U.S. Monetary Policy: A Global View

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The views expressed here are my own and do not necessarily reflect those of anyone else in the Federal Reserve System.
The global economic landscape
Slower trend growth

Lower neutral real rate of interest ($r^*$)

Estimates of the neutral real rate of interest: Global and the U.S.

Note: Blue-shaded area reflects range of minimum and maximum rates across four countries in sample (U.S., U.K., Japan, and Germany). Source: Jorda and Taylor (2019).
Low global inflation

Core CPI inflation, 12-month change

Source: OECD.
Slipping inflation expectations

 Longer term mean inflation expectations, 5 years ahead

Note: CPI inflation expectations are plotted for the United States, HICP inflation expectations are plotted for the Euro Area.
Source: Blue Chip Economic Indicators, OECD.
What does this mean for policy?
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- Less conventional policy space
- More room to find full employment
- Fighting inflation from below
- Boosting potential growth is imperative
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Less room to maneuver in the U.S.

Federal funds rate (set by FOMC; with projections)

Note: Dashed and dotted line segments indicate the median of rate projections from the FOMC's “Summary of Economic Projections” in September 2018 and December 2019. Source: Federal Reserve Board.
And even less room outside the U.S.

Central bank policy rates

Source: Bank for International Settlements.
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Inflation and unemployment tradeoff more muted

Phillips curve across OECD countries by decade

Source: Jorda and Nechio (2019).
Be humble about where full employment lies

SEP Longer Run Unemployment Rate

Sources: FOMC Summary of Economic Projections, Haver Analytics.
And what a good economy can do

Labor force participation rates

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- **Fighting inflation from below**
- Boosting potential growth is imperative
New framework likely required

• Forward guidance & QE were valuable tools in the crisis, but more may be needed
• Potential makeup strategies include: price level, nominal income, or average inflation targeting
• Most importantly, 2% can’t be a ceiling
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- Fighting inflation from below
- Boosting potential growth is imperative
Activating the labor force will be critical

Source: OECD.
But central banks can’t do it alone – Fiscal authorities will need to help