



EMBARGOED UNTIL TUESDAY, FEBRUARY 16, 2016 AT 7:40 P.M. EASTERN TIME OR UPON DELIVERY

Prospects for Returning to More Conventional Monetary Policy

Eric S. Rosengren
President & CEO
Federal Reserve Bank of Boston

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Colby College
Waterville, Maine

bostonfed.org



Recent Economic Events

- ▶ In December the FOMC raised the federal funds rate by a quarter of a point
 - ▶ Past two months, headwinds from abroad
 - ▶ Slowdown among trading partners
 - ▶ Volatile financial markets
 - ▶ Concerns that U.S. domestic growth may be impeded and inflation may not move as quickly to the target
 - ▶ Labor markets have gradually improved and the unemployment rate is currently 4.9 percent
 - ▶ How should monetary policy react?
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Progress on Reaching Inflation Goal

- ▶ Future increases in interest rates will depend, in part, on “actual and expected progress toward” our inflation goal
 - ▶ Temporary headwinds
 - ▶ Lower oil prices
 - ▶ Appreciation of dollar
 - ▶ In my own view, if inflation is slower to return to target, monetary policy normalization should be unhurried
 - ▶ A more gradual monetary policy path is an appropriate response to headwinds from abroad that slow exports and financial volatility that raises the cost of funds to many firms
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Path of Monetary Policy

- ▶ Summary of Economic Projections:
 - ▶ Important to view not as a promise but rather as a projection of the path of interest rates if the economy evolves as expected
 - ▶ As incoming data alter expectations for economy, those projections can, and should, change
 - ▶ Recent data highlight risks to reaching both elements of our dual mandate in a timely fashion
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Figure 1: Global Stock Market Indices
January 4, 2016 - February 12, 2016

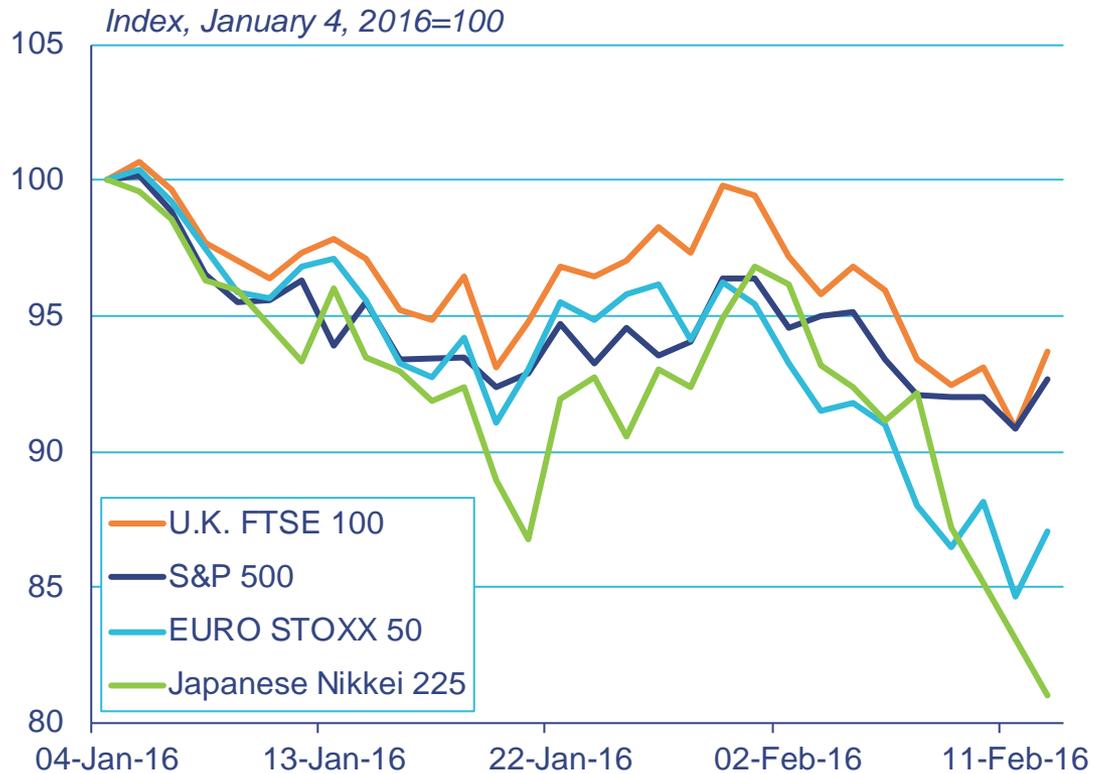
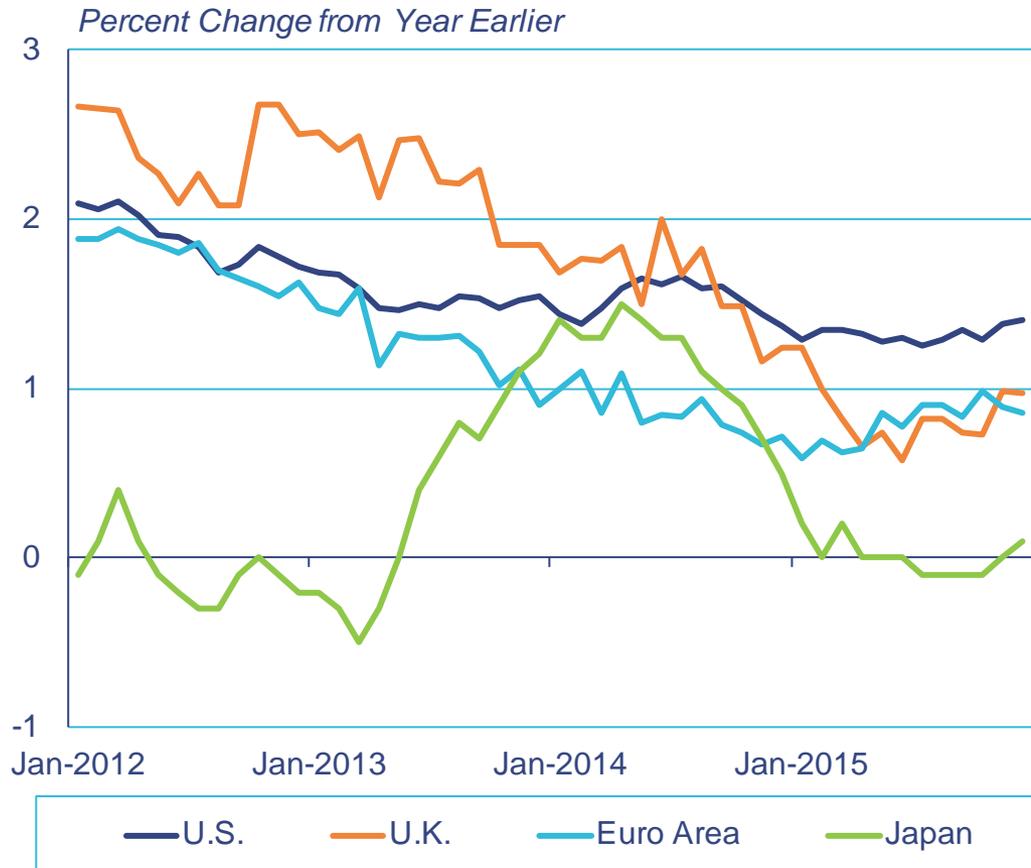


Figure 2: Core Inflation Rates

January 2012 - December 2015



Note: Core inflation series exclude food and energy for the U.S., the U.K. and the EA. Japan's core inflation series excludes fresh food and is adjusted from April 2014 – April 2015 for a consumption tax increase.

Source: BEA, Eurostat, Japan's Ministry of Internal Affairs and Communications, Bank of Japan, Haver Analytics



Figure 3: Brent Crude Oil Price
January 2006 - January 2016

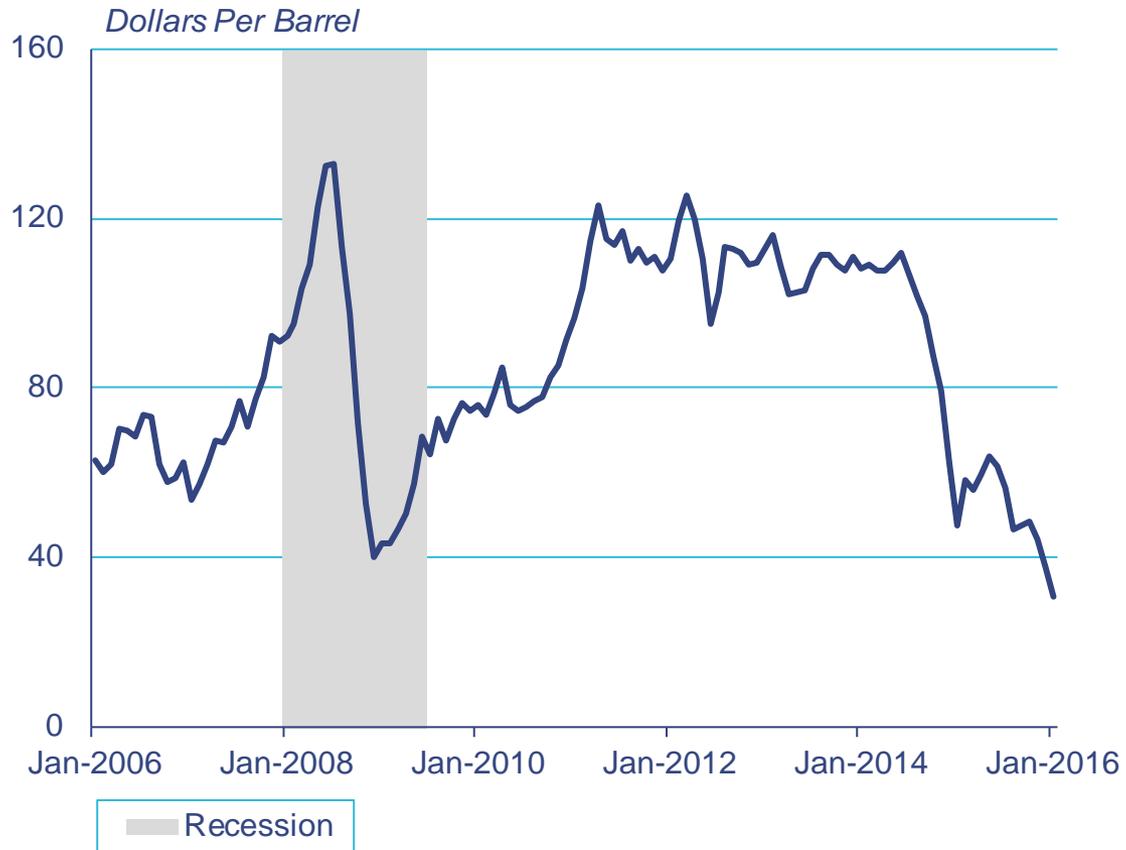
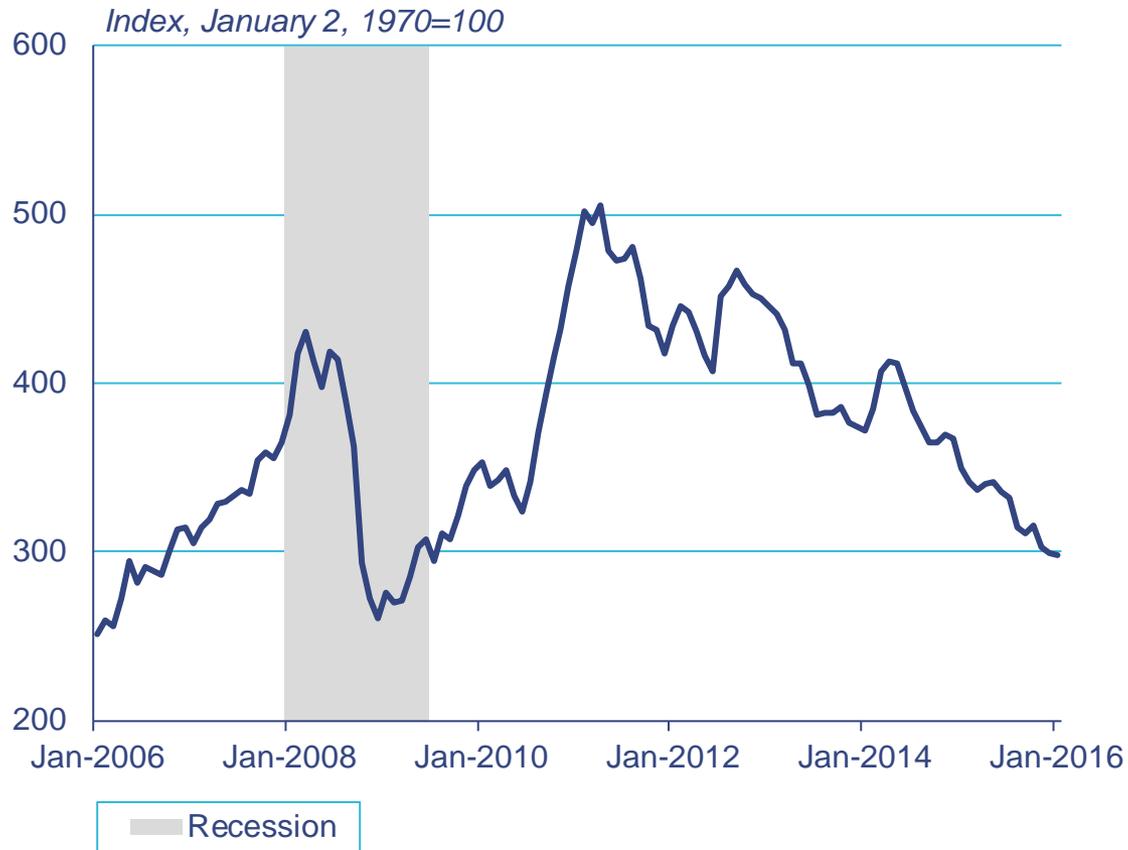




Figure 4: Non-Energy Commodity Price Index January 2006 - January 2016

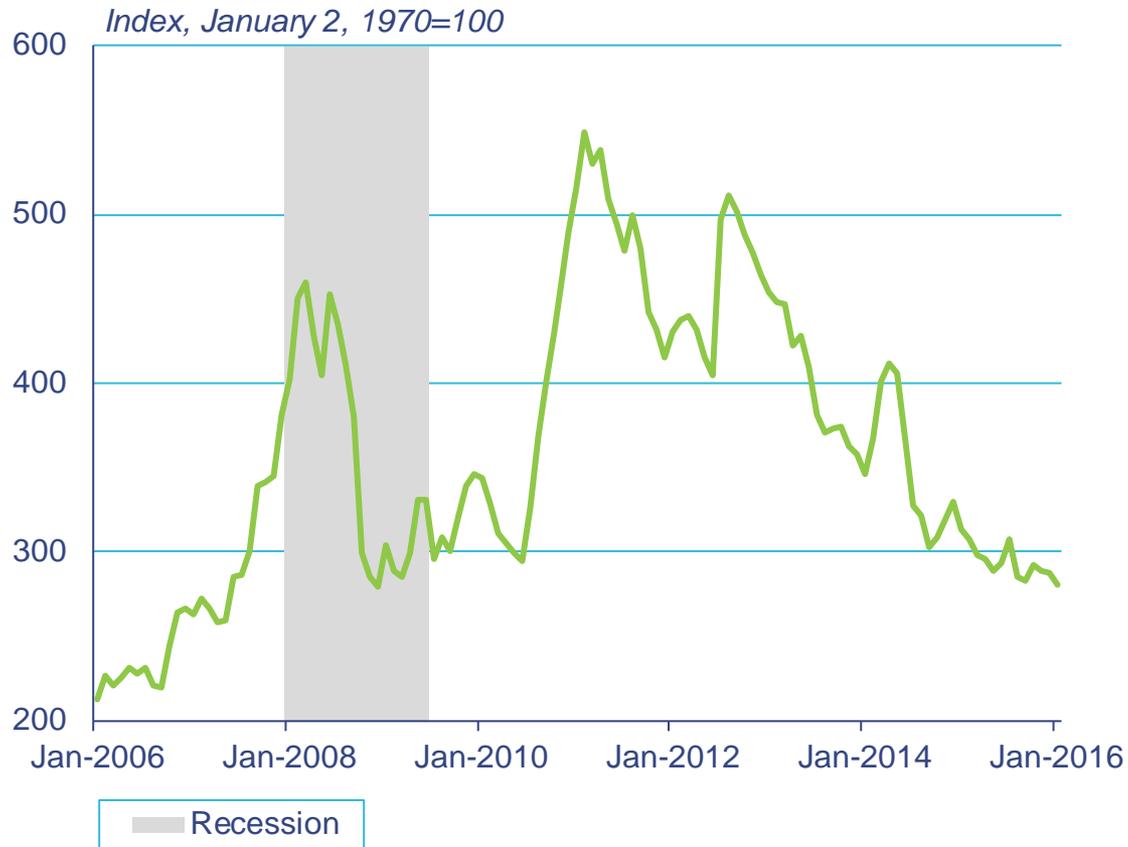


Note: The S&P Goldman Sachs Commodity Indices track the prices of the nearby futures contracts.

Source: S&P, NBER, Haver Analytics



Figure 5: Agricultural Commodity Price Index January 2006 - January 2016



Note: The S&P Goldman Sachs Commodity Indices track the prices of the nearby futures contracts.

Source: S&P, NBER, Haver Analytics



Figure 6: Nominal Broad Trade-Weighted Exchange Value of the U.S. Dollar
January 2006 - January 2016



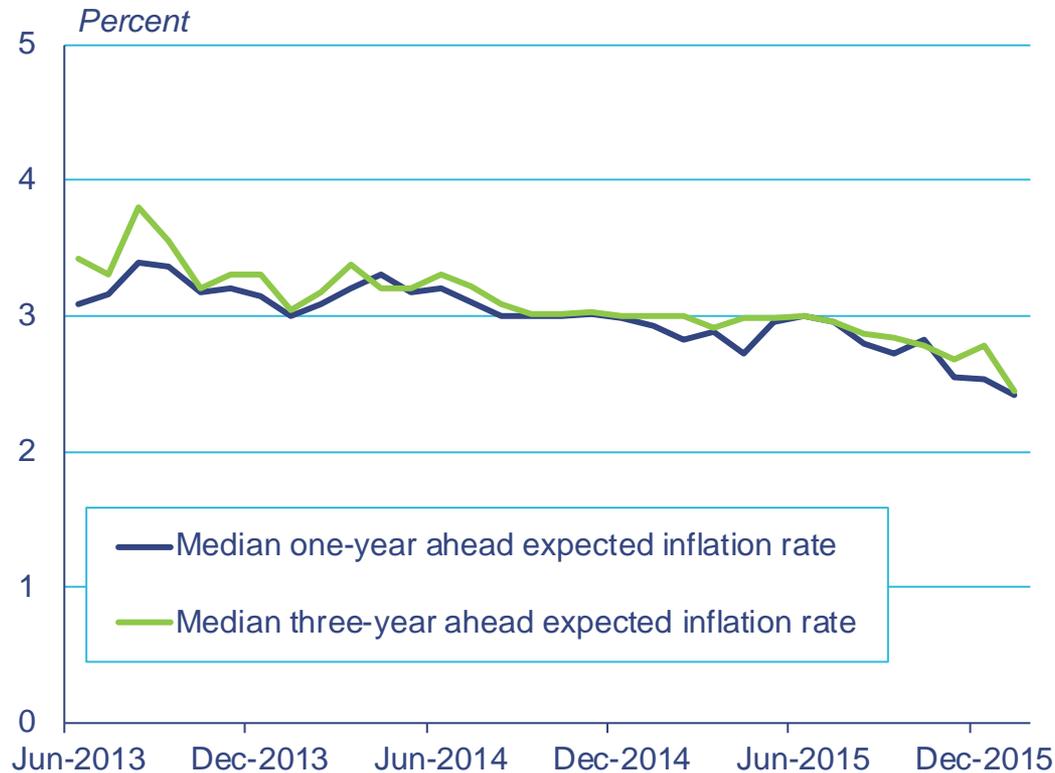


Few Inflationary Pressures Currently

- ▶ Dollar appreciation
 - ▶ Makes exports more costly for foreign purchasers
 - ▶ Reduces prices on imports – downward pressure on inflation
 - ▶ Like commodity prices, dollar appreciation likely to temporarily depress core inflation
 - ▶ These temporary factors make it unlikely that we will experience significant increases in total or core inflation in the near term
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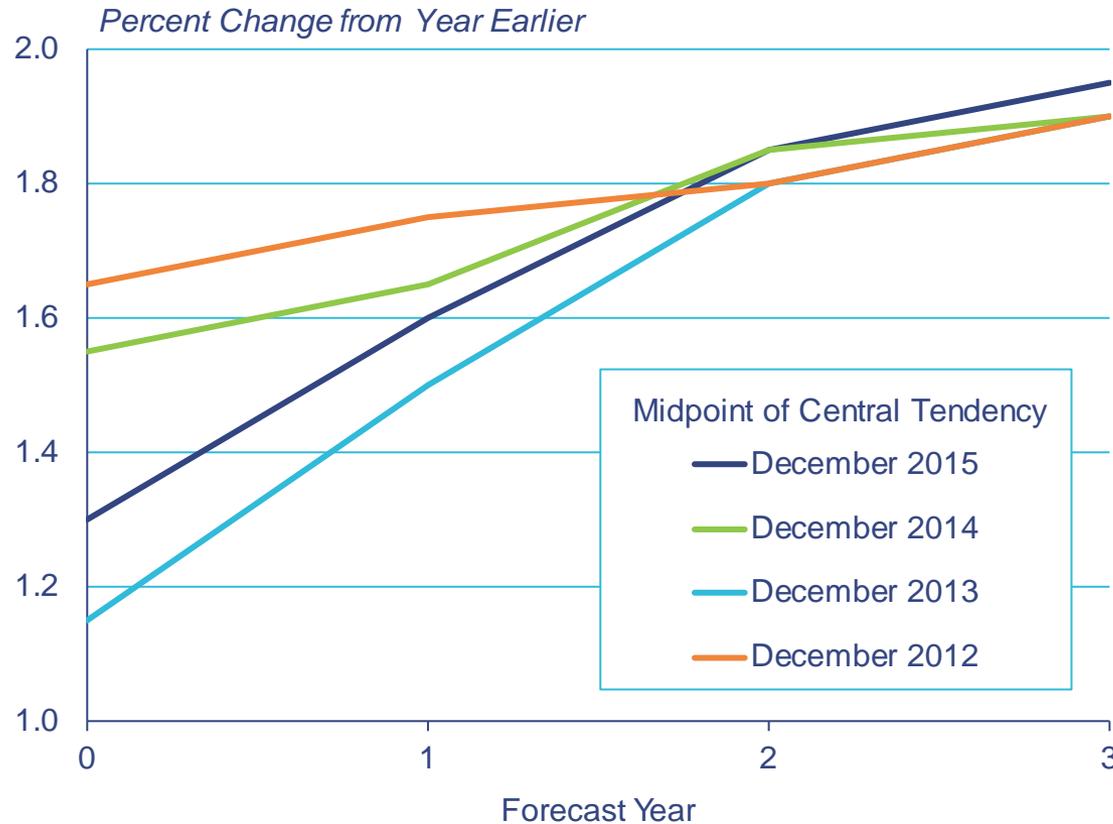
Figure 7: Inflation Expectations June 2013 - January 2016



Source: Survey of Consumer Expectations, © 2013-2015 Federal Reserve Bank of New York (FRBNY). The SCE data are available without charge at www.newyorkfed.org/microeconomics/scelIndex/index.html and may be used subject to license terms. FRBNY disclaims any responsibility or legal liability for this analysis and interpretation of Survey of Consumer Expectations data

Figure 8: Core PCE Inflation Projections of Federal Reserve Governors and Federal Reserve Bank Presidents

December 2012 - December 2015

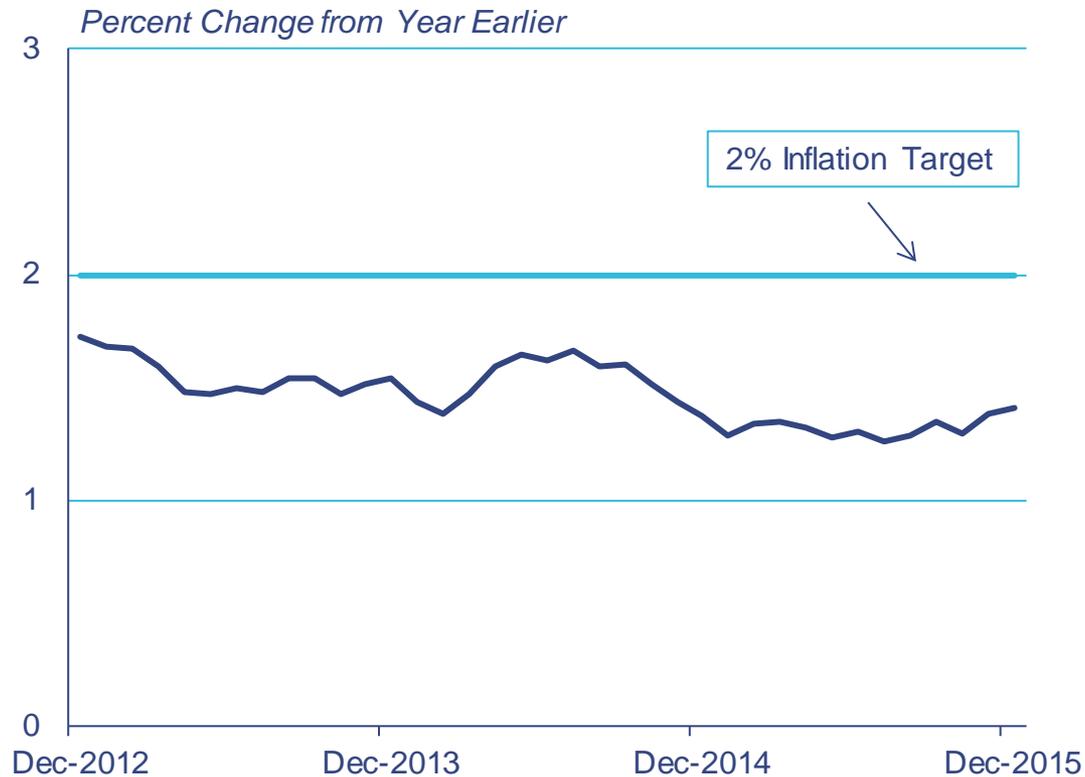


Note: Core PCE Inflation is measured by the percent change in the personal consumption expenditures price index excluding food and energy. The central tendency excludes the three highest and three lowest projections in each period.

Source: FOMC, Summary of Economic Projections (SEP)



Figure 9: U.S. Inflation Rate: Change in Core Personal Consumption Expenditures Price Index December 2012 - December 2015



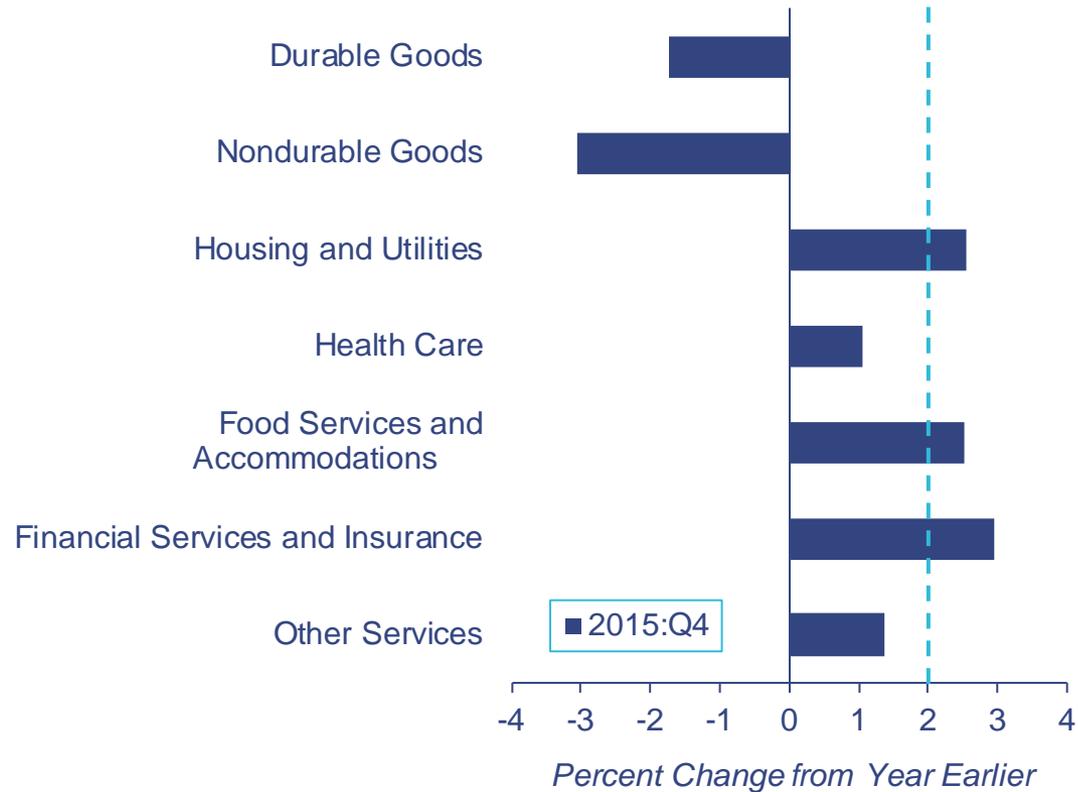


Inflation Forecast Errors

- ▶ One interpretation: FOMC participants persistently surprised by transitory shocks to oil prices and the dollar, both of which have tended to depress inflation in recent years
 - ▶ A more troubling alternative – a possible change in the inflation process
 - ▶ For example, if inflation expectations were becoming less well anchored
 - ▶ Important to monitor inflation expectations
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Figure 10: U.S. Inflation Rate: Change in Personal Consumption Expenditures Price Index by Component
2015:Q4



Note: Each component displayed accounts for more than 5 percent of personal consumption expenditures.

Source: BEA, Haver Analytics

Figure 11: Average Hourly Earnings and Wages and Salaries of Private Industry Workers

2006:Q1 - 2015:Q4

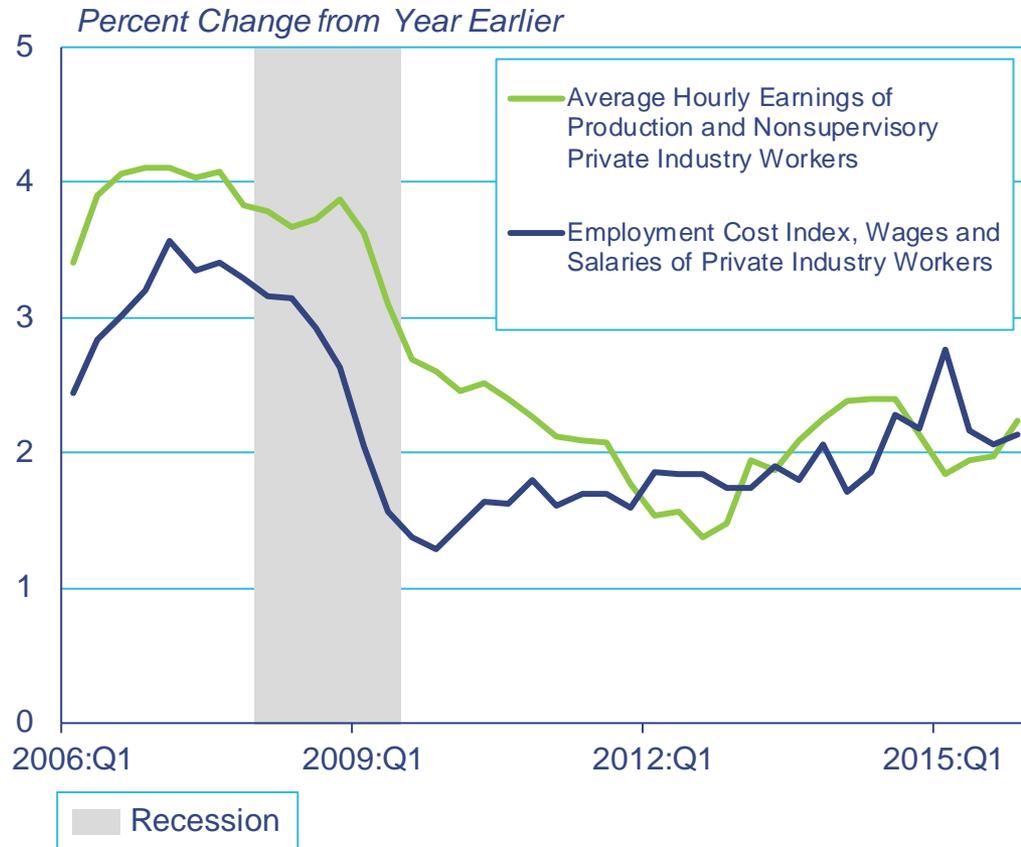


Figure 12: Employment Cost Index for Wages and Salaries for Private Industry Workers by Occupational Group

2006:Q1 - 2015:Q4

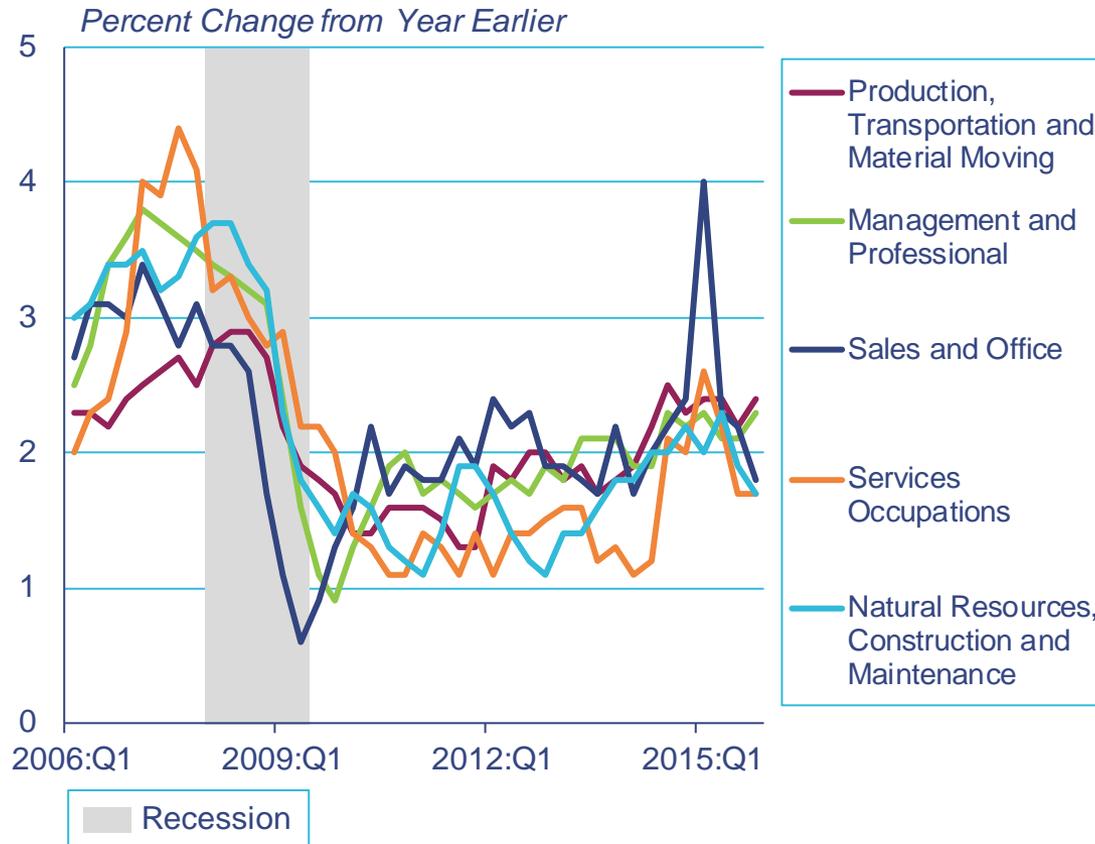


Figure 13: Real GDP Growth Projections of Federal Reserve Governors and Federal Reserve Bank Presidents, December 16, 2015

2015:Q4 - 2018:Q4

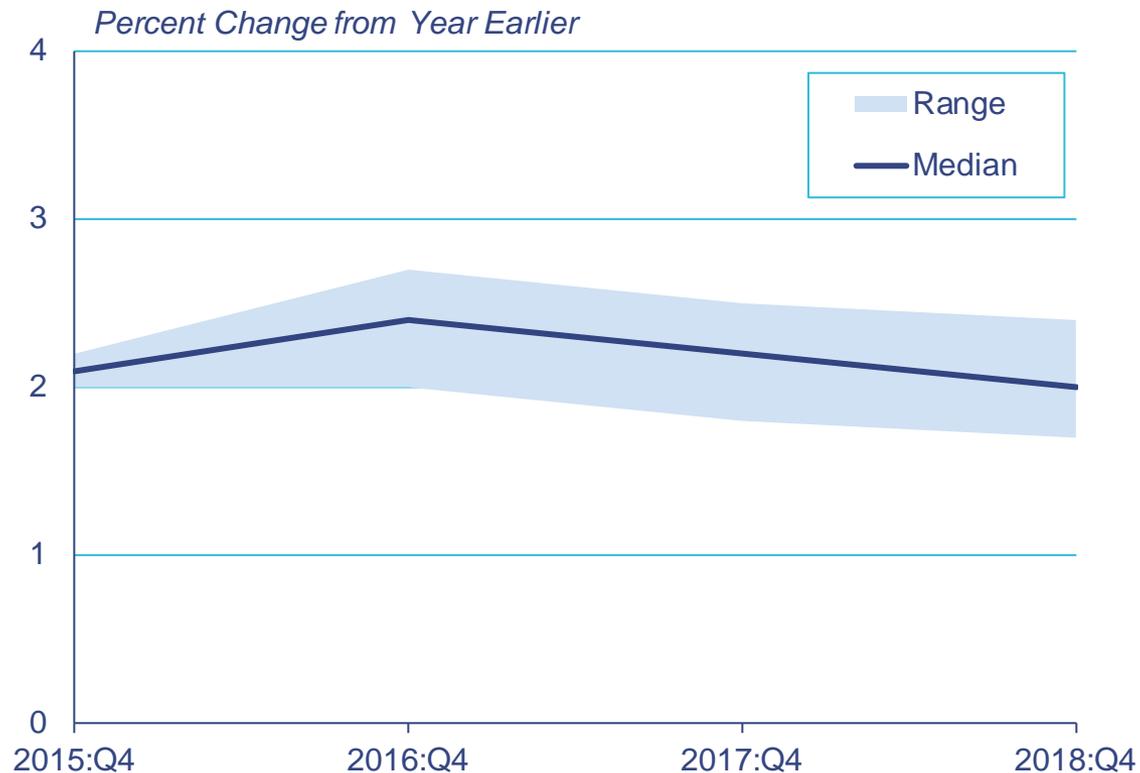
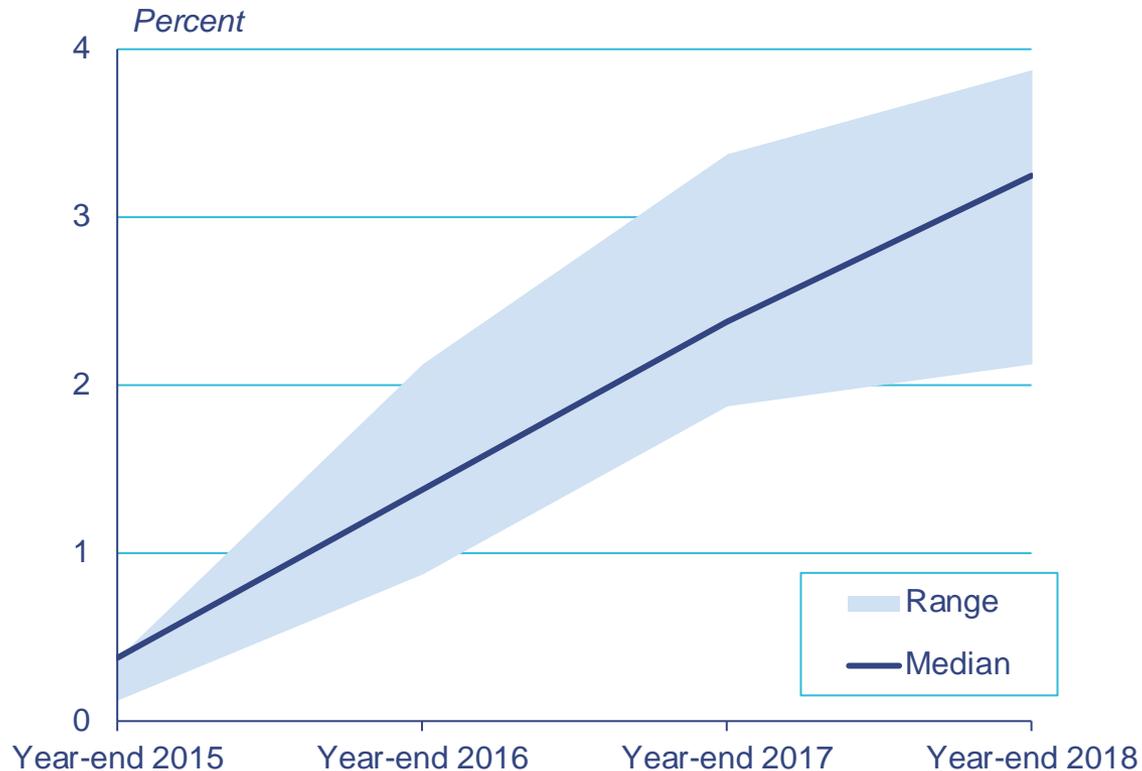


Figure 14: Federal Funds Rate Projections of Federal Reserve Governors and Federal Reserve Bank Presidents, December 16, 2015

2015 - 2018





Concluding Observations

- ▶ Global headwinds, since the December publication of the Summary of Economic Projections
 - ▶ Should these conditions persist, and slow progress on attaining the Fed's dual mandate, I believe the normalization of monetary policy should be unhurried, and wait for economic data to improve
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