

# Inflation Rising and the Fed Is Falling Further Behind

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# Fed Excessively Easy as Inflation Rises

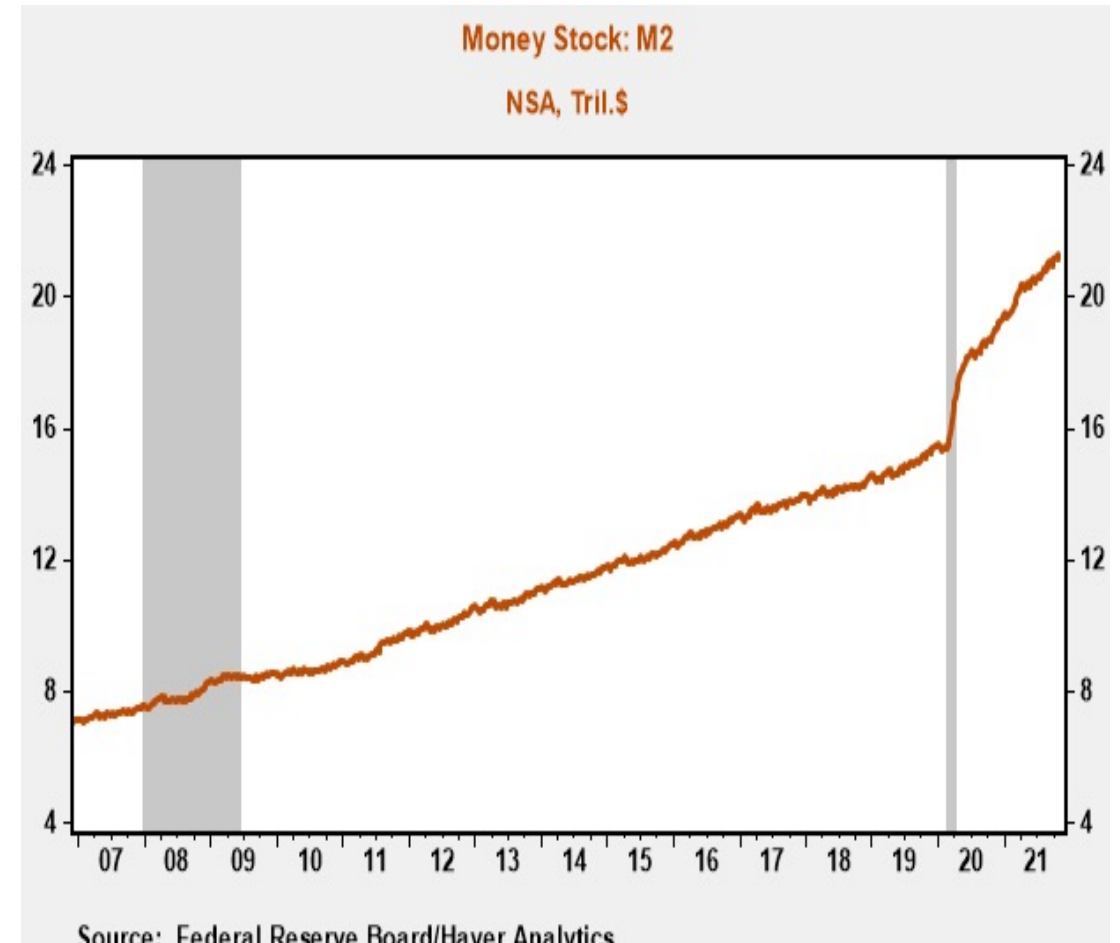
- Ongoing monetary & fiscal stimulus to sustain demand while supply shortages likely to linger
- Fed's belated pivot acknowledges inflation, but understates lags and inflationary expectations while inflation-wages feedback loop intensifies
- Fed forecasts sharp declines in inflation (core PCE 2.7% in 2022, 2.3% in 2023) and unemployment rate (3.5%) amid sustained easy monetary ease
- Fed's "dots" project modest rate increases that would imply sustained negative real rate; insufficient to contain inflation
- Probabilities point to sustained elevated inflation, as higher services inflation to offset disinflation of goods, and wages catch up to inflation
- OER to accelerate and lead inflation of services, which are labor intensive

# Fiscal & Monetary Policy Stimulus

- Total deficit spending 27% of GDP plus \$1 tril infrastructure

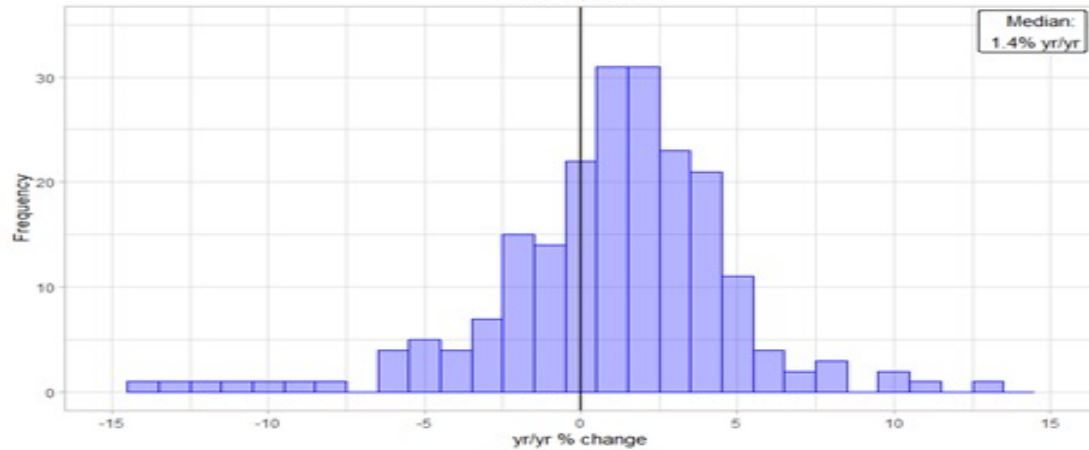
## TOTAL COVID RELIEF SPENDING

CARES ACT MARCH 2020	\$2.2 TRILLION
CONSOLIDATED APPROPRIATIONS ACT DECEMBER 2020	\$900 BILLION
OTHER RELATED 2020 SPENDING	\$400 BILLION
AMERICAN RESCUE PLAN MARCH 2021	\$1.9 TRILLION
<b>TOTAL</b>	<b>\$5.4 TRILLION*</b>

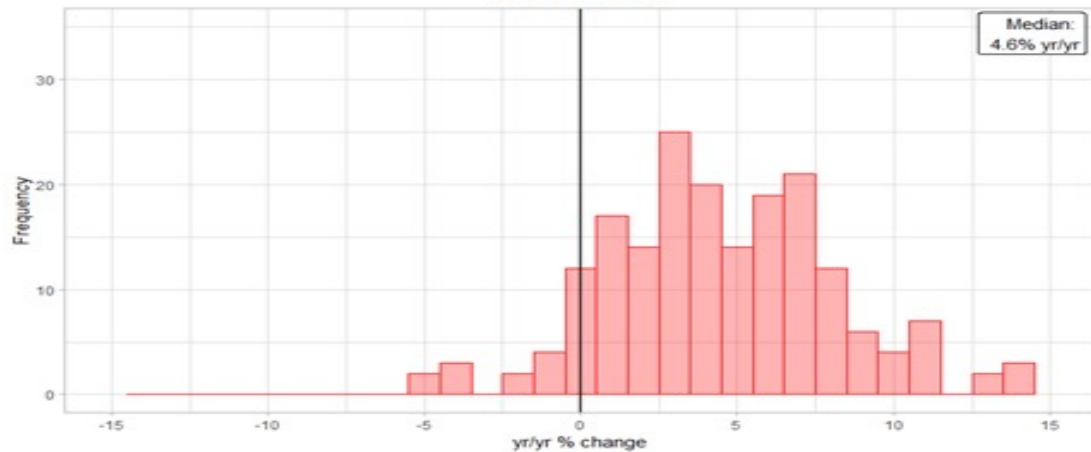


# Inflation and Expectations Spreading

**Distribution of inflation across 200+ CPI Expenditure Categories**  
January 2020



November 2021



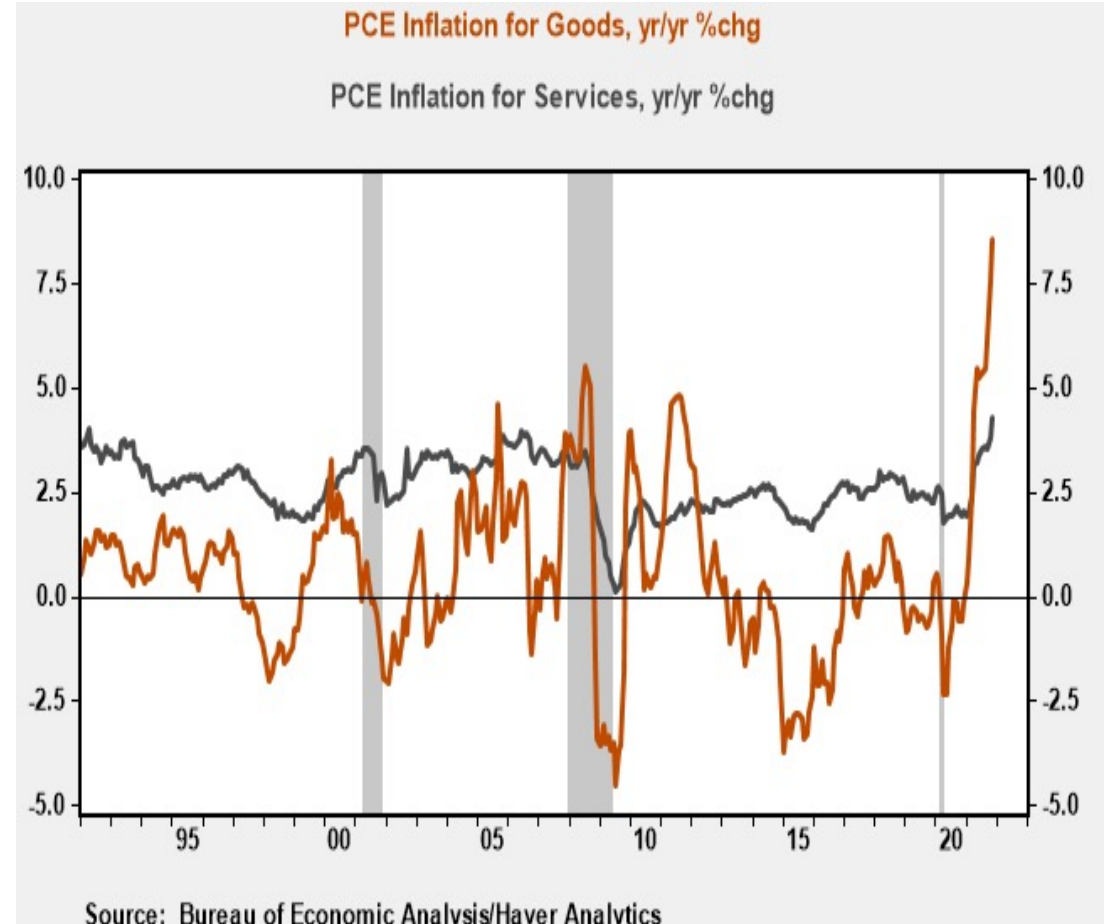
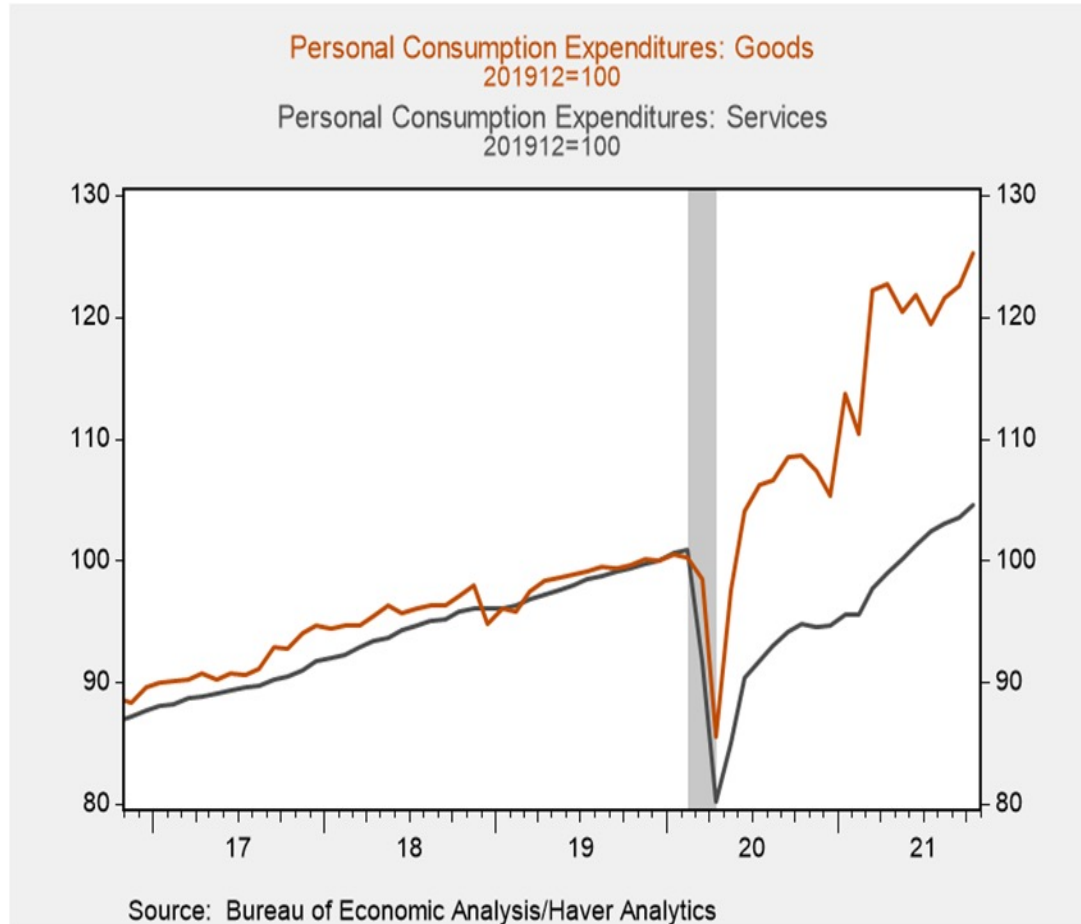
Source: Bureau of Labor Statistics, author's calculations

Inflation			Inflationary Expectations		
Measure (% yr/yr)	Current	2012-2019 Average	Measure	Current	2019-2020 Average
CPI	6.8%	1.6%	5-yr TIPS Breakeven	3.0%	1.5%
Core CPI	4.9%	2.0%	5yr-5yr Forward	2.3%	2.2%
PCE	5.7%	1.6%	<i>U. Mich. Inflation Expectations</i>		
PPI	9.6%	1.4%	1-year ahead	4.8%	2.7%
Core PPI	7.7%	1.7%**	5-years ahead	2.9%	2.5%
Clev. TM*	4.6%	2.0%	<i>FRB NY Consumer Expectations: Inflation</i>		
FRB NY UIG*	4.3%	2.1%	1-year ahead	6.0%	2.7%
			3-years ahead	4.0%	2.65%

Notes: \*FRB of Cleveland Trimmed Mean CPI; FRBNY Underlying Inflation Gauge, \*\* Average between 2015-2019

Sources: Haver Analytics, Bureau of Labor Statistics, Federal Reserve Banks of New York and Cleveland, and University of Michigan

# Aggregate Demand and PCE Inflation



# OER, Shelter and Services Inflation

