



# Pandemic Ebbs and Flows: Economic Data, Inflation Concerns, and Policymaking

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# Optimistic Economic Outlook

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- ▶ COVID-19 vaccinations are increasing, particularly in New England
  - ▶ All six NE states are in the top ten states for vaccinations
  - ▶ All six NE states have more than half of adults with at least one shot
- ▶ NE residents and businesses can expect a more normalized summer
  - ▶ High frequency data on economic activity – air travel and visits to restaurants are increasing
  - ▶ Industries hard hit by social distancing now beginning to recover
- ▶ New England economy, like the national economy, experiencing rapid growth in real output and notable improvements in payroll employment
- ▶ However, significant slack in the economy remains
  - ▶ Unemployment is still high, labor force participation rate is low
  - ▶ Rapid economic growth necessary to offset shock from pandemic

# Policy Support Important

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- ▶ Fiscal policy unusually stimulative
- ▶ Monetary policy remains highly accommodative
- ▶ Expect interest rates will remain low for some time
  - ▶ Until economy reaches full employment
  - ▶ Consistently deliver 2 percent inflation
- ▶ Assessing underlying economy will be difficult, given pandemic-related events
  - ▶ Many series distorted
  - ▶ Payroll employment and retail sales have ebbed and flowed
  - ▶ Inflation numbers have also been distorted

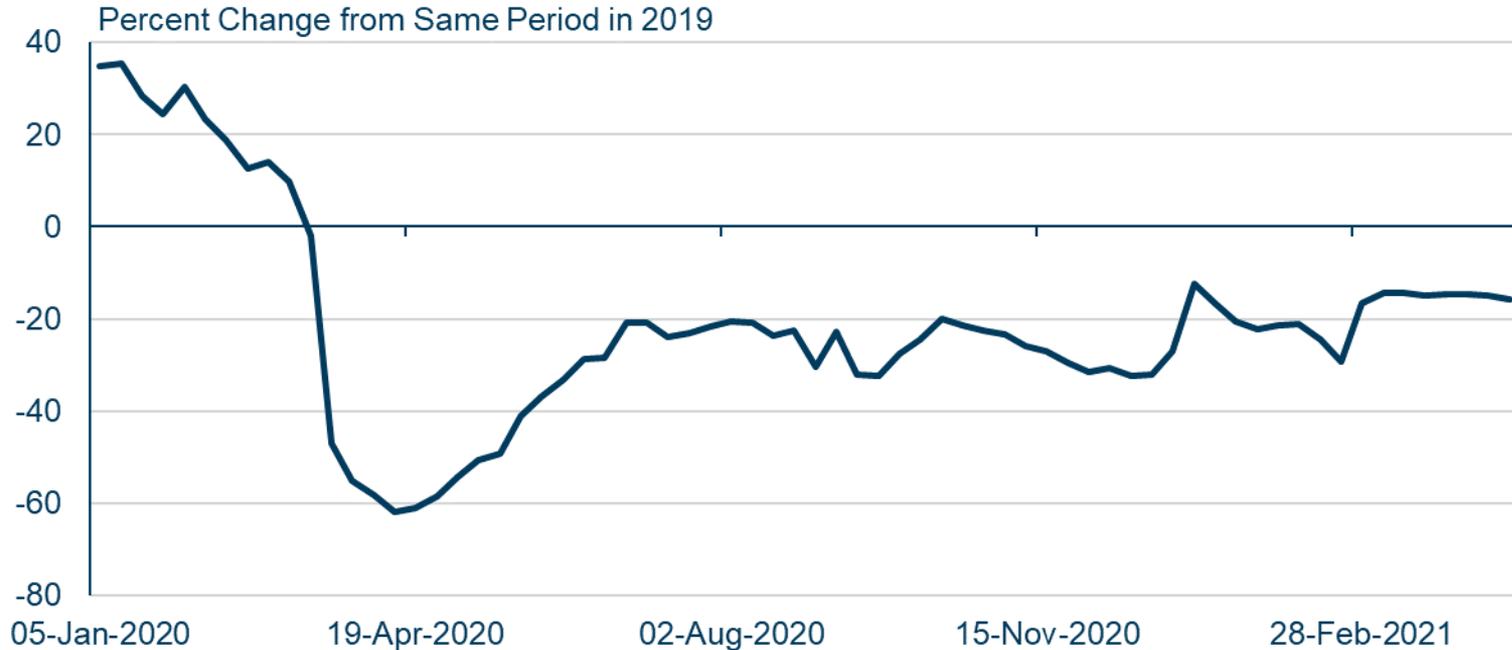
# Ebbs and Flows – Versus Trends – in Inflation

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- ▶ Expecting temporary factors to push measured inflation higher this spring (compared to underlying trend):
  - ▶ Annual averages of inflation impacted by onset of pandemic – prices dropped significantly when pandemic was most problematic
  - ▶ Oil prices distorted by pandemic
  - ▶ Supply disruptions – including import prices, shipping costs, and delays unloading ships
  - ▶ Demand has surged while supply ramping up more gradually
  - ▶ Implies temporary increases in reported inflation
- ▶ My view: Fed should focus on underlying inflation – which looks to likely trend close to 2 percent

# Figure 1: Mobility: Visits to Points of Interest

## Weekly, January 5, 2020 - April 18, 2021

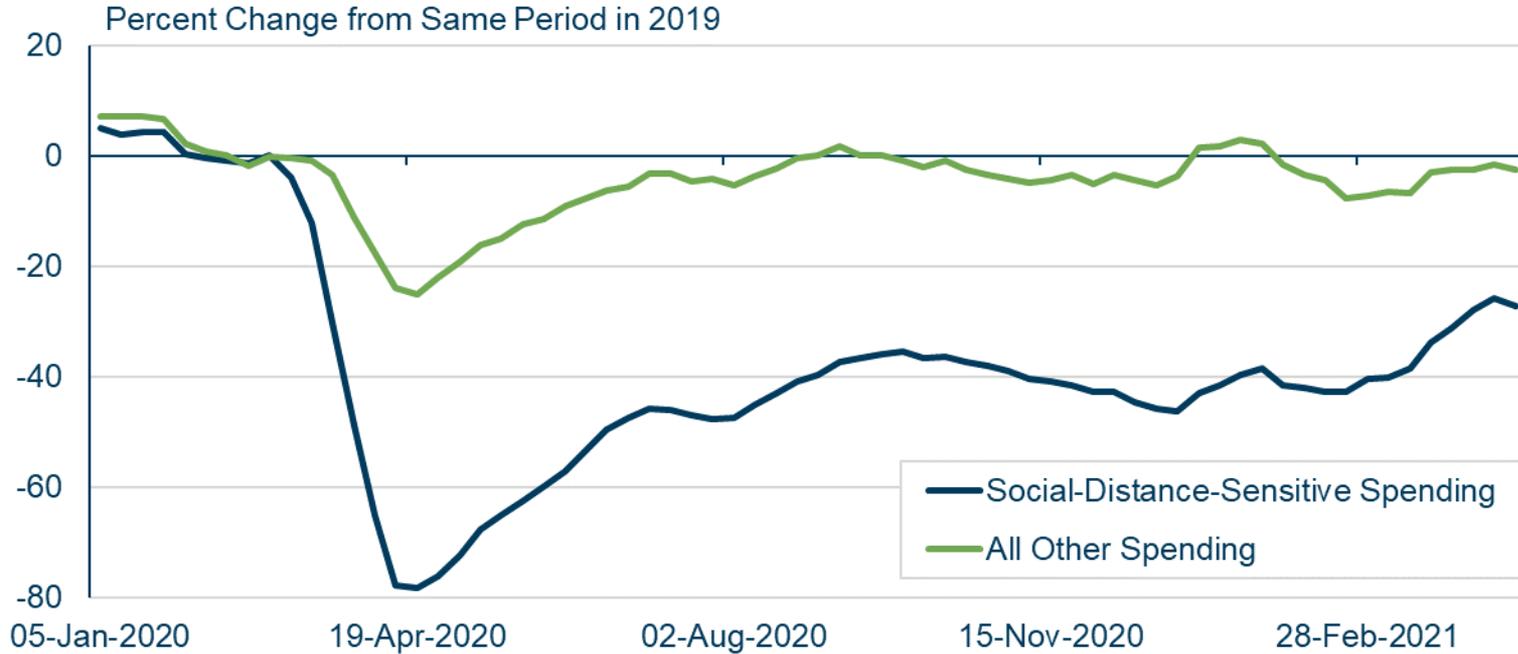


Note: Mobility is measured by cell-phone-based foot traffic data to over 5 million points of interest. Percent change in total visits to points of interest is relative to the same period in 2019 for both 2020 and 2021.

Source: SafeGraph

## Figure 2: High Frequency Spending Data

Weekly, January 5, 2020 - April 18, 2021

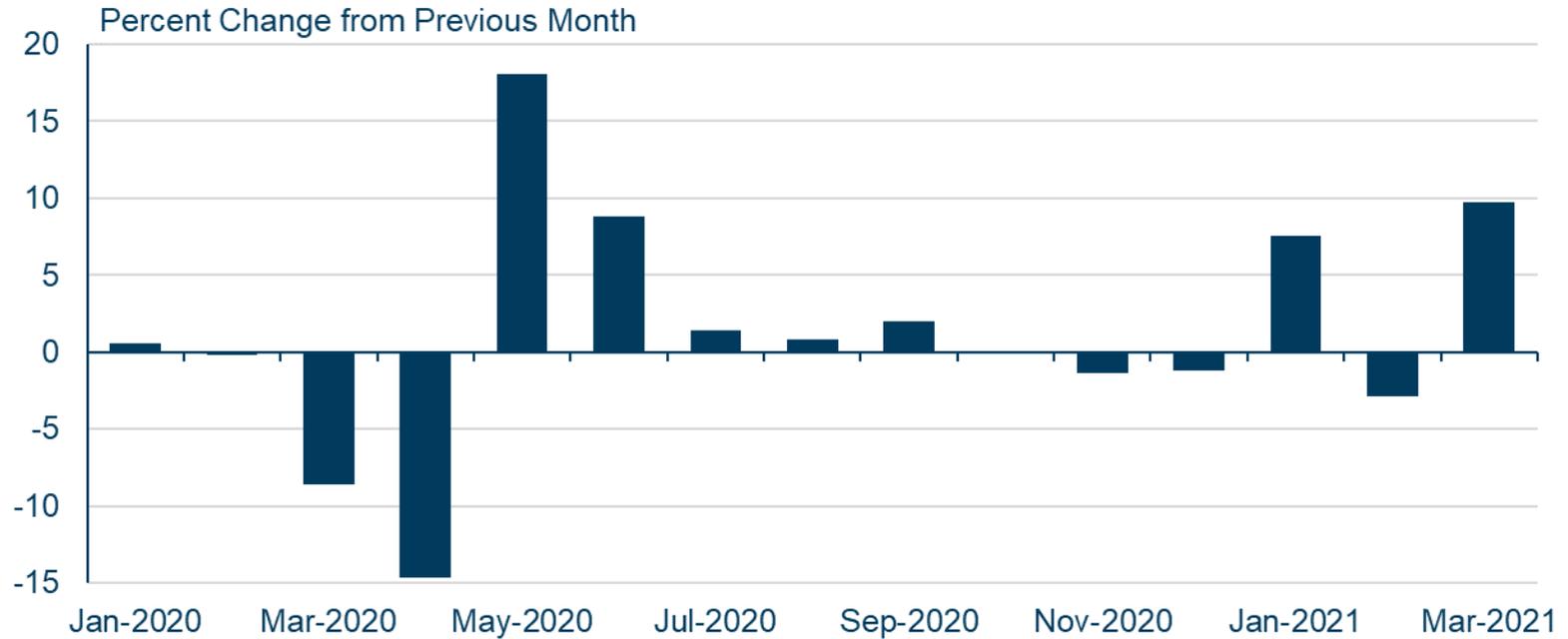


Note: Percent change in 4-week moving average relative to the same period in 2019 for both 2020 and 2021. Based on credit and debit card transactions.

Source: Fiserv, Inc. SpendTrend Transaction Data, [https://www.firstdata.com/en\\_us/insights/spendtrend.html](https://www.firstdata.com/en_us/insights/spendtrend.html)

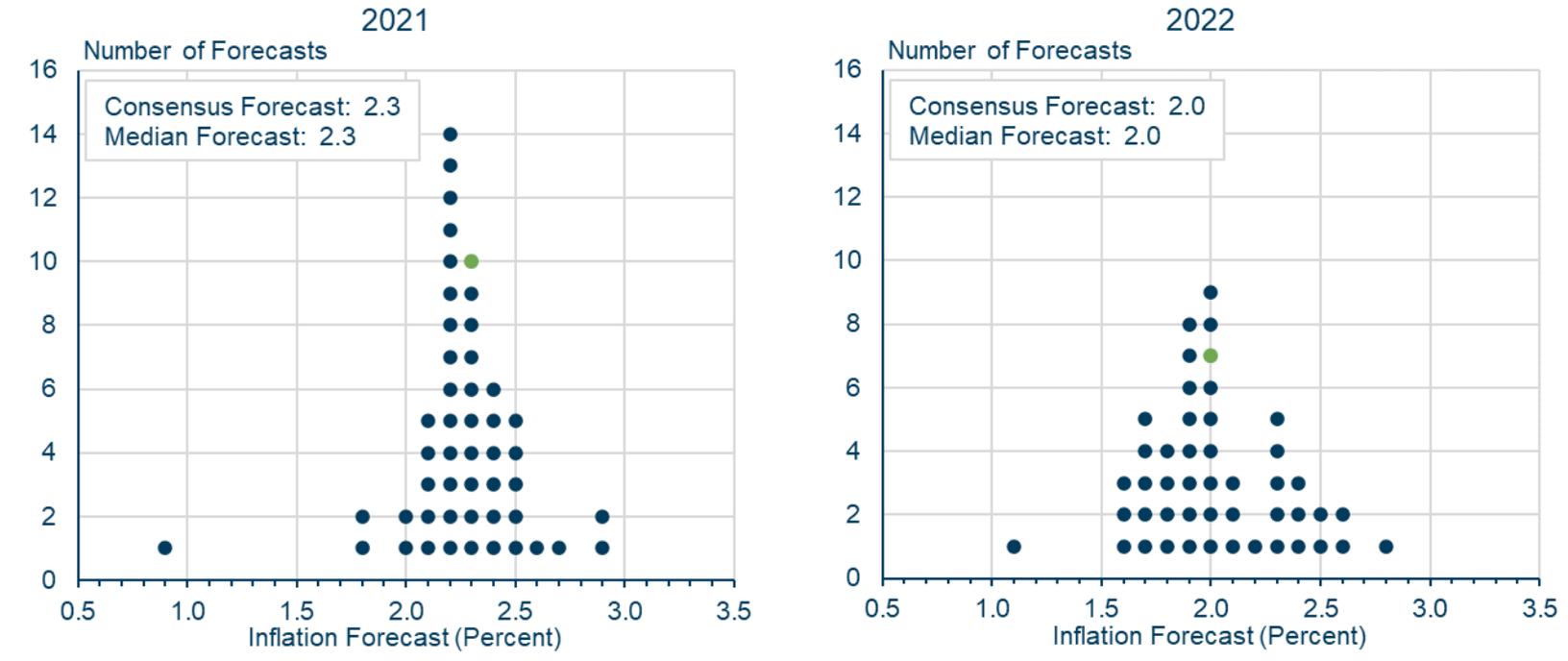
# Figure 3: Retail Sales

## January 2020 - March 2021



Source: Census Bureau, Haver Analytics

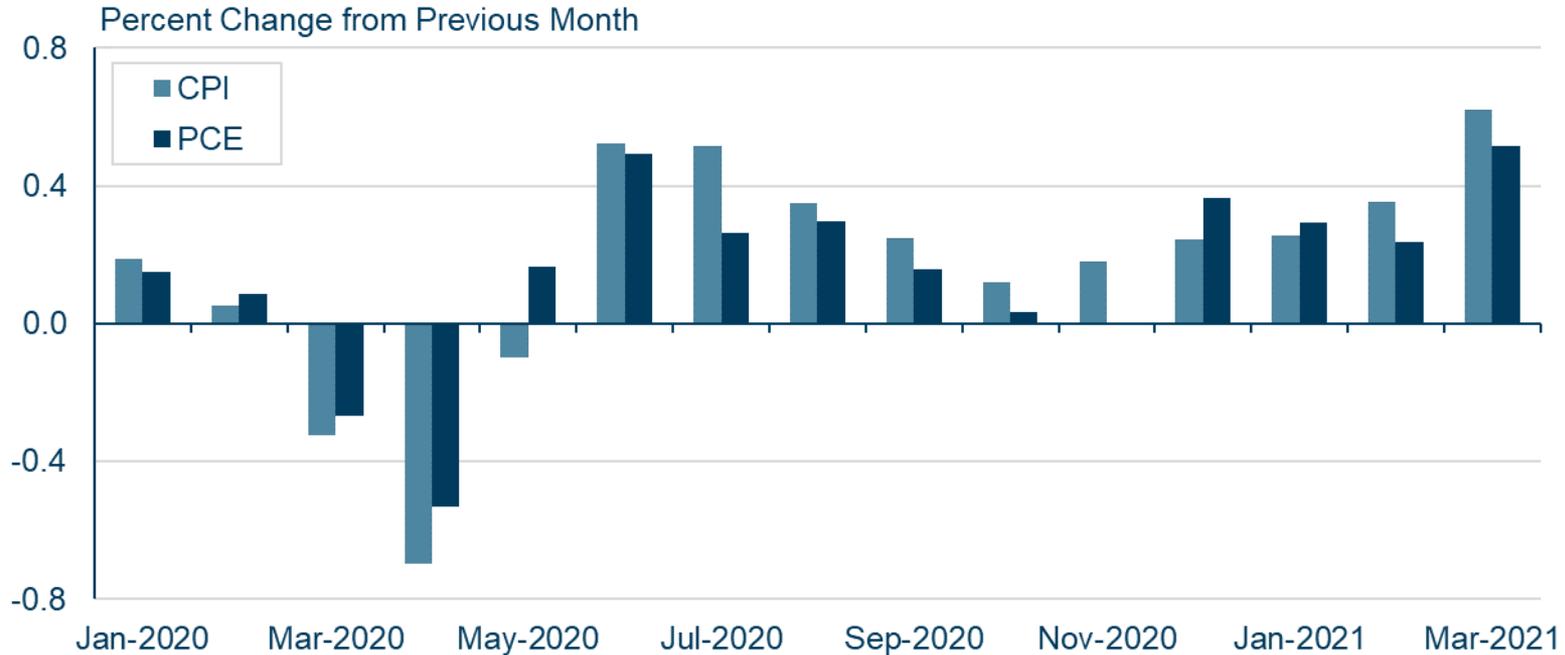
# Figure 4: Distribution of Blue Chip Inflation Forecasts, April 2021 and 2022



Note: Inflation is measured by the full year-over-prior-year percent change in the PCE Price Index. Based on 49 individual forecasts for 2021 and 47 for 2022.  
Source: Blue Chip Economic Indicators, April 9, 2021

# Figure 5: Measures of Inflation: The Consumer Price Index (CPI) and the Personal Consumption Expenditures Price Index (PCE)

## January 2020 - March 2021

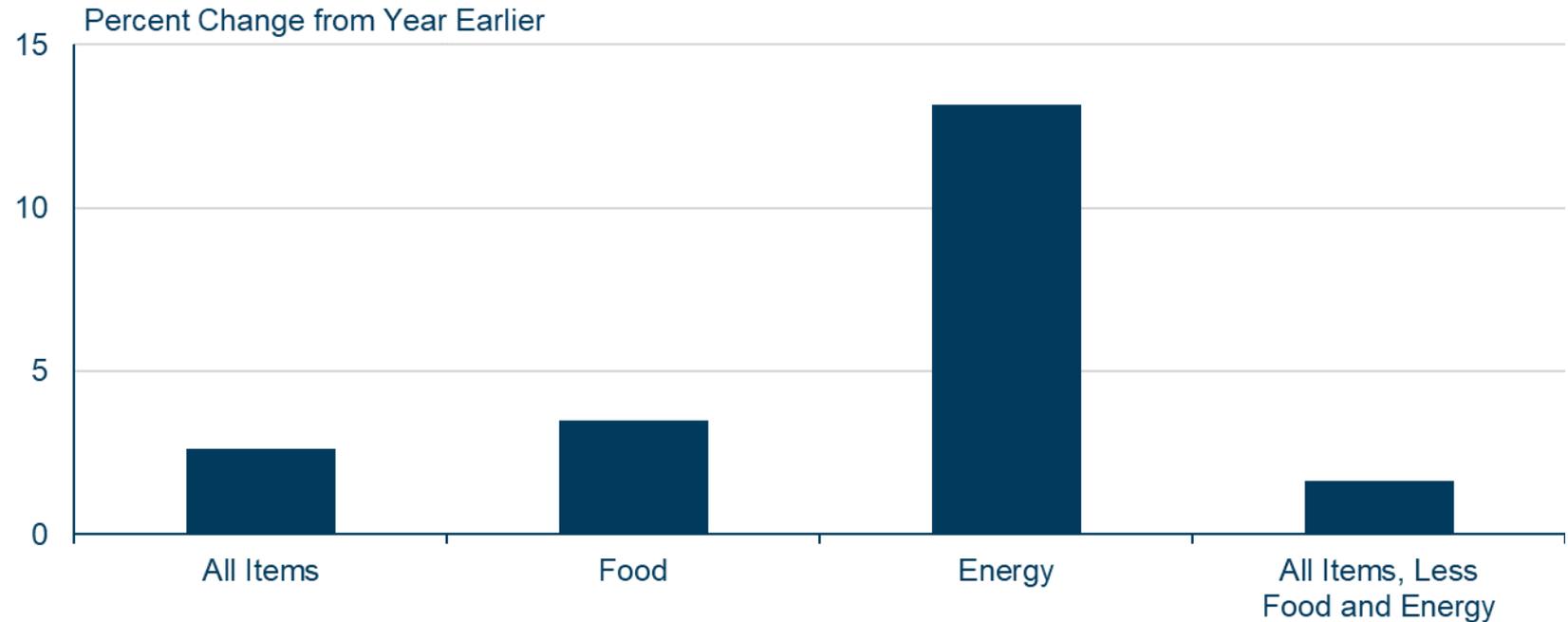


*Note: We typically measure inflation as inflation over the year – the percent change in either the CPI or PCE for a given month from the same month in the previous year (as we do in Figures 6 and 7). However, in the chart above, to emphasize the monthly pattern, we display the percent change from the previous month, and we do not annualize these monthly percent changes.*

Source: BEA, BLS, Haver Analytics

# Figure 6: Measures of Inflation: The Consumer Price Index for Selected Categories

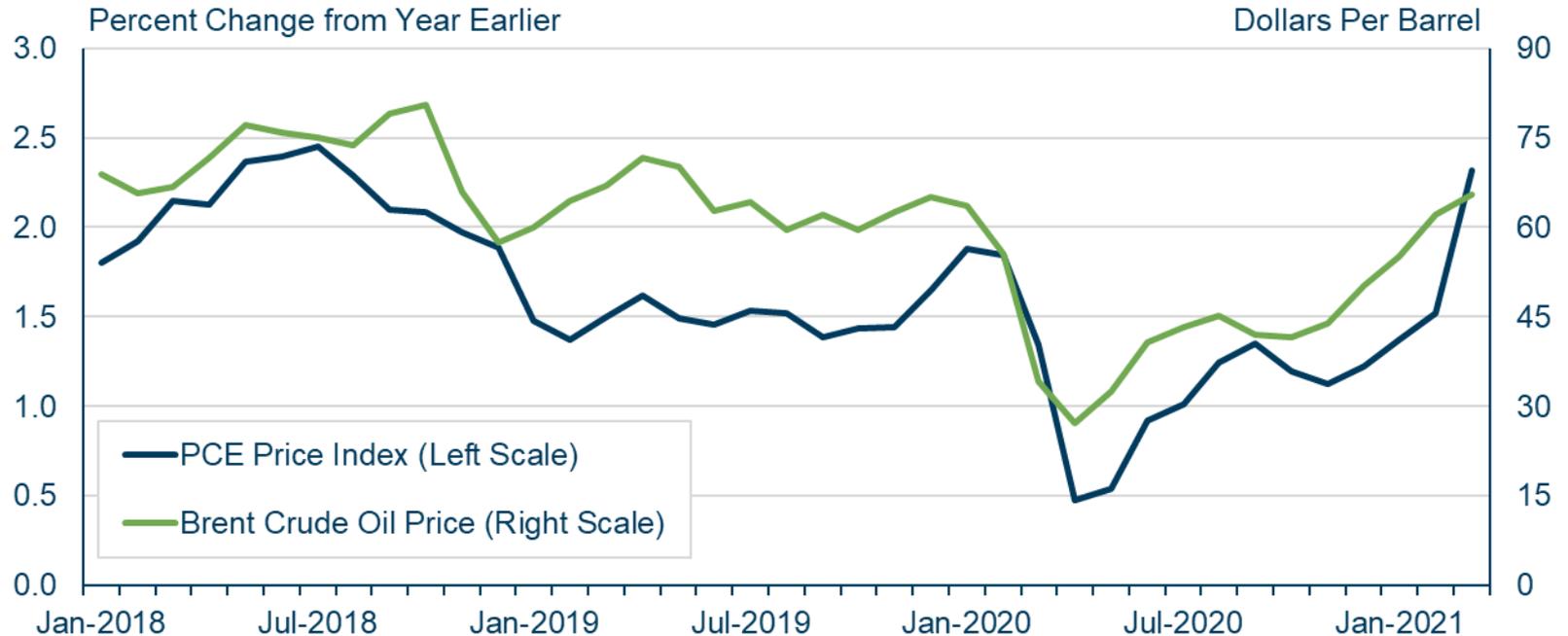
March 2020 - March 2021



Source: BLS, Haver Analytics

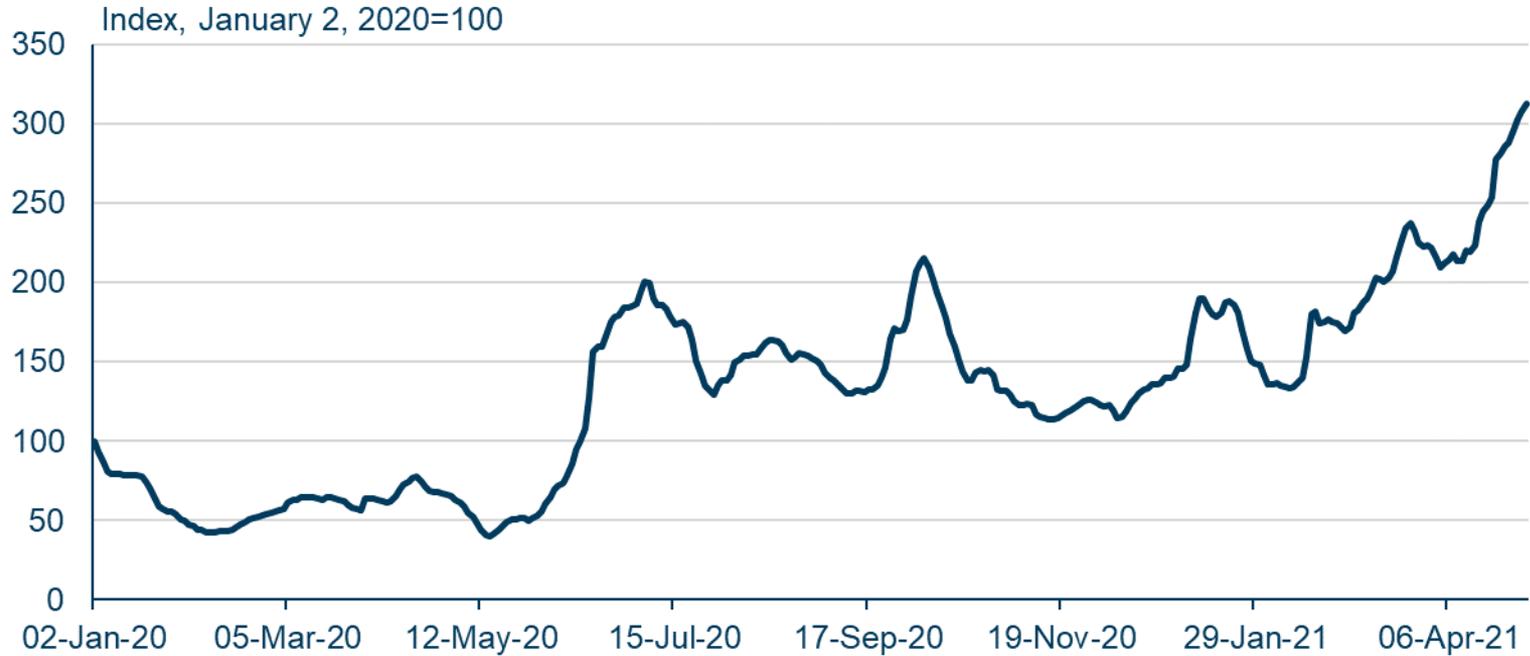
# Figure 7: Inflation and Oil Prices

January 2018 - March 2021



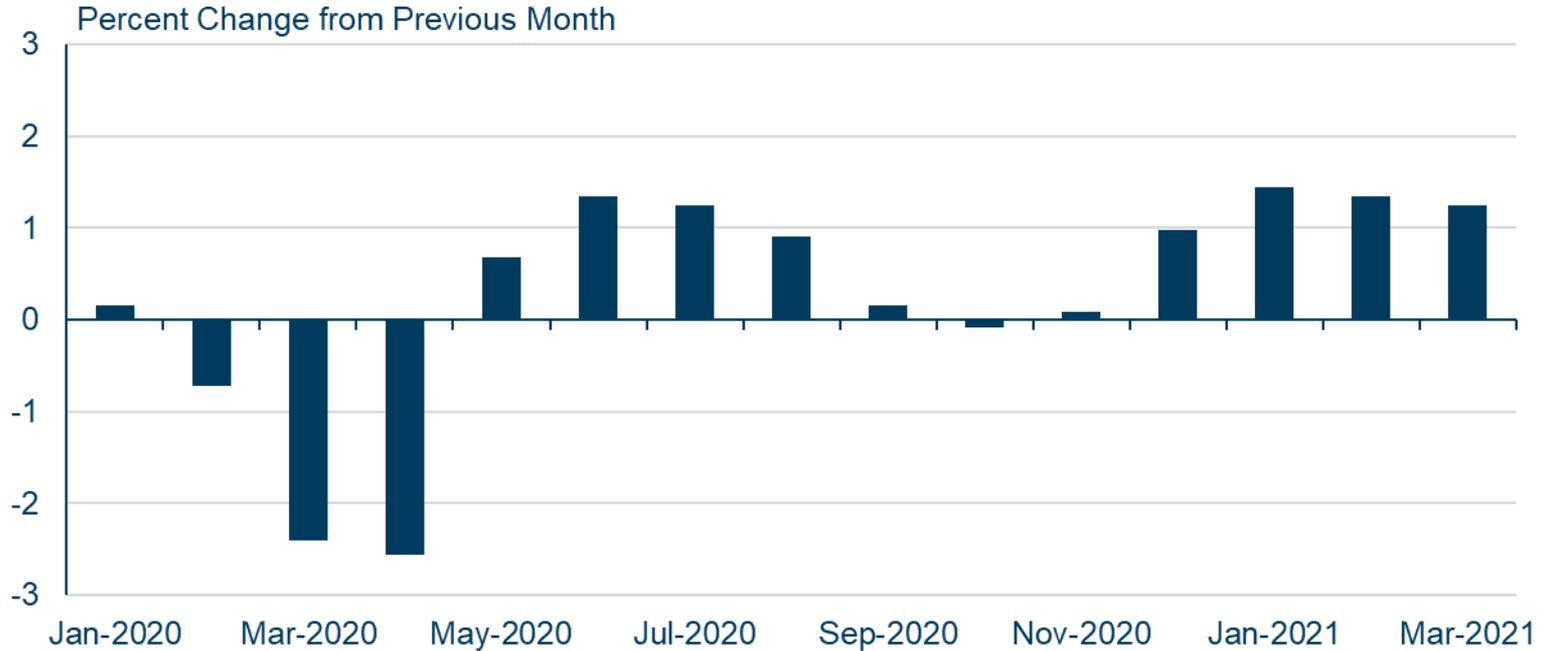
# Figure 8: Shipping Costs: Baltic Dry Index

January 2, 2020 - April 30, 2021



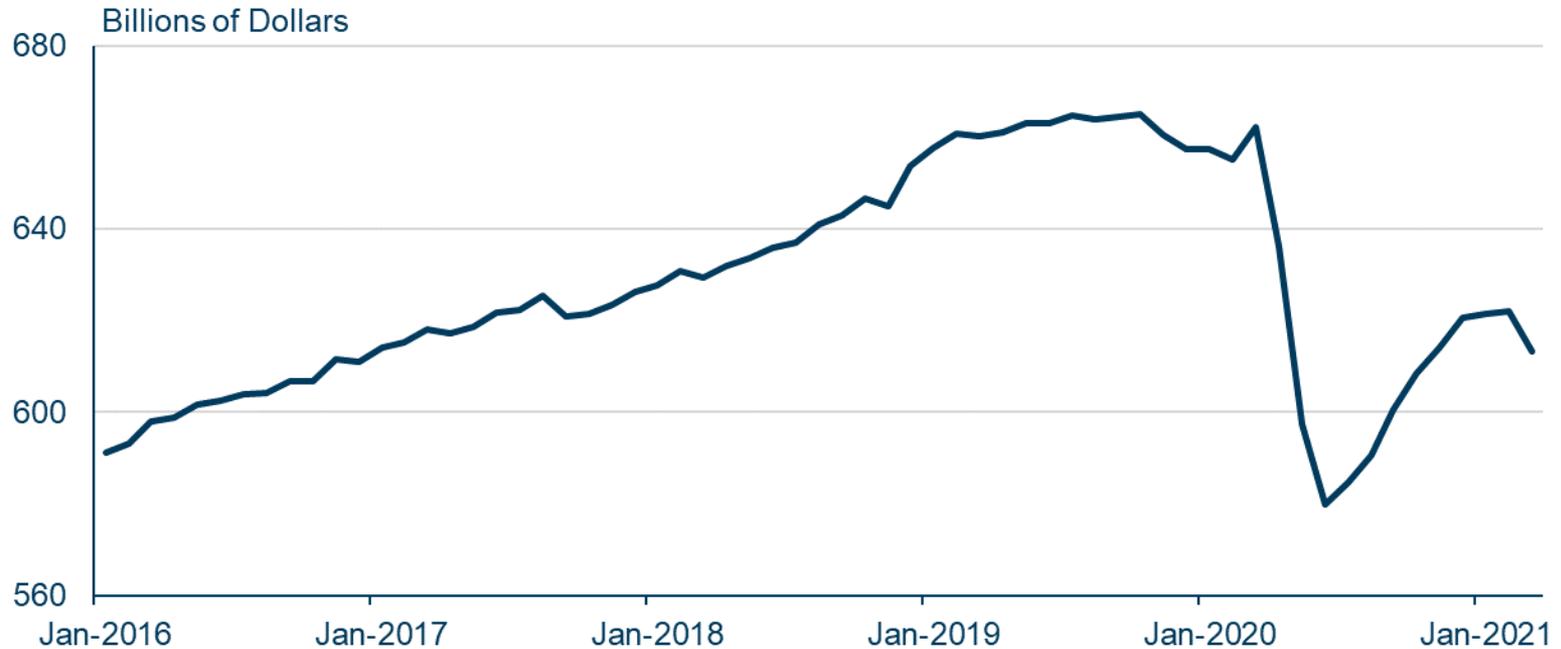
# Figure 9: U.S. Import Price Index

January 2020 - March 2021



# Figure 10: Retail Inventories

January 2016 - March 2021



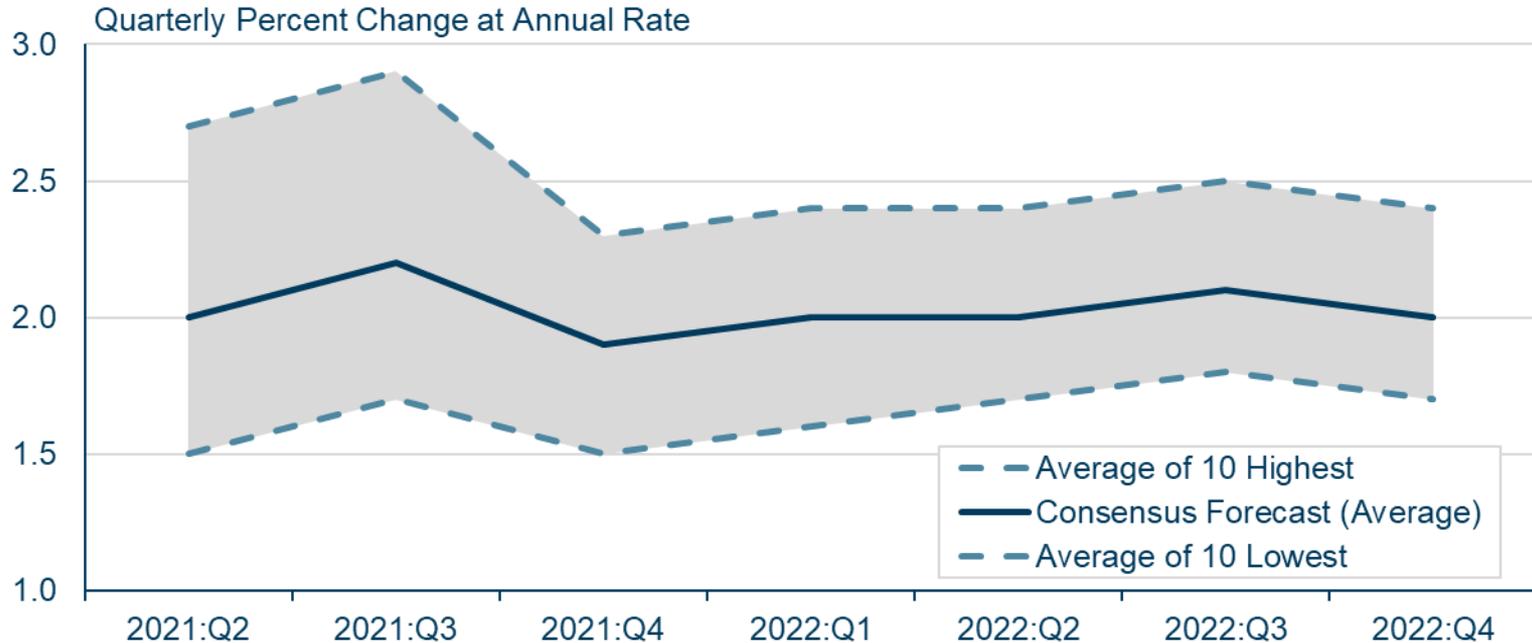
# Figure 11: Wage Growth for Private-Industry Workers

2016:Q1 - 2021:Q1



# Figure 12: Blue Chip Forecast for Core PCE Inflation, April 2021

2021:Q2 - 2022:Q4



Note: Core PCE excludes food and energy.

Source: Blue Chip Economic Indicators, April 9, 2021

# Concluding Observations

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- ▶ In sum, measured inflation likely to accelerate this spring – but the acceleration is likely to prove temporary
- ▶ Most likely outcome for the longer term is inflation trending close to 2 percent
- ▶ However, pandemic shock may impact economic relationships
  - ▶ With a shock as large as the pandemic, policymakers need to be alert to potential structural changes to the economy
- ▶ New policy framework brings focus on actual outcomes, not just forecasts of inflation
- ▶ Need to carefully filter underlying inflation trends, not just temporary price movements