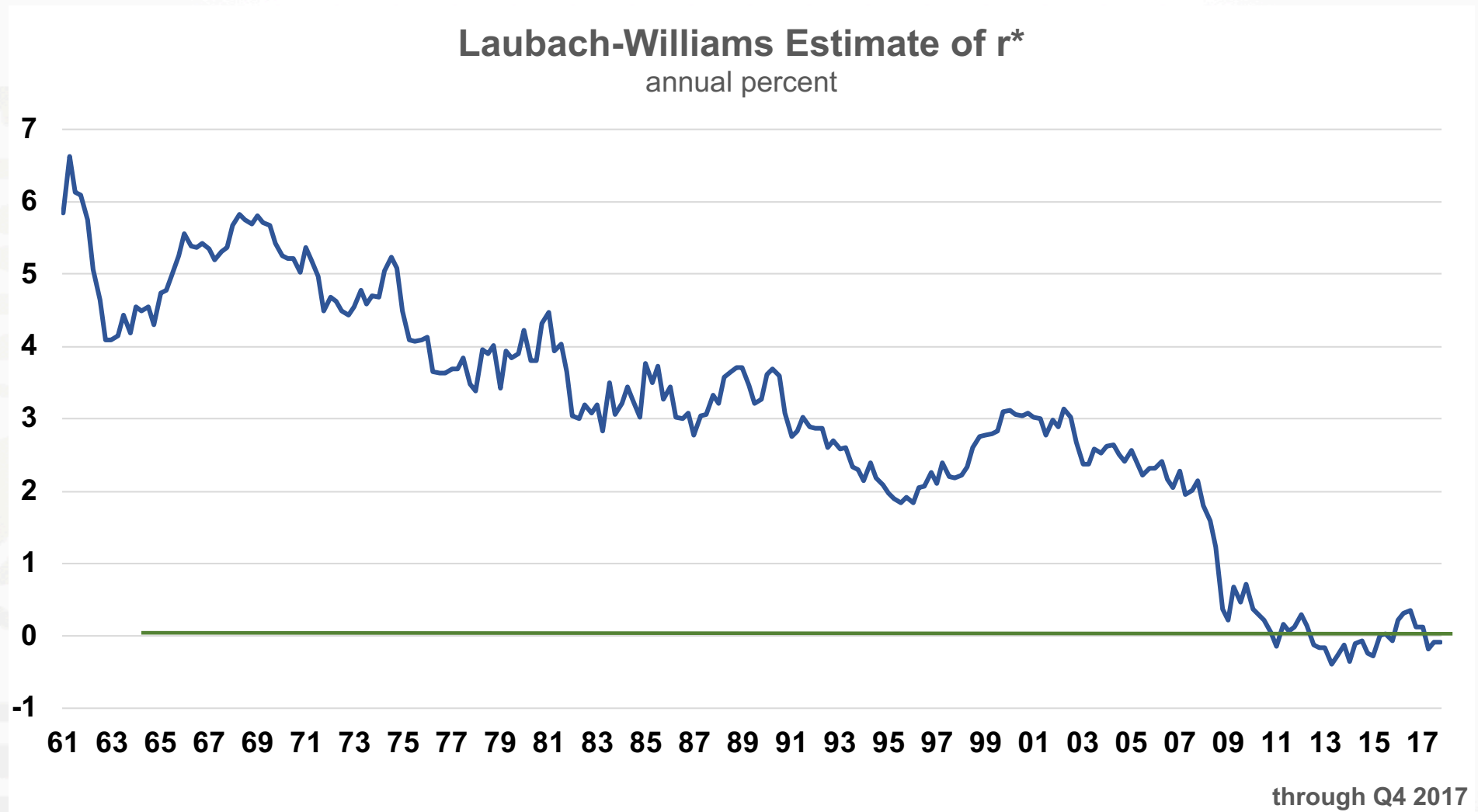


Note: Real oil prices calculated in 1982-1984 dollars using the consumer price index

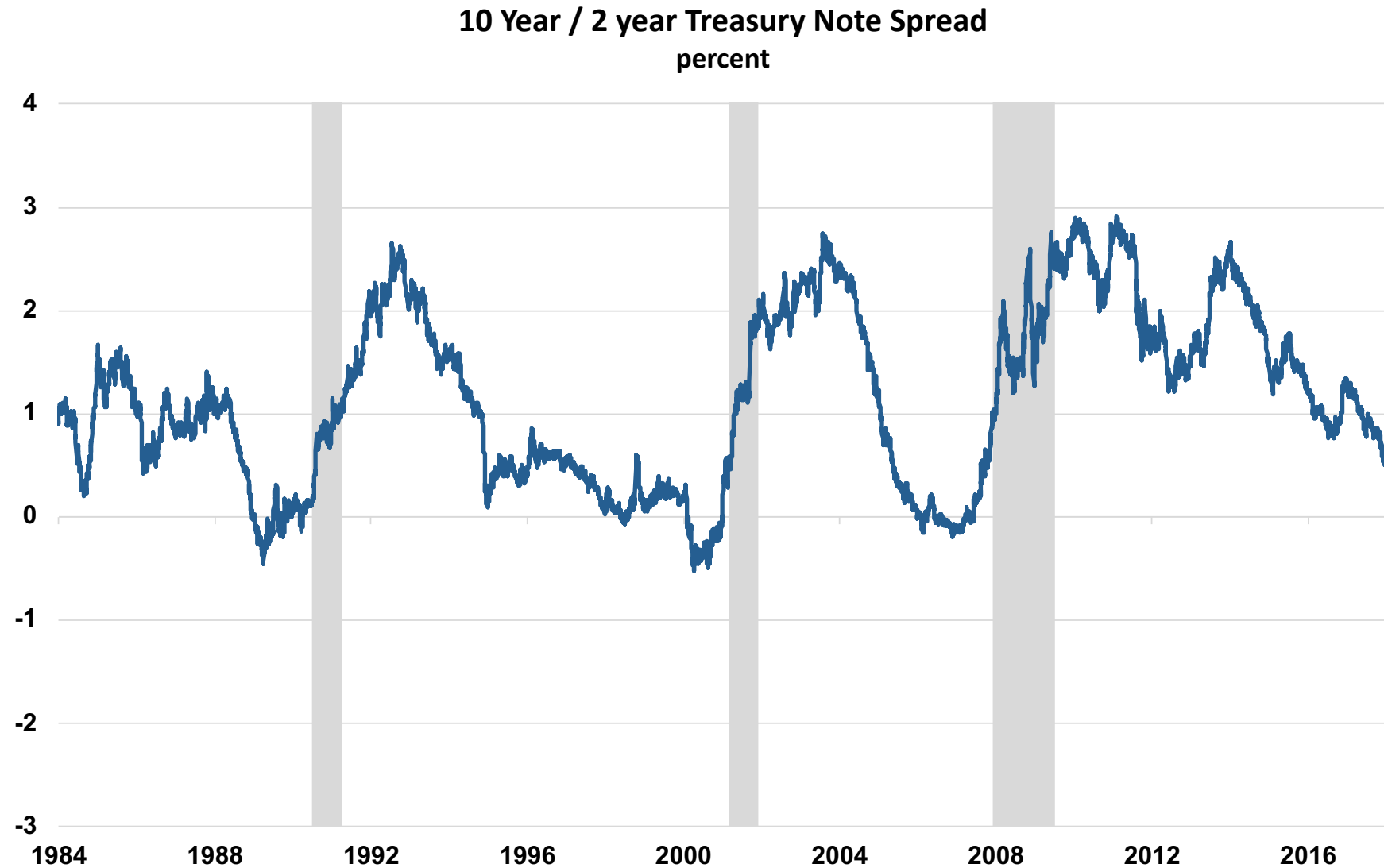
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Another relevant picture? The term structure of interest rates



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