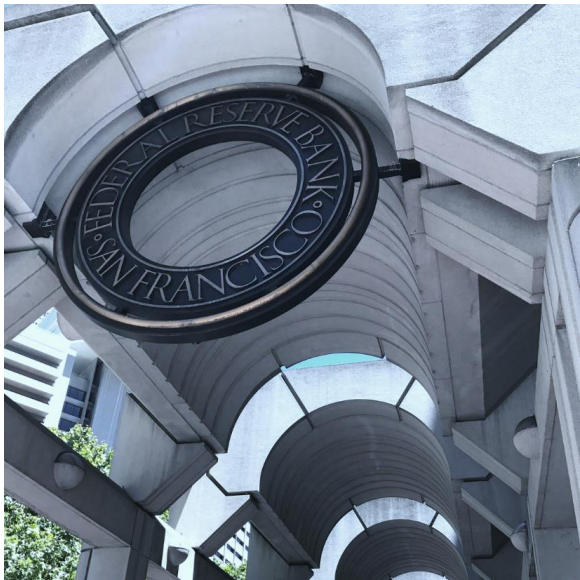


U.S. Monetary Policy: A Global View



ASSA Annual Meeting
**“Navigating the Crosscurrents:
The Outlook for the Global Economy”**

January 3, 2020

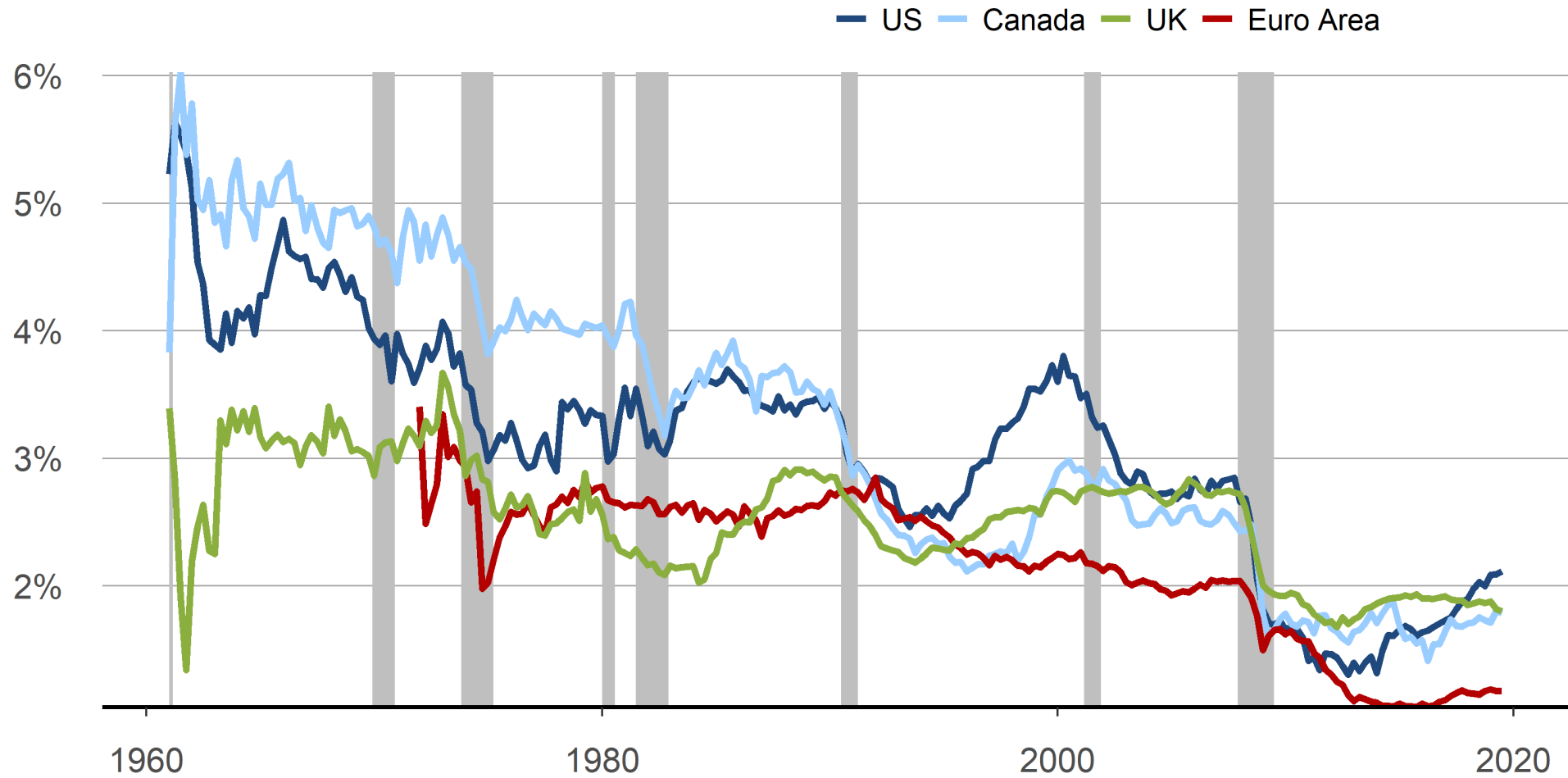
Mary C. Daly
President & CEO
Federal Reserve Bank of San Francisco

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

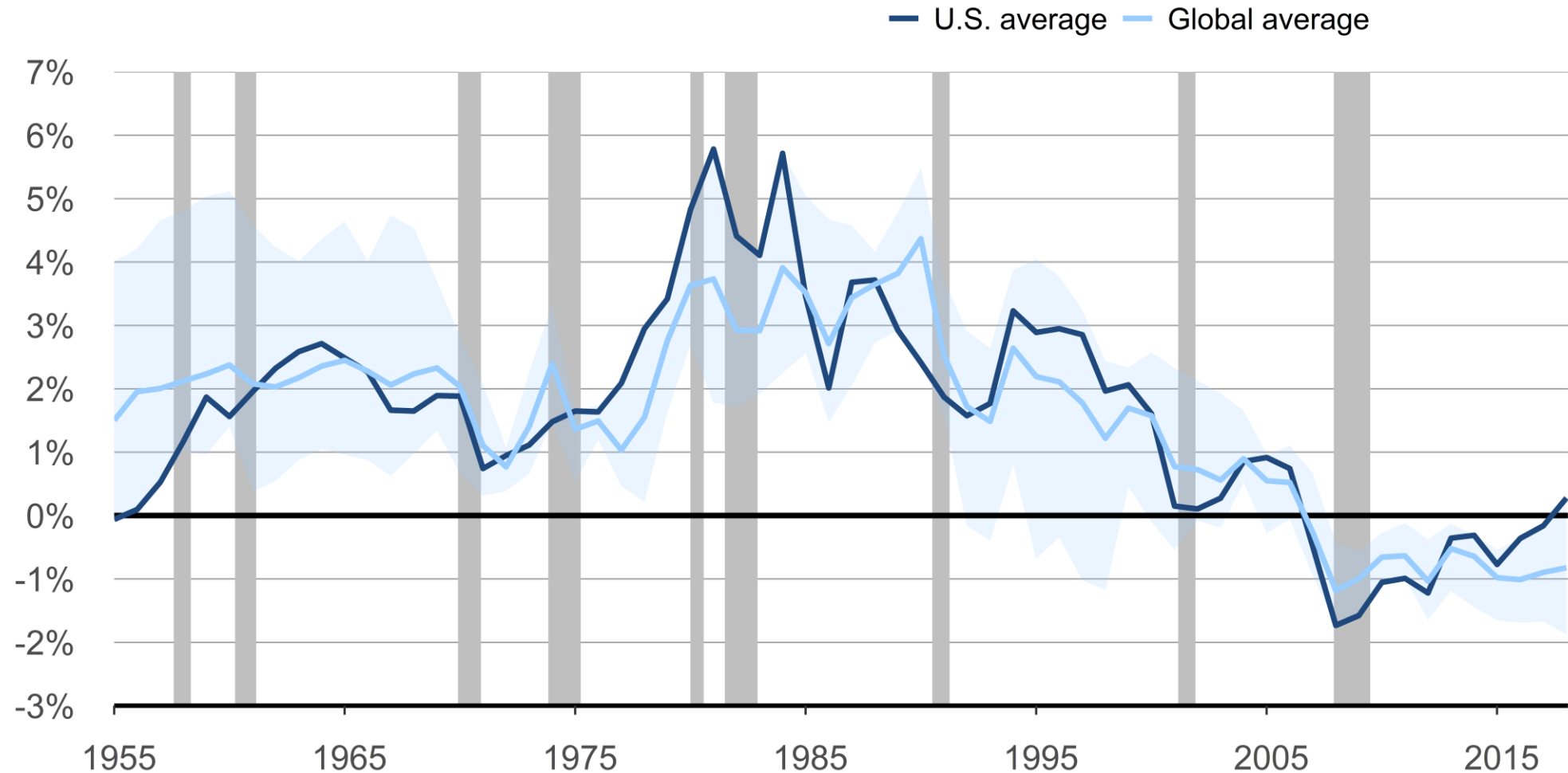
Slower trend growth

Trend growth



Lower neutral real rate of interest (r^*)

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

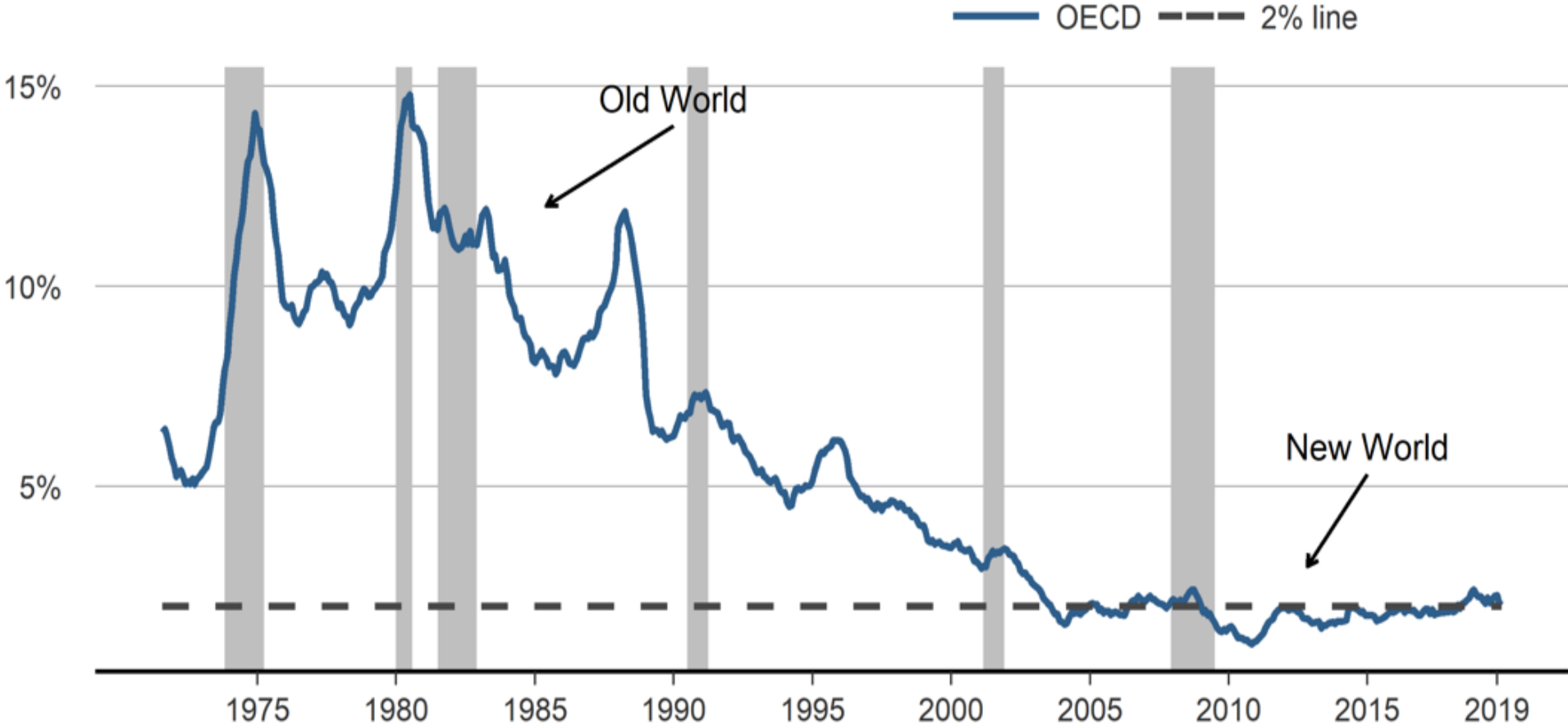


Note: Blue-shaded area reflects range of minimum and maximum rates across four countries in sample (U.S., U.K., Japan, and Germany).

Source: Jorda and Taylor (2019).

Low global inflation

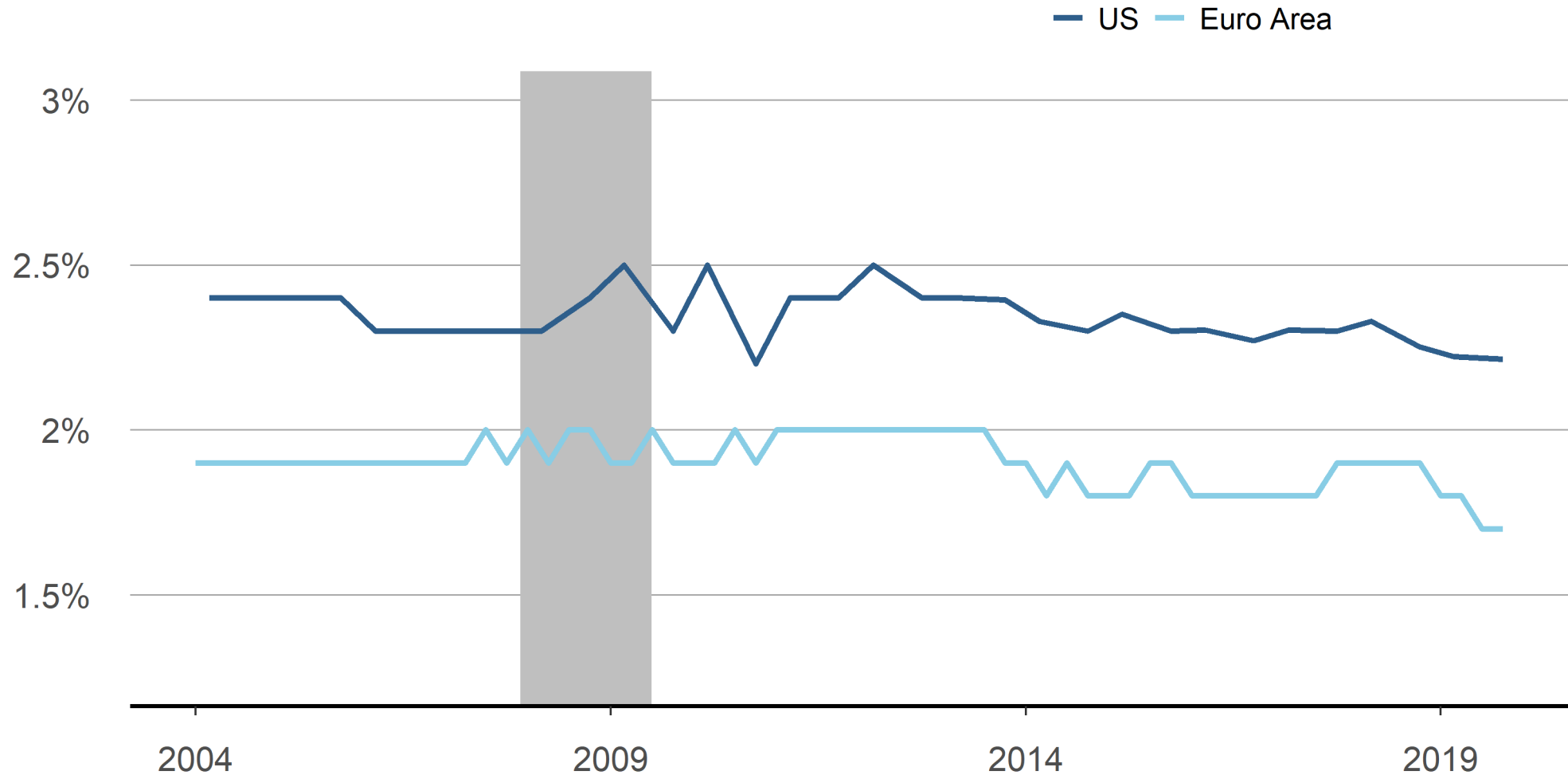
Core CPI inflation, 12-month change



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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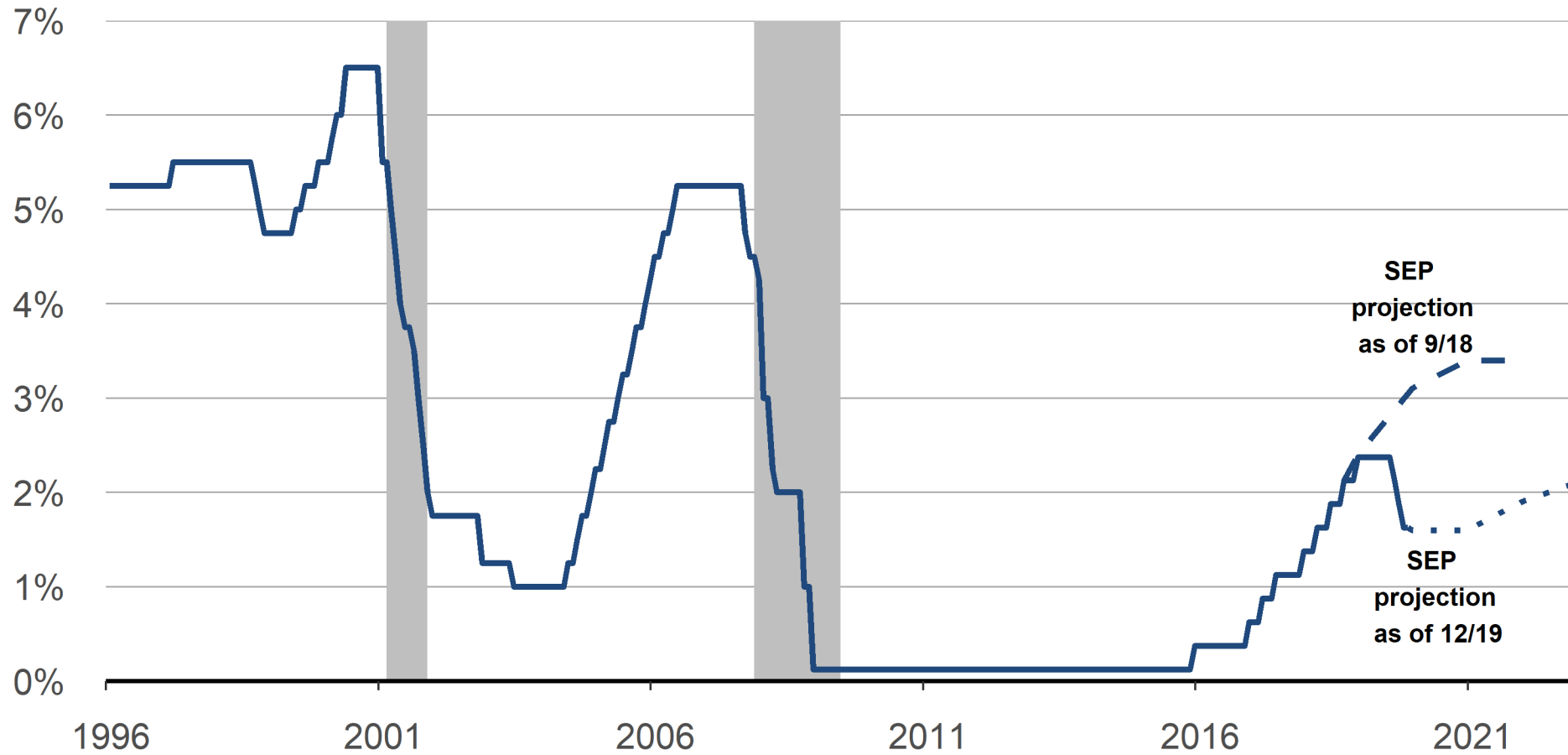
- **Less conventional policy space**
- **More room to find full employment**
- **Fighting inflation from below**
- **Boosting potential growth is imperative**

What does this mean for policy?

- **Less conventional policy space**
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Less room to maneuver in the U.S.

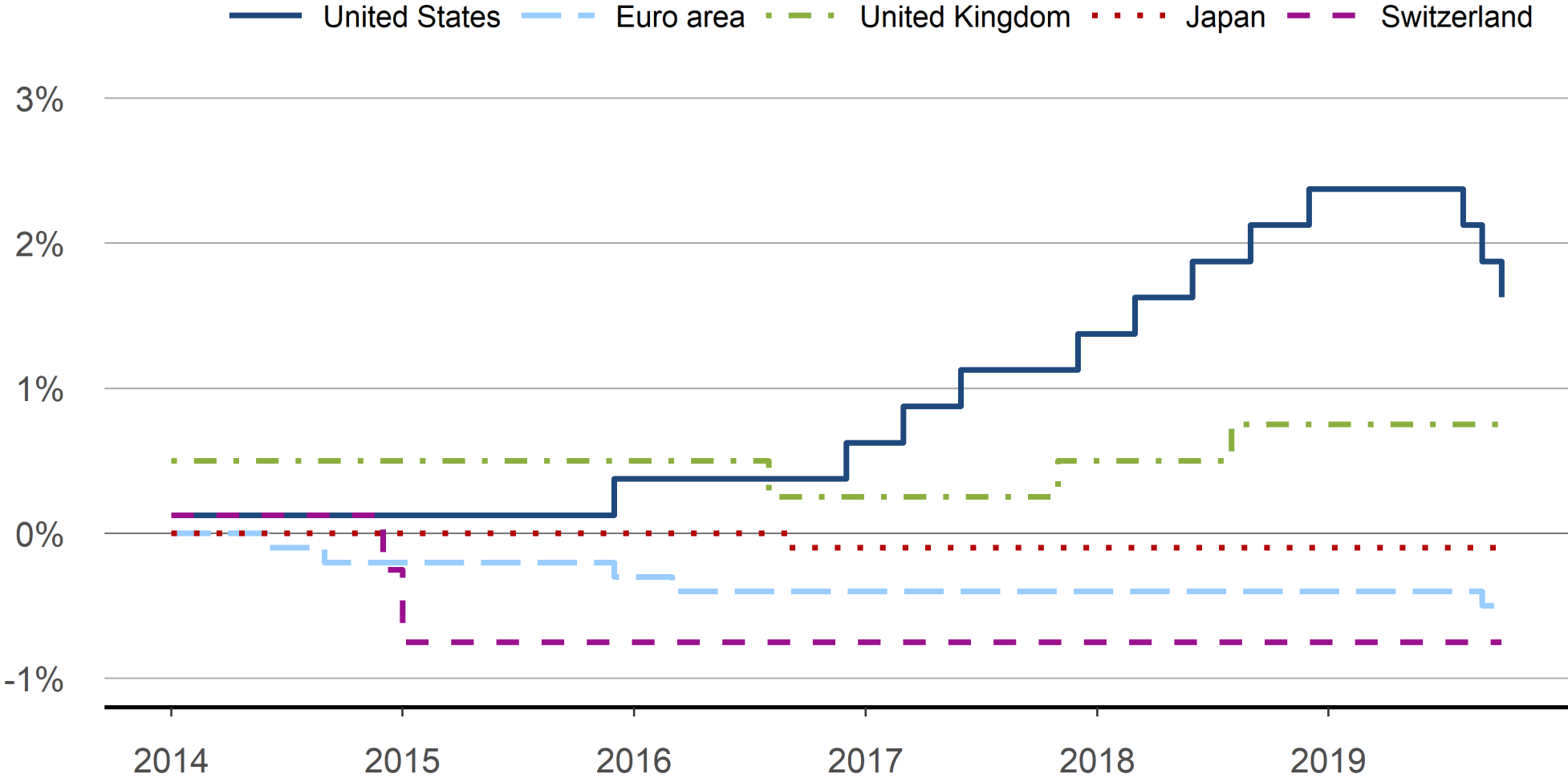
Federal funds rate (set by FOMC; with projections)



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



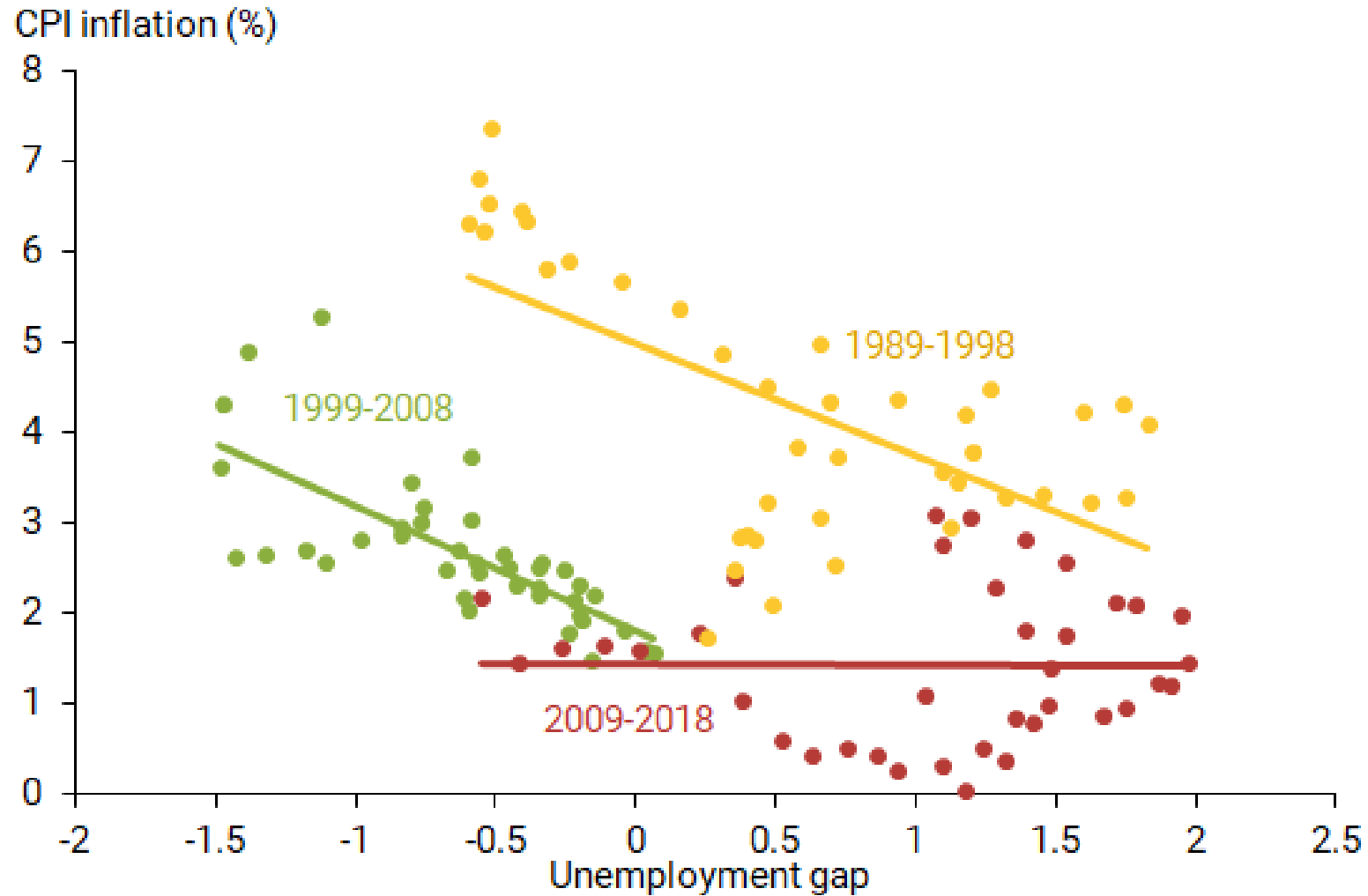
Source: Bank for International Settlements.

What does this mean for policy?

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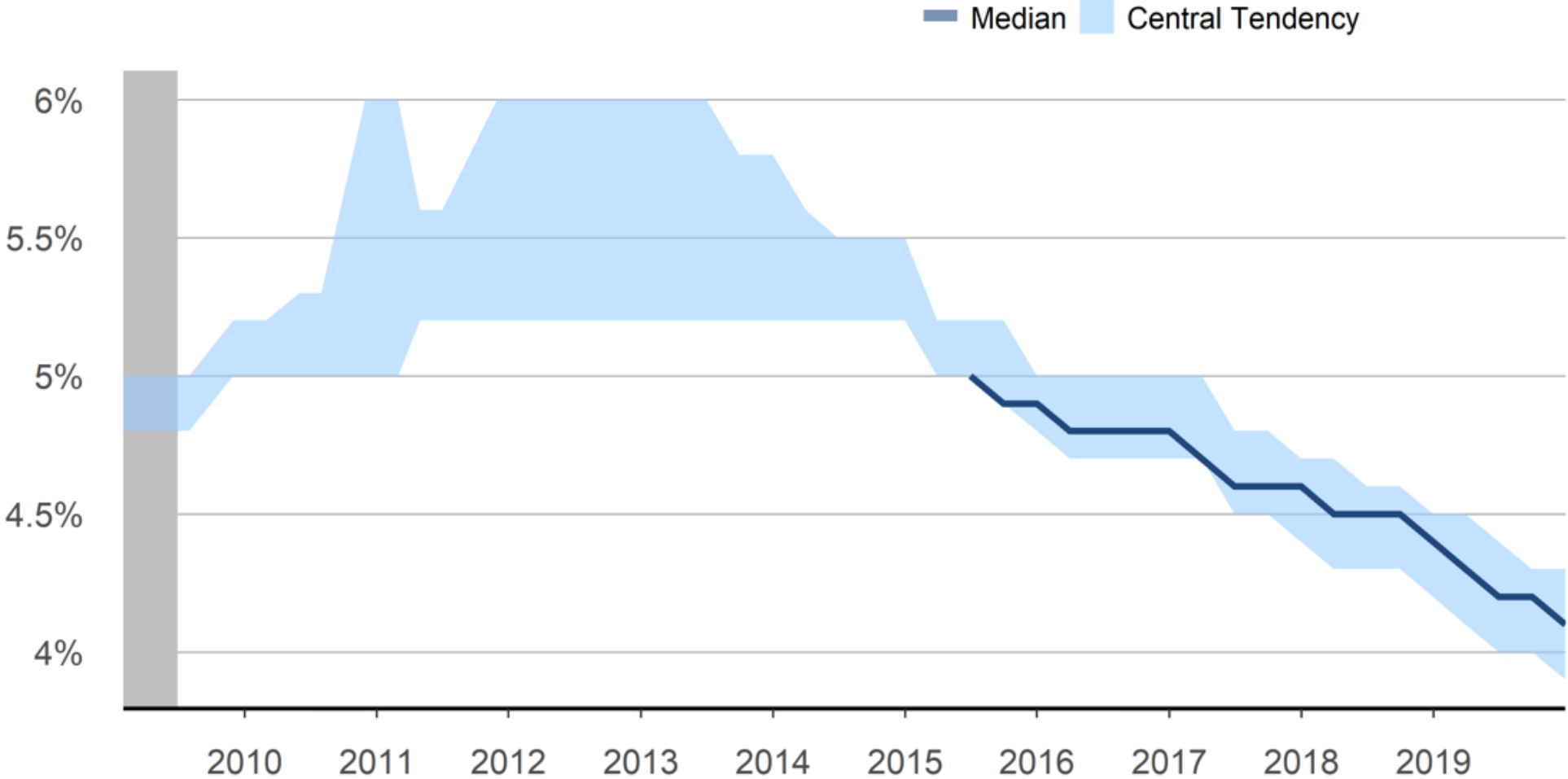
Inflation and unemployment tradeoff more muted

Phillips curve across OECD countries by decade



Be humble about where full employment lies

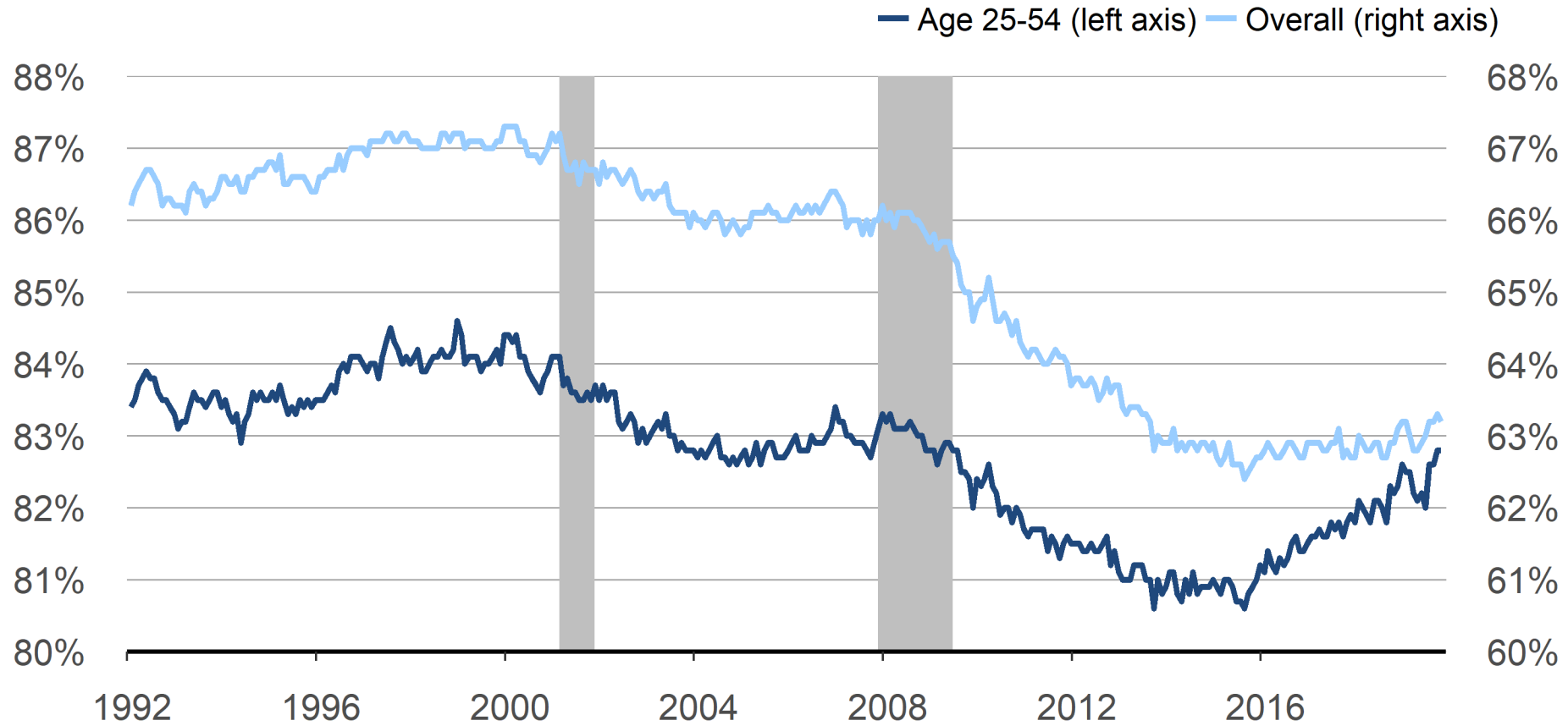
SEP Longer Run Unemployment Rate



Sources: FOMC Summary of Economic Projections, Haver Analytics.

And what a good economy can do

Labor force participation rates



What does this mean for policy?

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- **Fighting inflation from below**
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New framework likely required

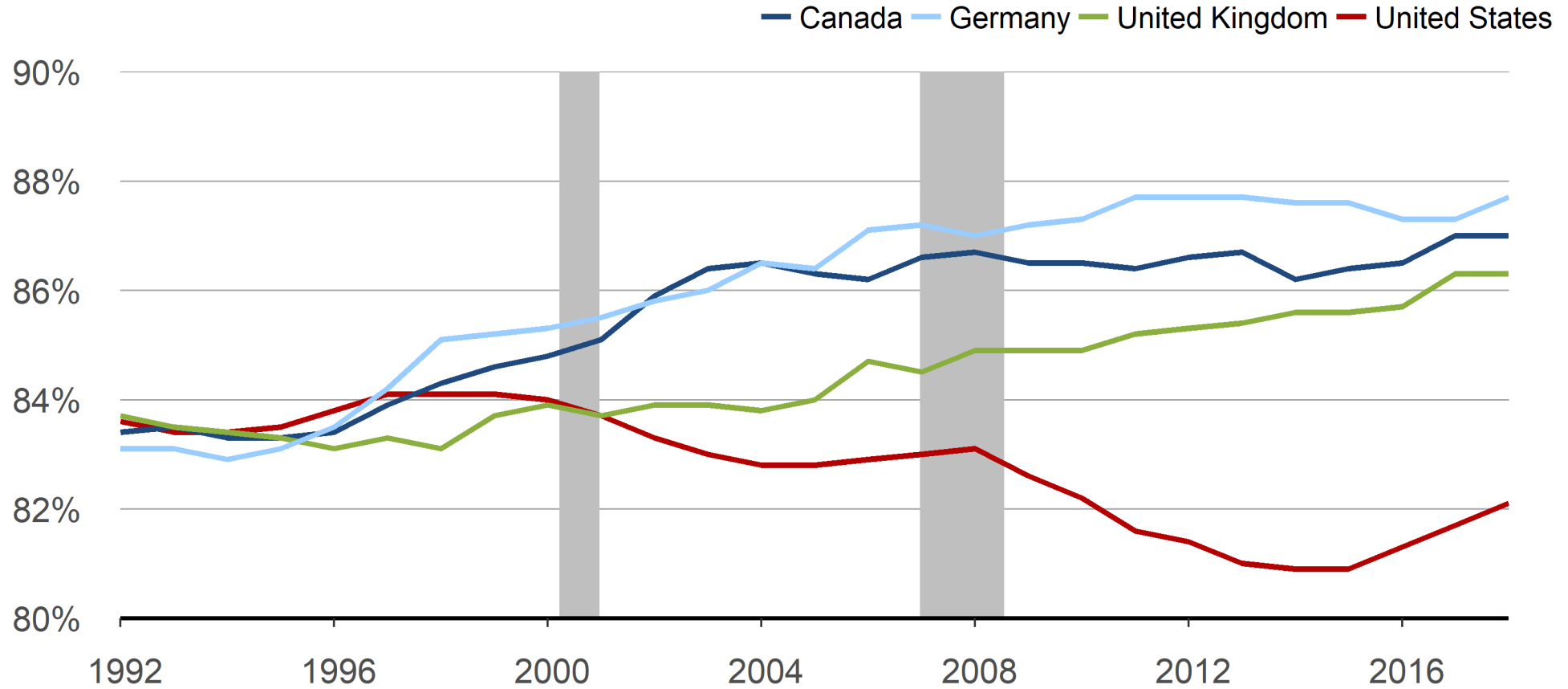
- **Forward guidance & QE were valuable tools in the crisis, but more may be needed**
- **Potential makeup strategies include: price level, nominal income, or average inflation targeting**
- **Most importantly, 2% can't be a ceiling**

What does this mean for policy?

- Less conventional policy space
- More room to find full employment
- Fighting inflation from below
- **Boosting potential growth is imperative**

Activating the labor force will be critical

Labor force participation rates



**But central banks can't do it alone –
Fiscal authorities will need to help**



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