# The Federal Reserve's Revised Monetary Policy Strategy and Its First Year of Practice

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**Policy Keynote Speech**
**Bank of Finland and Centre for Economic Policy Research (CEPR) Joint Webinar:**
**"New Avenues for Monetary Policy"**
**Helsinki, Finland**
**(via videoconference)**

**September 10, 2021**

**Introduction**

I thank the program committee for inviting me to participate in the conference on "New Avenues for Monetary Policy" organized by the Bank of Finland and CEPR. I have felt a strong attachment to the Bank of Finland ever since I was invited to participate in an external review of the bank's research activities in 2004. At the time, the bank was interested in building a strong research function so that it could be an active member of the European System of Central Banks. It is easy to see by looking at the strength of today's program, the bank's research output, and its engagement in the profession that the Bank of Finland is achieving this goal.

The conference's theme of new avenues for monetary policy is particularly relevant given the economic challenges presented by the global pandemic. But even before the pandemic hit, structural changes to the economy, in particular, lower estimates of the neutral real interest rate, presented challenges for monetary policymakers and suggested that new thinking was needed to ensure achievement of our monetary policy goals. Recently, both the Federal Reserve and the European Central Bank (ECB) have undertaken reviews of their monetary policy frameworks to determine whether changes were needed to increase the effectiveness of their policy strategies. The ECB released the outcome of its review in July. The Fed's revised strategy is now about a year old. Today, I will discuss the Fed's revised strategy, how the Federal Open Market Committee (FOMC) has put the strategy into practice, and based on that experience, what I believe are areas that would benefit from further clarification. As always, the views I will present are my own and not necessarily those of the Federal Reserve System or of my colleagues on the Federal Open Market Committee.

**Reasons for the Monetary Policy Framework Review**

**[Figure 1: FOMC framework review]** In August 2020, the FOMC adopted a revised Statement on Longer-Run Goals and Monetary Policy Strategy, which was reaffirmed in January of this year.[1] The revised statement summarized the outcome of a review of our framework for setting monetary policy. The review began in early 2019 and covered the strategy, tools, and communications we use in setting policy in pursuit of the monetary policy goals given to us by the U.S. Congress. These goals are maximum employment, price stability, and moderate long-term interest rates.[2] When prices are stable and the economy is at maximum employment, long-term interest rates are typically at moderate levels. So it is often said that the Fed has a dual mandate of price stability and maximum employment.

The framework review was informed by our experience during and after the Great Recession, by economic theory and empirical analysis, by consultations with academic researchers and practitioners at research conferences, and by conversations with the public at large through a series of Fed Listens events held across the country.[3]

The review was undertaken in light of changes in the economic environment that have emerged since the FOMC's first strategy statement was published in 2012. The 2012 statement was significant because it stated for the first time an explicit numerical definition of price stability, namely, 2 percent inflation, as measured by the annual change in the price index for personal consumption expenditures, or PCE

[1] The revised Statement on Longer-Run Goals and Monetary Policy Strategy is available at https://www.federalreserve.gov/monetarypolicy/files/FOMC_LongerRunGoals.pdf. Information about the framework review is available at https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications.htm.

[2] The monetary policy goals given to the Fed by the U.S. Congress are specified in Section 2A of the Federal Reserve Act (https://www.federalreserve.gov/aboutthefed/section2a.htm).

[3] Several of the papers presented at the Federal Reserve System's conference on Monetary Policy – Strategy, Tools, and Communication Practices were published in a special issue of the *International Journal of Central Banking* 160 (February 2020) (https://www.ijcb.org/journal/ijcb2002.htm).

inflation.[4] The establishment of an explicit inflation target took many years of FOMC discussion: the FOMC was not an early adopter. But the experience of the financial crisis and deep recession of 2007-2009, the sluggish ensuing recovery in the labor market, and the rounds of unconventional monetary policies used to provide accommodation after the federal funds rate was constrained by the zero lower bound all contributed to the FOMC's decision in 2012 to adopt a form of flexible inflation targeting, with an explicit numerical inflation goal.[5] The 2012 strategy recognized that, over the longer run, monetary policy can influence only inflation and not the underlying real structural aspects of the economy such as the natural rate of unemployment or maximum employment, but that monetary policy can be used to help offset shorter-run fluctuations in employment around maximum employment.

This flexible inflation-targeting strategy served the FOMC well. The ensuing economic expansion turned out to be the longest expansion on record in the U.S., with the unemployment rate falling to its lowest level in several decades – until it was cut short by the pandemic. But the experience during this long expansion and structural changes to the economic environment led the FOMC to review our monetary policy strategy to ensure it maintained its effectiveness now and in the future.

**[Figure 2: Equilibrium real interest rates]** One economic development with important implications for monetary policy is the decline in the U.S. and other advanced economies in the general level of real interest rates consistent with sustainable growth and price stability, that is, *r*-star. This decline reflects several factors, including the aging of the population, changes in risk preferences, and slower productivity growth, which weigh on long-run economic growth and lower the natural rate of unemployment.[6] It

[4] See Federal Open Market Committee, "Statement on Longer-Run Goals and Monetary Policy Strategy," January 24, 2012 (https://www.federalreserve.gov/monetarypolicy/files/FOMC_LongerRunGoals_201201.pdf).

[5] For additional context on the FOMC's adoption of the explicit numerical inflation target and flexible inflation targeting, see Jeffrey M. Lacker, "A Look Back at the Consensus Statement," *Cato Journal* 40, Spring/Summer 2020 (https://www.cato.org/sites/cato.org/files/2020-05/cj-v40n2-3_1.pdf).

[6] See Loretta J. Mester, "Demographics and Their Implications for the Economy and Policy," *Cato Journal*, 38 (Spring/Summer 2018), pp. 399-413. (https://www.cato.org/sites/cato.org/files/serials/files/cato-journal/2018/5/cj-v38n2-6.pdf)

means that the level of the federal funds rate, the policy rate in the U.S., consistent with maximum employment and price stability is now lower than it has been in the past.

**[Figure 3: Longer-run fed funds rate]** And this means that during economic downturns, it is now more likely that the fed funds rate will be constrained by its effective lower bound. The FOMC will have less policy space to support the economy using the funds rate, its traditional policy tool, and other tools, including asset purchases and forward guidance, will need to be used more often. In past recessions, the FOMC has typically reduced the federal funds rate target by 5 to 6 percentage points. With lower equilibrium interest rates, this policy space will not be available; for example, in last year's recession, the FOMC was able to reduce the funds rate by only 1-1/2 percentage points. Assuming that households, businesses, and financial markets understand that it will be more difficult for monetary policymakers to reach their inflation goal, this constraint imparts a downward bias to inflation and inflation expectations, which reinforces the downside risks to achieving our policy goals.

**[Figure 4: Phillips curve]** Another change in the economic environment with implications for monetary policy pertains to inflation dynamics. Until late in the prior economic expansion, inflation readings in the U.S. ran below the 2 percent objective, and this was true in other advanced economies as well. Resource utilization in the labor market and in product markets has become less correlated with actual inflation than in the past – the Phillips curve has become flatter – and inflation expectations now play a larger role in determining inflation outcomes. This makes it even more important that inflation expectations remain well anchored at levels consistent with our longer-run inflation goal. If expectations move persistently below these levels, it is more likely that inflation will run persistently below our goal, which results in even less policy space. Expectations that run persistently above our goal would also be a problem, but could be addressed by raising the policy rate.

These structural changes in the economic environment are expected to persist and the FOMC undertook the framework review with them in mind, with the aim of enhancing the effectiveness of our monetary policy strategy in promoting our policy goals in the new environment.

**What Did Not Change in the Revised Strategy**

**[Figure 5. What did not change]** Before discussing the changes in our strategy, it is important to know that several things have not changed.

First, the longer-run inflation goal has not changed; it remains at 2 percent as measured by the annual change in the PCE price index.

Second, the FOMC continues to believe it is not appropriate to set a fixed numerical goal for employment because monetary policy cannot influence nonmonetary structural aspects of the economy, including maximum employment and the natural rate of unemployment, which change over time.

Third, the FOMC continues to be forward looking in setting monetary policy because policy affects the economy with a lag. This means that policy will depend on the economic outlook and the assessment of risks to the outlook.

Fourth, the FOMC continues to acknowledge that risks to the financial system could impede the attainment of our monetary policy goals of maximum employment and price stability.

**What Did Change in the Revised Strategy**

While the elements I just mentioned were unchanged, several other elements did change.

**[Figure 6: Inflation goal]** Regarding our approach to inflation, while the goal hasn't changed, the strategy for achieving the goal now takes into account the downward bias that the lower *r*-star and zero lower bound on interest rates impart to inflation and inflation expectations. In particular, after periods in which inflation has been running persistently below 2 percent, we will likely aim to have inflation run moderately above 2 percent for some time. Aiming for inflation to average 2 percent over time is expected to help anchor inflation expectations, a main determinant of actual inflation, at levels consistent with 2 percent inflation. This revised strategy can be viewed as a shift from flexible inflation targeting to flexible average inflation targeting, whereby policy actions are taken to make up for some past inflation misses in order to have inflation average 2 percent over time.

This revision is a stronger statement than ones we made in the past as we struggled to effectively convey that the longer-run goal of 2 percent should not be interpreted as a ceiling. In the past, I and many others on the FOMC indicated that we would be comfortable with inflation running above 2 percent for a time after it had run low for some time – a type of opportunistic re-inflation. But now we are being deliberate rather than opportunistic. After inflation has run persistently low, we won't just tolerate serendipitous shocks that move inflation above 2 percent for some time, but we will set policy with that intention. This means that monetary policy will be somewhat more accommodative than in the past, all else equal.

Regarding our employment goal, I view the changes in strategy as a more explicit acknowledgment of the uncertainty around assessments of the level of maximum employment and a clarification of our approach to achieving the employment goal in light of our experience over the past expansion.[7] During the pre-

[7] This is consistent with something I have advocated for some time: that policy communications should acknowledge uncertainty. See, e.g., Loretta J. Mester, "Acknowledging Uncertainty," remarks at the Shadow Open

pandemic expansion, we learned that employment growth could be stronger and the unemployment rate could move lower without generating inflation than we thought possible based on decades of experience.

**[Figure 7: Estimates of the natural rate of unemployment]** It took some time for the FOMC to learn about the structural changes in the economy and the difficulties in assessing maximum employment in real time using the Phillips curve model. As the FOMC was learning, its assessments of the longer-run unemployment rate came down significantly over time. And, as Cleveland Fed staff analysis indicates, in the last two years of the most recent economic expansion, FOMC participants put less weight on the unemployment rate in determining the appropriate monetary policy path than they had earlier in the expansion.[8]

**[Figure 8: Maximum employment goal]** Unfortunately, this time-to-learn, combined with the previous strategy statement's references to "deviations" of employment from maximum employment rather than "shortfalls," gave the impression that the FOMC would at times take deliberate policy action to bring employment down independently of our inflation goal. But this was not the case. Now, the revised strategy statement makes it explicit that the FOMC views its maximum employment goal as a broad-based and inclusive goal and that in the absence of inflationary pressures or risks to financial stability, strong employment is not a concern and monetary policy will not react to it.

**Experience with the Revised Strategy over the First Year**

The revised strategy has been in place for about a year and has been guiding our policy decision-making. For the strategy to live up to its promise of better anchoring longer-run inflation expectations at 2 percent

Market Committee Fall Meeting, New York, NY, October 7, 2016. (https://www.clevelandfed.org/newsroom-and-events/speeches/sp-20161007-acknowledging-uncertainty.aspx).

[8] See Edward S. Knotek II, "Changing Policy Rule Parameters Implied by the Median SEP Paths," Federal Reserve Bank of Cleveland *Economic Commentary* Number 2019-06, April 15, 2019. (https://www.clevelandfed.org/newsroom-and-events/publications/economic-commentary/2019-economic-commentaries/ec-201906-changing-policy-rule-parameters)

and delivering on our goals of maximum employment and longer-run price stability in a low *r*-star environment, it is important that the public understand the strategy and that the FOMC is committed to it. In the remainder of my remarks, I will present my views on our experience thus far and some aspects of the strategy we should clarify for the public.

Perhaps the new strategy's most obvious influence is on the FOMC's forward guidance on the expected future path of the fed funds rate and on the asset purchase program that has been included in our post-meeting policy statement since adoption of the strategy.

**[Figure 9. Forward guidance]** First, since September 2020, the FOMC has indicated that it expects it will be appropriate to maintain the target range of the fed funds rate at 0 to 1/4 percent until labor market conditions have reached levels consistent with our assessments of maximum employment, and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. After liftoff, the FOMC expects to maintain an accommodative stance of monetary policy until our goals are met and longer-term inflation expectations are well anchored at 2 percent. This is outcome-based forward guidance, which the FOMC has used in the past, but it indicates a more accommodative path for the funds rate than likely would have been deemed appropriate under the former strategy in terms of both the employment and inflation conditions. This change acknowledges the need to ensure that policy is accommodative enough to prevent low levels of inflation and inflation expectations as seen in the last expansion from becoming entrenched.

With regard to the asset purchase program, since December of last year, the FOMC has been indicating that we expect to continue to increase our holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward our maximum employment and price stability goals.

The FOMC's forward guidance is in line with our new policy strategy and is an important part of policy communications. Communications play a critical role in effective monetary policymaking by aligning the public's policy expectations with those of policymakers, enhancing policymakers' credibility, and providing the public the information it needs to hold policymakers accountable. Good communication is particularly important in a low-interest-rate environment because at the zero lower bound, forward policy guidance is a tool that can be used to add monetary accommodation. Whether the revised strategy statement and our policy forward guidance provide enough clarity to achieve our communication goals remains an open question.

Fed watchers and others have asked for more context about several aspects of the new strategy and our forward guidance. They are interested in knowing how the FOMC will measure average inflation, how far above 2 percent the FOMC considers "moderately" above, and what time period constitutes "for some time" when assessing inflation above 2 percent. They are interested in what indicators the FOMC will be using to assess whether labor market conditions are consistent with maximum employment and what constitutes "substantial further progress" toward our goals when determining whether it is time to begin tapering our asset purchases. These questions have become particularly relevant as the economy has continued to surprise over the course of the pandemic. Instead of inflation being mired below target, it has surprised on the high side. Similarly, the recovery in the labor market since the nadir in April 2020 has been remarkable.

**[Figure 10. First area for clarification]** When the FOMC established the revised strategy, we did not specify a mathematical formula to determine whether average 2 percent inflation had been met, choosing to maintain some flexibility as we had done under our prior flexible inflation targeting strategy. In part, the flexibility recognizes that the Fed has a dual mandate rather than a single inflation mandate. But some clarity on how the FOMC will assess average inflation will help ensure that the new strategy lives up to its promise of anchoring inflation expectations at levels consistent with our longer-run 2 percent goal.

**[Figure 11. Inflation benchmarks]** For example, as of the second quarter of this year, PCE inflation has averaged 2 percent over the past 5 years.[9] According to many forecasts, even with inflation expected to move down from its elevated levels of the past year, 5-year average inflation is forecasted to move above 2 percent over the next year as earlier low levels of inflation drop out of the calculation. So a reasonable assessment is that we are at or close to meeting the average inflation goal. But this is based on a 5-year window for averaging. Others may prefer a different time horizon. For example, PCE inflation has averaged 1.8 percent over the past 6 years and 1.6 percent over the past 7 years. Or they may prefer a fixed starting point rather than a moving average in order to assess progress on the inflation goal. Depending on your benchmark, you would have different views on how much progress has been made toward the goal, and in order to promote achievement of the average inflation goal, the moderate overshoot you might be willing to tolerate could be different depending on the shortfall you perceive.

**[Figure 12. Second area for clarification]** A similar issue arises with the employment goal. To interpret "substantial further progress" one needs to know how much further there is to go, and this assessment depends on whether it is reasonable to expect labor market conditions to return to their strong pre-pandemic levels of February 2020. That is probably not a bad benchmark to use to assess progress for many indicators, but it is not necessarily the right one for other indicators.

**[Figure 13. Labor force participation rates]** For example, about 3 to 3-1/2 million people in the U.S. have retired since the onset of the pandemic. This is about twice as many as would have been expected based on population aging. Retirees typically don't return to the labor market. This time could be different since the pandemic shock is something new, but we probably shouldn't expect the overall labor

[9] As of 2021Q2, the compounded annualized growth rate over the past 20 quarters of PCE inflation is 1.99 percent and of core PCE inflation is 1.96 percent.

force participation rate to approach its pre-pandemic level. It is likely better to assess conditions using the prime-age participation rate to abstract from retirements.

While it is important for the FOMC to look at a variety of indicators to assess progress on our employment goal, it is also important that we do so systematically. As a committee, we should examine the same relevant set of indicators over time and communicate our assessment of progress based on that set of indicators. This would be a way to align the public's assessment with the FOMC's so the public will understand when "substantial further progress" has been made.

**[Figure 14. Third area for clarification]** Indeed, the promise of the new strategy is that it will keep the public's inflation expectations well anchored at 2 percent even in a low-interest-rate environment. To achieve this, it is important that we give the public a good sense of our policy reaction function under the new strategy and to demonstrate our commitment to it. One helpful step would be if our post-meeting policy statement provided more of a narrative of our assessment of how changes in a consistent set of economic and financial data have or have not changed the medium-run outlook, the risks around that outlook, the appropriate policy path based on that outlook and risk assessment, and the considerations the FOMC will take into account when determining future changes in policy. Changing the policy statement like this would make it longer, but also more informative.

**[Figure 15. Inflation]** Our experience this year with communications about inflation shows some of the challenges of not including enough narrative in our statement. The sources of this year's inflation increases have complicated communications and have made forecasting inflation considerably more difficult. Supply chain disruptions driven by the pandemic, coupled with pent-up demand let loose by the reopening of the economy, have led to a surge in measured inflation. In July, year-over year PCE inflation was 4.2 percent and core PCE inflation, which excludes food and energy prices, was 3.6 percent. A considerable portion of the rise in inflation this year has been concentrated in a small number of goods and services. Inflation measures that exclude items with the most extreme movements in the price distribution, such as those calculated by the Cleveland Fed, have increased by much less, and the prices of some of these components have begun to fall as supplies have realigned and demand has adjusted.[10] Other prices are expected to stabilize and then move back down next year as some of the supply constraints abate. The FOMC first pointed to the rise in inflation in its post-meeting statement in April, and said it was largely due to transitory factors. The statement did not elaborate further.

One could view the language as a terse way to distinguish supply-side factors that would lead to relative price changes from demand-side pressures that could cause the underlying trend inflation rate to rise. But another way to interpret "transitory" is in terms of time. This is perfectly reasonable since Merriam Webster's first definition of the word is "of brief duration."

But many businesses now tell us that the supply disruptions are lasting longer than they originally thought and many do not expect them to resolve until the middle of next year or later. Many firms have been able to pass on the increased cost of inputs to their customers in the form of higher prices. At the same time, labor shortages have led firms to raise wages. These developments, along with continued elevated inflation readings, mean that the "transitory" language has become a less useful description of the inflation situation.

My own modal forecast is for inflation to remain high this year and then to begin to move back down next year; however, I see upside risks to this forecast. It is possible that the higher prices could cause longer-run inflation expectations to rise above the levels consistent with our 2 percent inflation goal, thereby putting upward pressure on inflation. These levels could only be sustained if monetary policy was too accommodative, and the Fed would need to respond to bring inflation and inflation expectations in line

[10] The Cleveland Fed's Center for Inflation Research provides its measures of median CPI inflation and median PCE inflation, as well as its measures of inflation expectations and inflation nowcasts, on its web pages at https://www.clevelandfed.org/en/our-research/center-for-inflation-research.aspx.

with the 2 percent goal. These dynamics are difficult to communicate in a word or two, especially in an environment where both strong demand and supply factors are in play. But a statement that offered more of an explanation of the FOMC's views on the factors affecting current inflation readings, the outlook for inflation, and the risks around that outlook would give the public a better sense of the FOMC's assessment than merely saying that elevated readings largely reflect transitory factors.

Given that we have a new strategy and that we continue to live with the uncertainties of the pandemic, giving the public the information it needs to better understand how policymakers are likely to react not only to anticipated economic and financial developments but also to unanticipated developments seems like a very worthwhile endeavor. My expectation is that, over time, as we gain more experience under our new strategy, we will be able to hone our communications in a way that supports the promise offered by the new strategy of better achieving our monetary policy goals.

# Charts for
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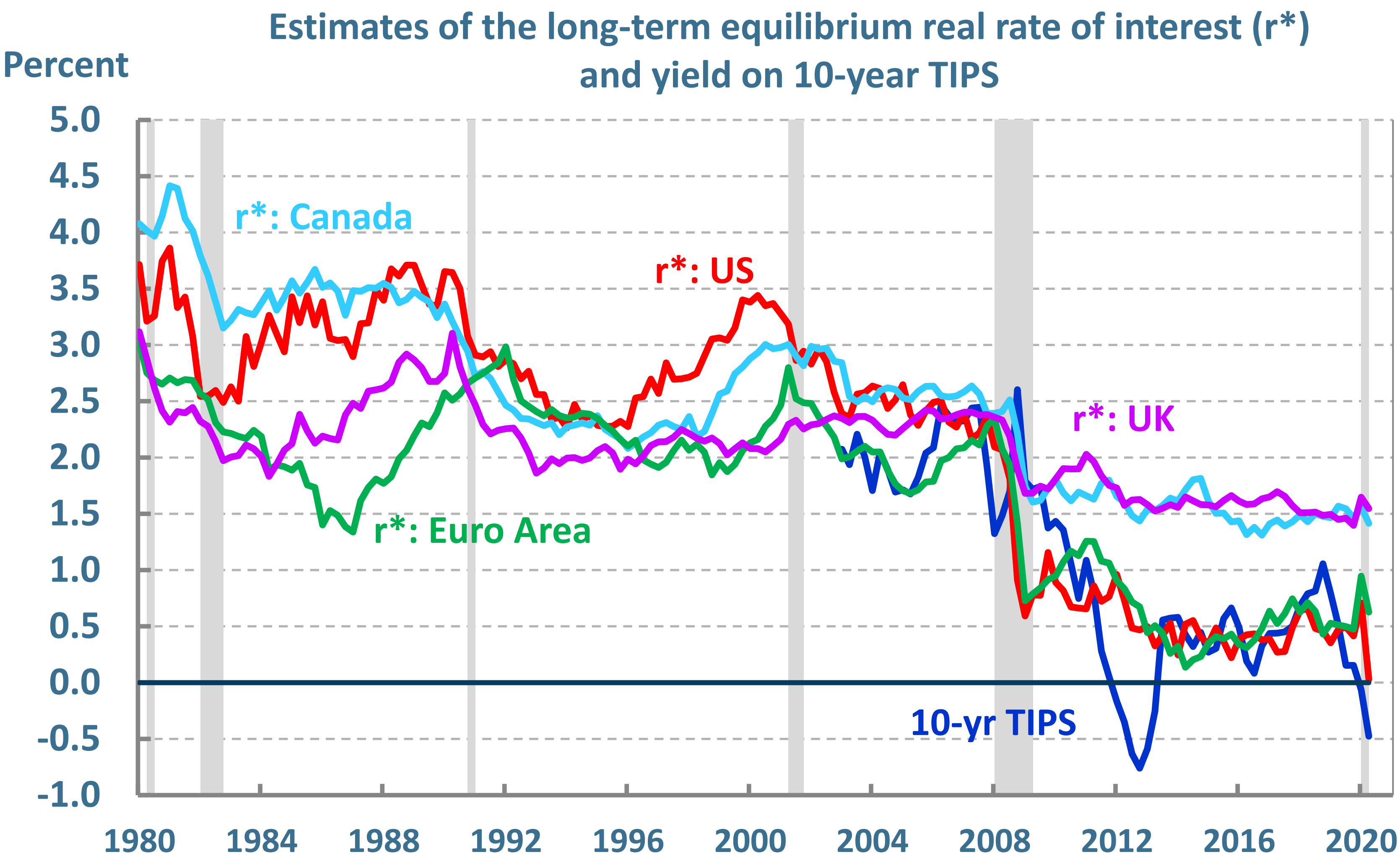
## Figure 1. FOMC monetary policy framework review

- Framework review began in early 2019:
  - Strategy, tools, and communications
- Driven by changes in economic environment
- How best to achieve U.S. monetary policy goals:
  - Maximum employment
  - Price stability
  - Moderate long-term interest rates
- Theory, empirical analysis, academia, public
- Revised Statement on Longer-Run Goals and Monetary Policy Strategy released in August 2020 and reaffirmed in January 2021

# Figure 2.  Equilibrium real interest rates have declined




Source: Holston, Laubach, and Williams, NY Fed for r* estimates,
Federal Reserve Board via Haver Analytics for 10-year TIPS
Quarterly data: Last obs. 2020Q2

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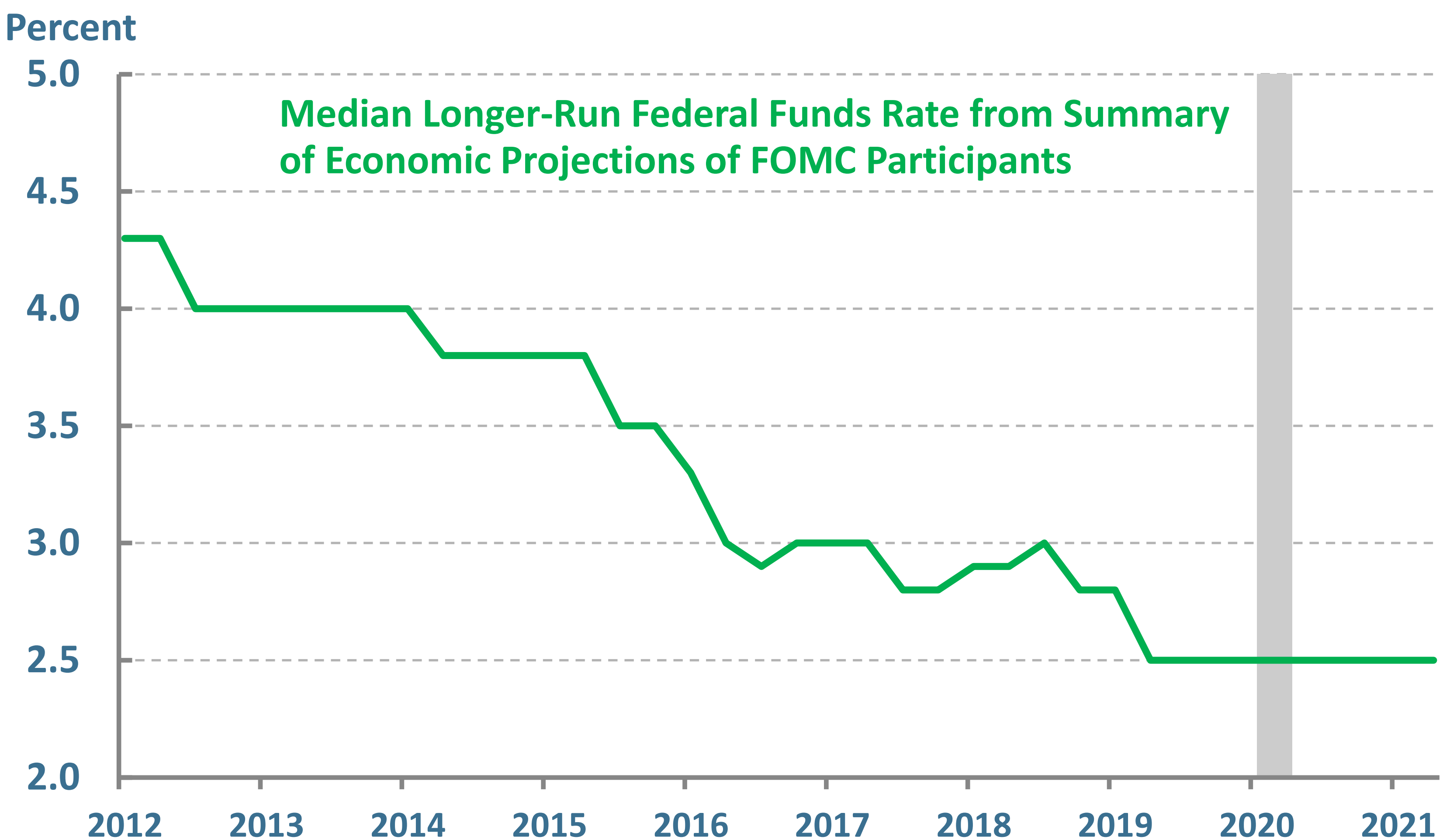
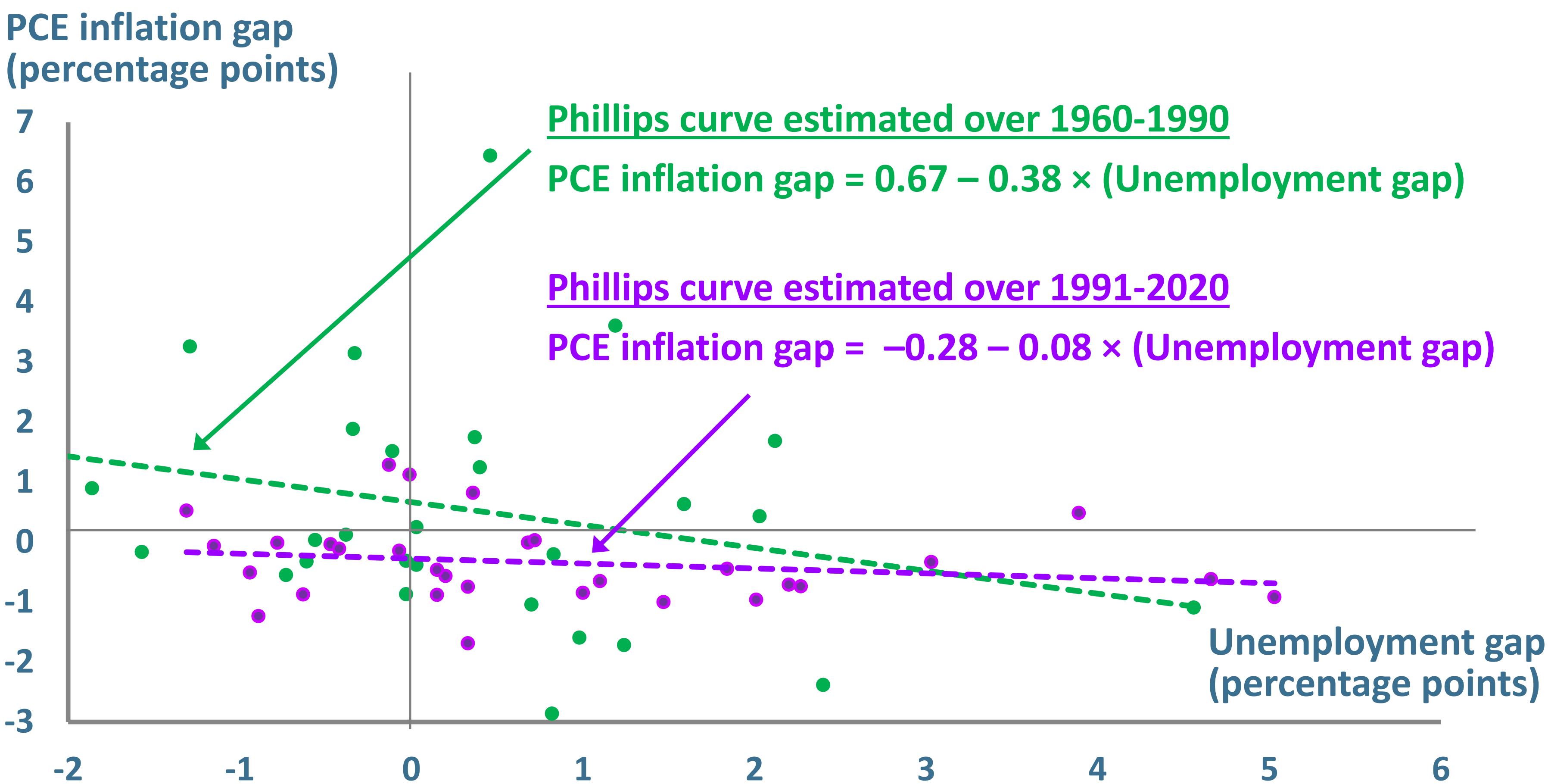
# Figure 3. The longer-run fed funds rate has moved down over time




Source: Federal Open Market Committee Summary of Economic Projections via Haver Analytics
Quarterly data: Last obs. 2021Q2

# Figure 4. The Phillips curve of price inflation vs. unemployment has flattened over time




Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Congressional Budget Office, Board of Governors, Federal Reserve Bank of Philadelphia Survey of Professional Forecasters via Haver Analytics

Annual data: Last obs. 2020

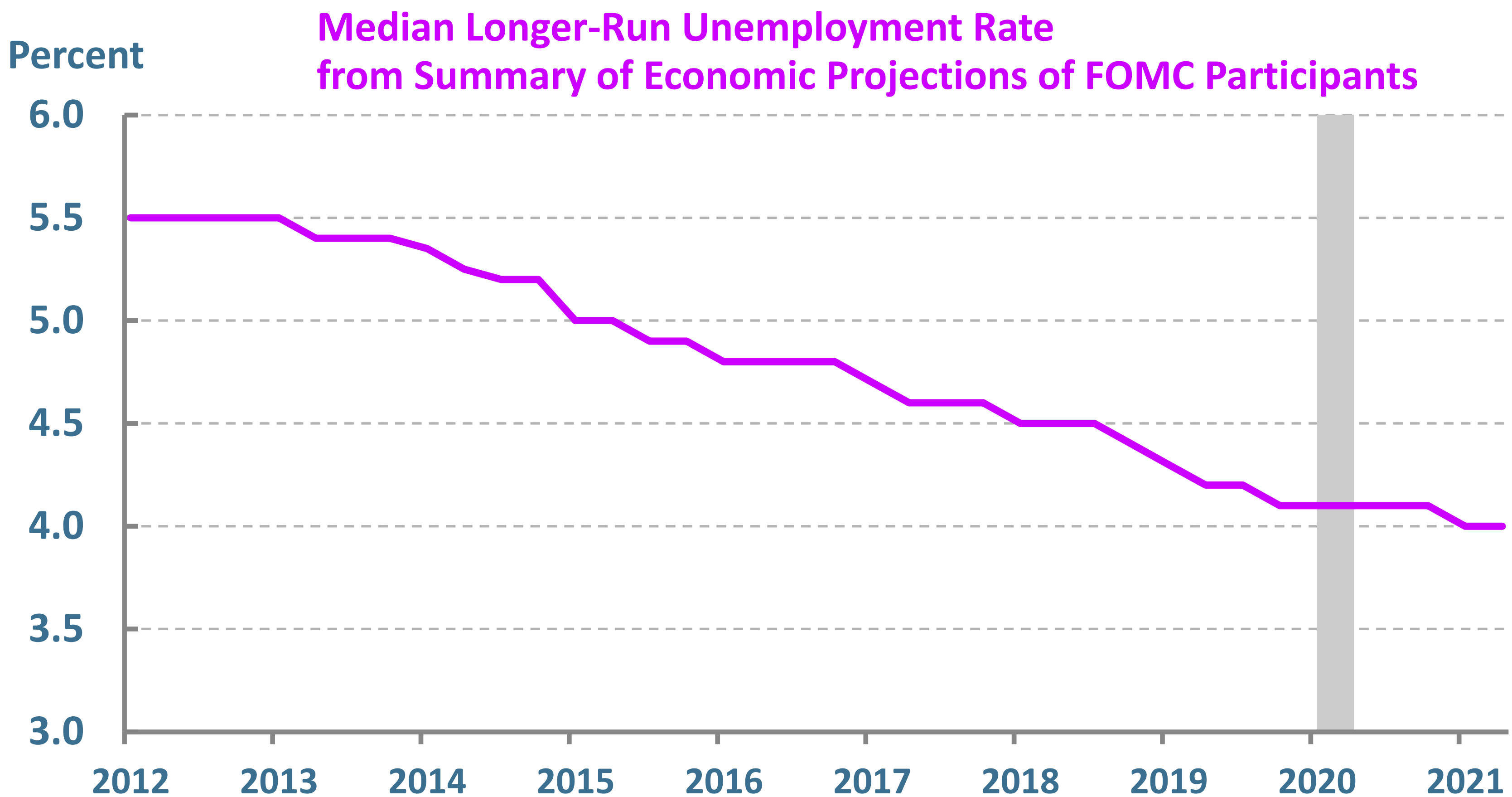
## Figure 5. What did not change in revised strategy

- Longer-run goal: 2 percent inflation, as measured by the annual change in the PCE price index
- Not appropriate to set a fixed numerical goal for employment
  - Monetary policy cannot influence structural aspects of the economy including maximum employment and the natural rate of unemployment
- Monetary policy affects economy with a lag so policy must be forward looking
  - Policy will reflect economic outlook and assessment of risks to the outlook
- Risks to the financial system could impede attainment of monetary policy goals

## Figure 6. Inflation goal

- Longer-run goal: 2 percent inflation, as measured by the annual change in the PCE price index
- Following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.
  - Aim for inflation to average 2 percent over time to help anchor inflation expectations
- Deliberate rather than opportunistic

## Figure 7. FOMC projections of the longer-run unemployment rate have fallen over time




Source: Federal Open Market Committee Summary of Economic Projections via FOMC and Haver Analytics
Quarterly data: Last obs. 2021Q2

## Figure 8. Maximum employment goal

- The maximum level of employment is a broad-based and inclusive goal
- Not directly measurable and changes over time owing largely to nonmonetary factors that affect the structure and dynamics of the labor market
- Assess shortfalls of employment from its maximum level
  - Assessments are necessarily uncertain and subject to revision
- In absence of inflation pressures or risks to financial stability, strong employment is not a concern

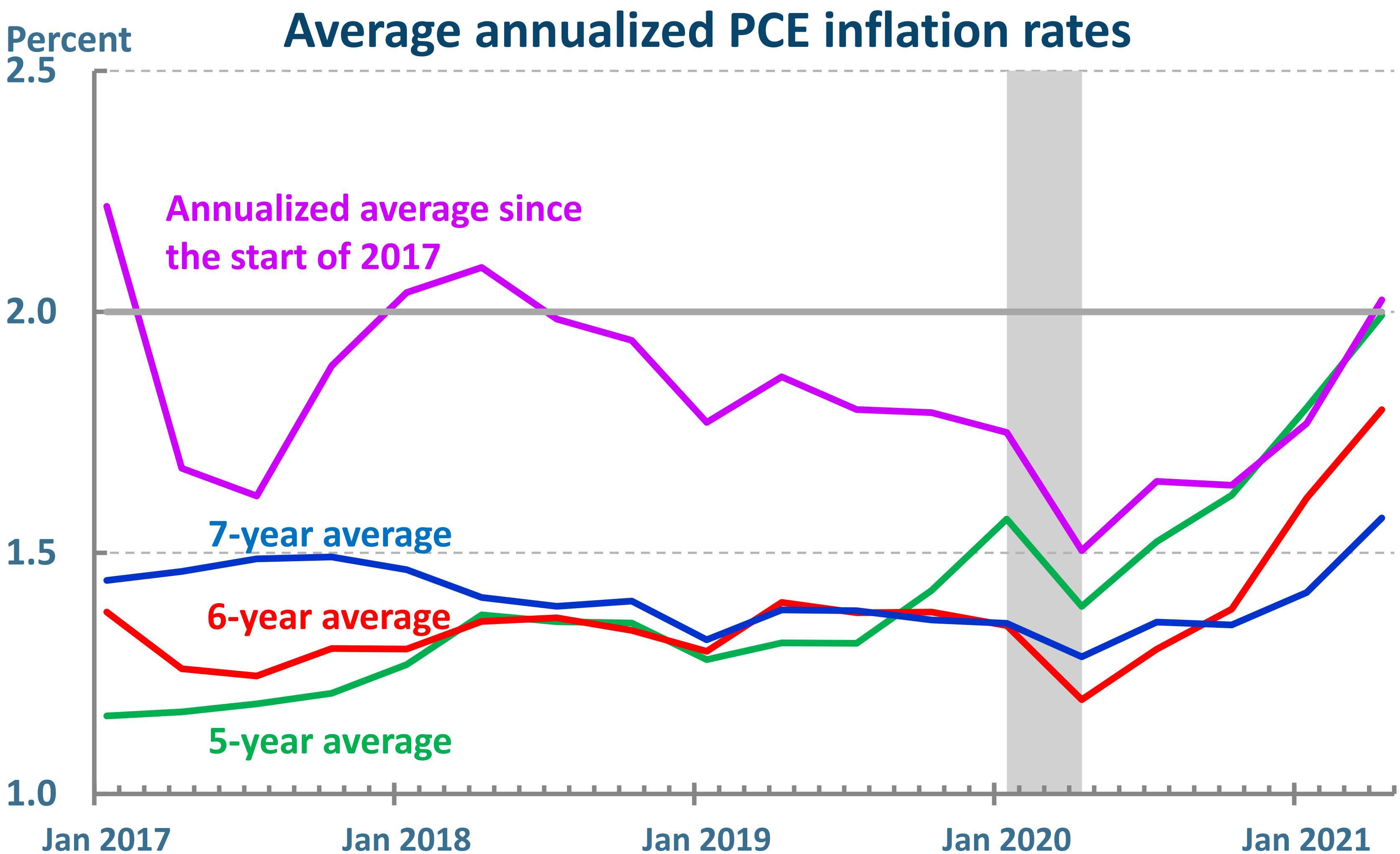
## Figure 9. Policy guidance in July 2021 FOMC statement

- Seek to achieve maximum employment and 2 percent inflation over the longer run
- Aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent
- Expect to maintain an accommodative stance of monetary policy until these outcomes are achieved
- Expect it will be appropriate to keep the fed funds rate target range at 0 to 1/4 percent until
  - labor market conditions are consistent with maximum employment and
  - inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time
- Expect to continue purchasing assets at current pace until substantial further progress has been made toward our maximum employment and price stability goals

## Figure 10. Areas for further clarification

- Put more context around flexible average inflation targeting
  - How to assess whether inflation has averaged 2 percent over time?
  - How to assess whether inflation has been moderately above 2 percent for some time?

## Figure 11. The assessment of progress depends on the benchmark

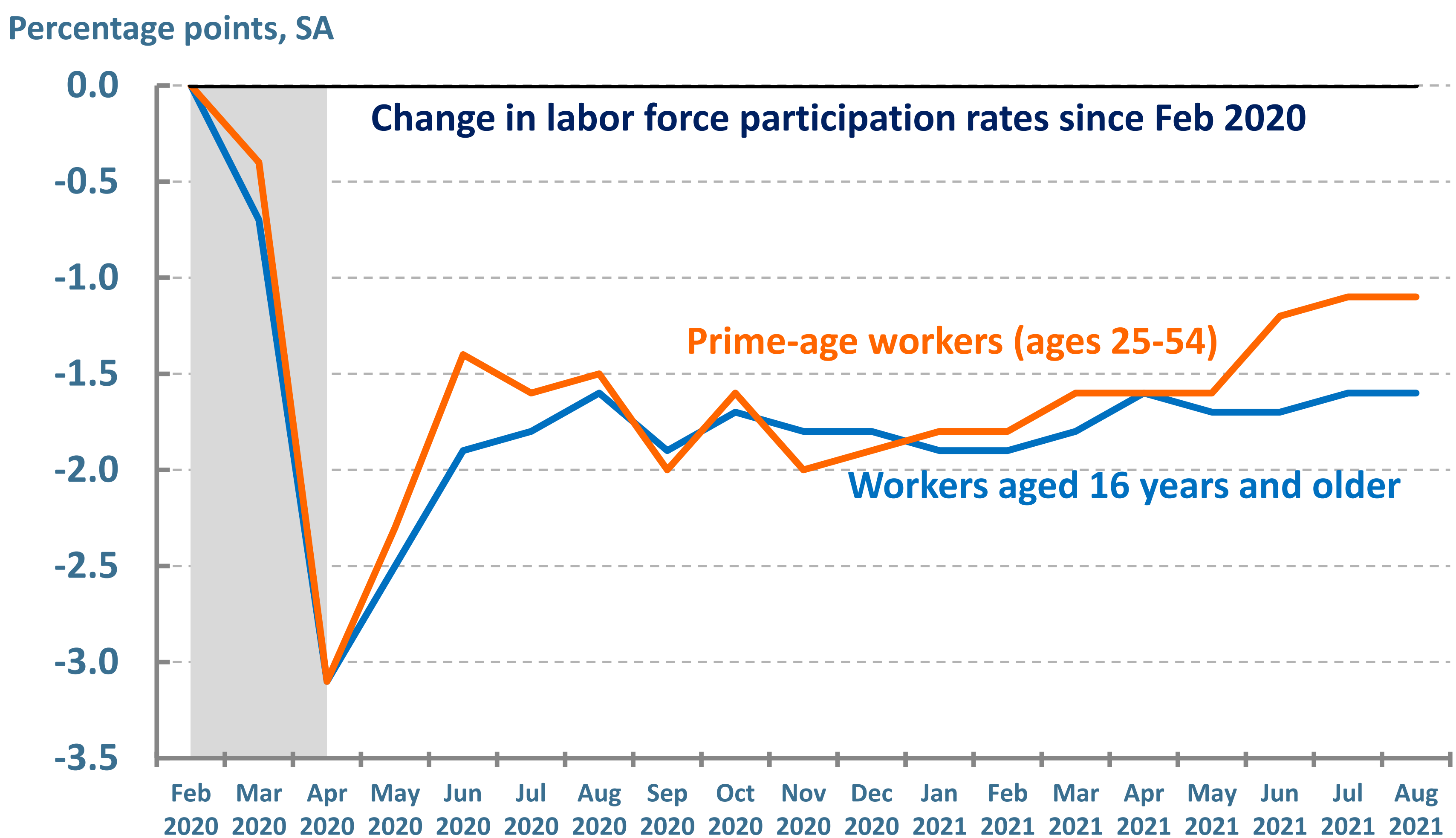



Source: Bureau of Economic Analysis via Haver Analytics and author's calculations
Quarterly data: Last obs. 2021Q2

## Figure 12. Areas for further clarification

- Put more context around flexible average inflation targeting
  - How to assess whether inflation has averaged 2 percent over time?
  - How to assess whether inflation has been moderately above 2 percent for some time?
- Clarify what constitutes substantial further progress on the employment goal using a consistent set of indicators

## Figure 13. The labor force participation rate of prime-age workers has recovered more than that of workers aged 16 years and older

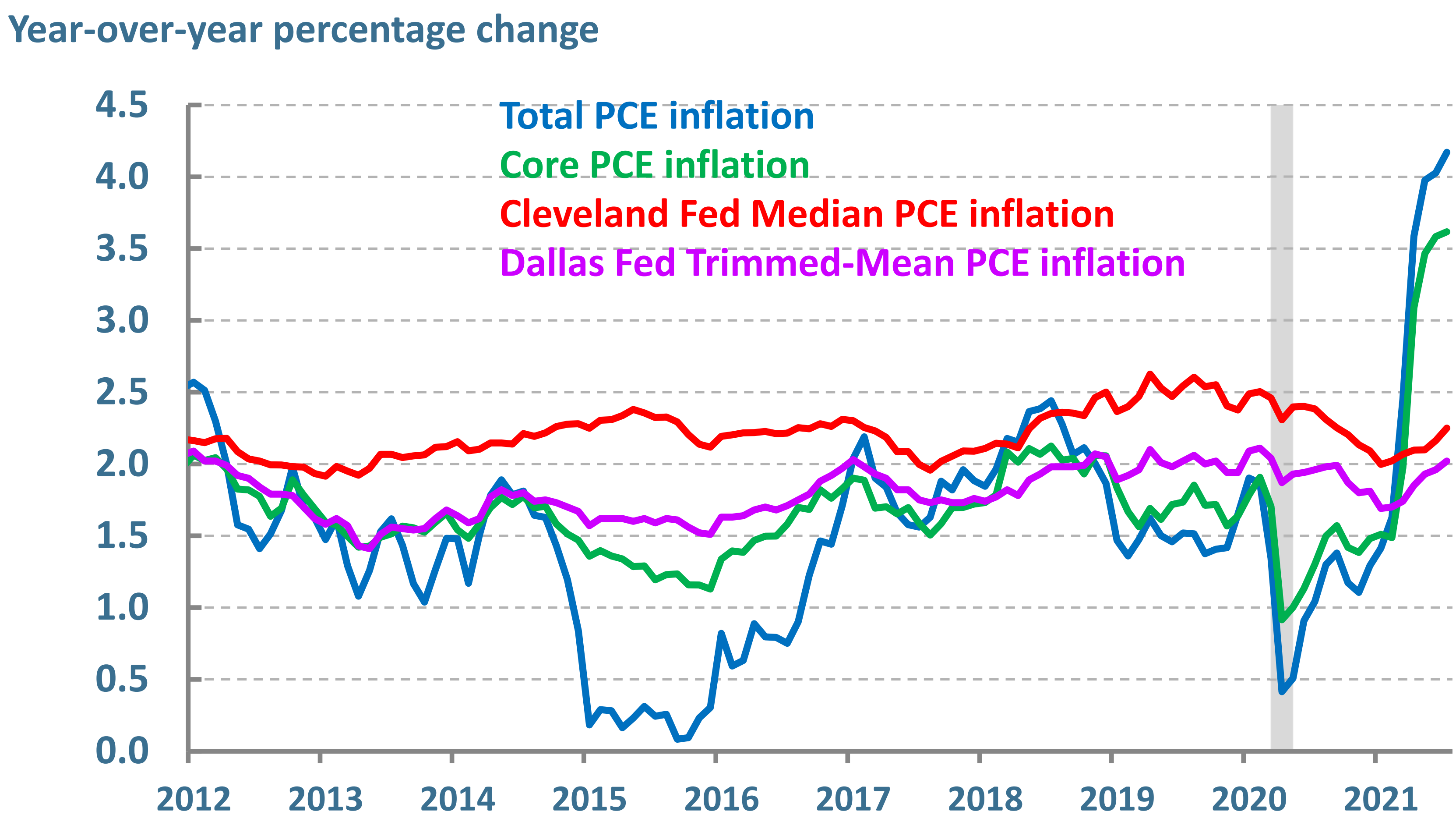



Source: Bureau of Labor Statistics via Haver Analytics
Monthly data: Last obs. August 2021

## Figure 14. Areas for further clarification

- Put more context around flexible average inflation targeting
  - How to assess whether inflation has averaged 2 percent over time?
  - How to assess whether inflation has been moderately above 2 percent for some time?
- Clarify what constitutes substantial further progress on the employment goal using a consistent set of indicators
- Set policy and communicate in a systematic way so that the public understands what the FOMC's new reaction function is under the revised strategy and the FOMC's commitment to the new strategy
  - Offer more narrative in our post-meeting statements to communicate our assessment of changes in economic and financial conditions, the outlook, the assessment of risks to the outlook, the appropriate policy path based on the outlook and risks, and considerations for future adjustments to policy

## Figure 15. Total and core PCE inflation have surged this year but measures that exclude items with the most extreme movements in the price distribution have risen less




Source: Bureau of Economic Analysis, the Federal Reserve Bank of Cleveland, and the Federal Reserve Bank of Dallas via Haver Analytics
Monthly data: Last obs. July 2021

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