
Improving Central Bank Communications

Federal Reserve Bank of Cleveland
Cleveland, OH
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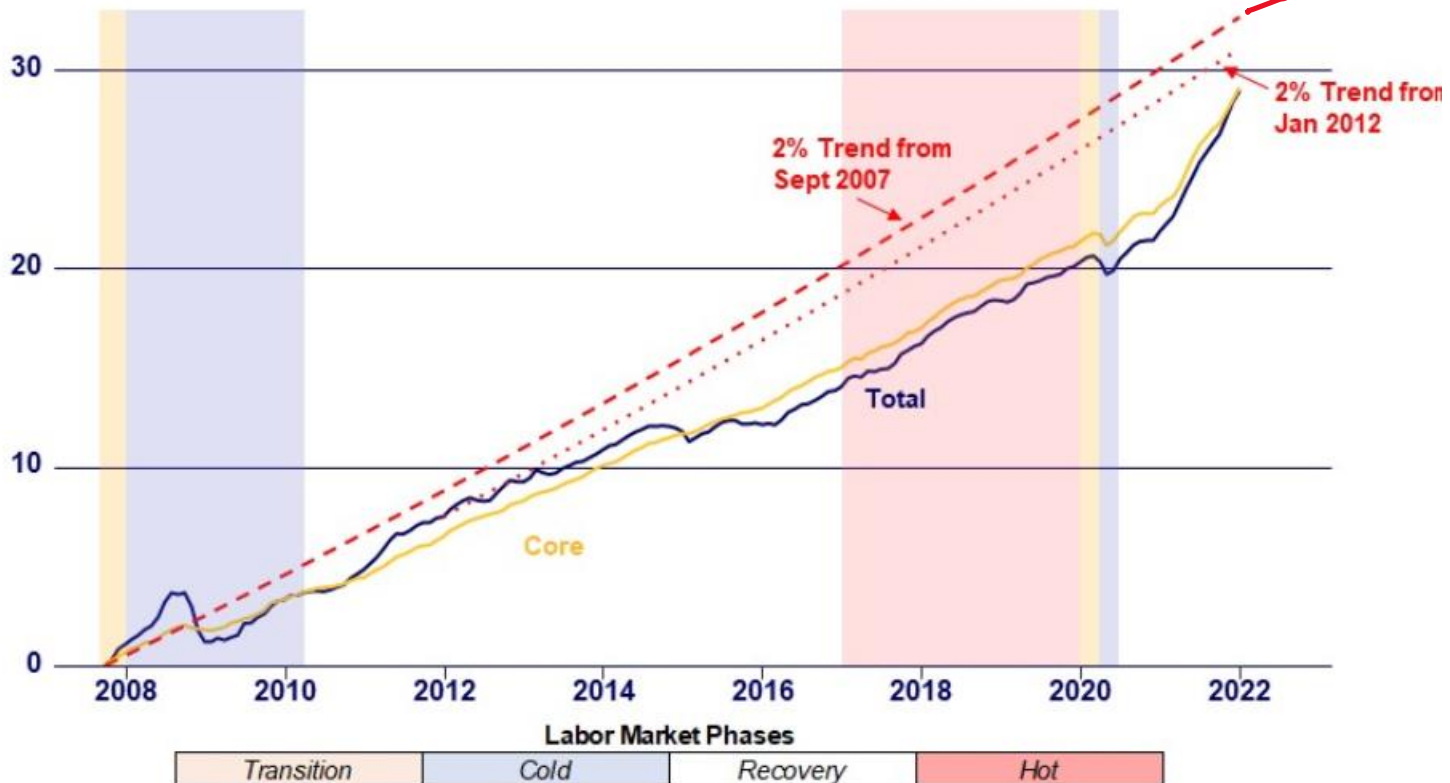
Two Communications Challenges for Central Banks

- Inflation targeting v. Price-level targeting
 - Price-leveling target involves painful economic tightening to correct previous inflation overshoots.
 - The substantial 2021-24 inflation overshoots have not been forgotten by households.
- SEPs and Fed Dot Plot provide soft forward guidance, which is helpful when explicit commitments are difficult or uncomfortable
 - SEP meetings communicate FOMC participants views for appropriate MP over the next several years.
 - What if 1994 Fed communications policies were in practice in March 2022?

Inflation during Evans's tenure as Chicago Fed president

PCE Price Index Growth since September 2007

(Percent)



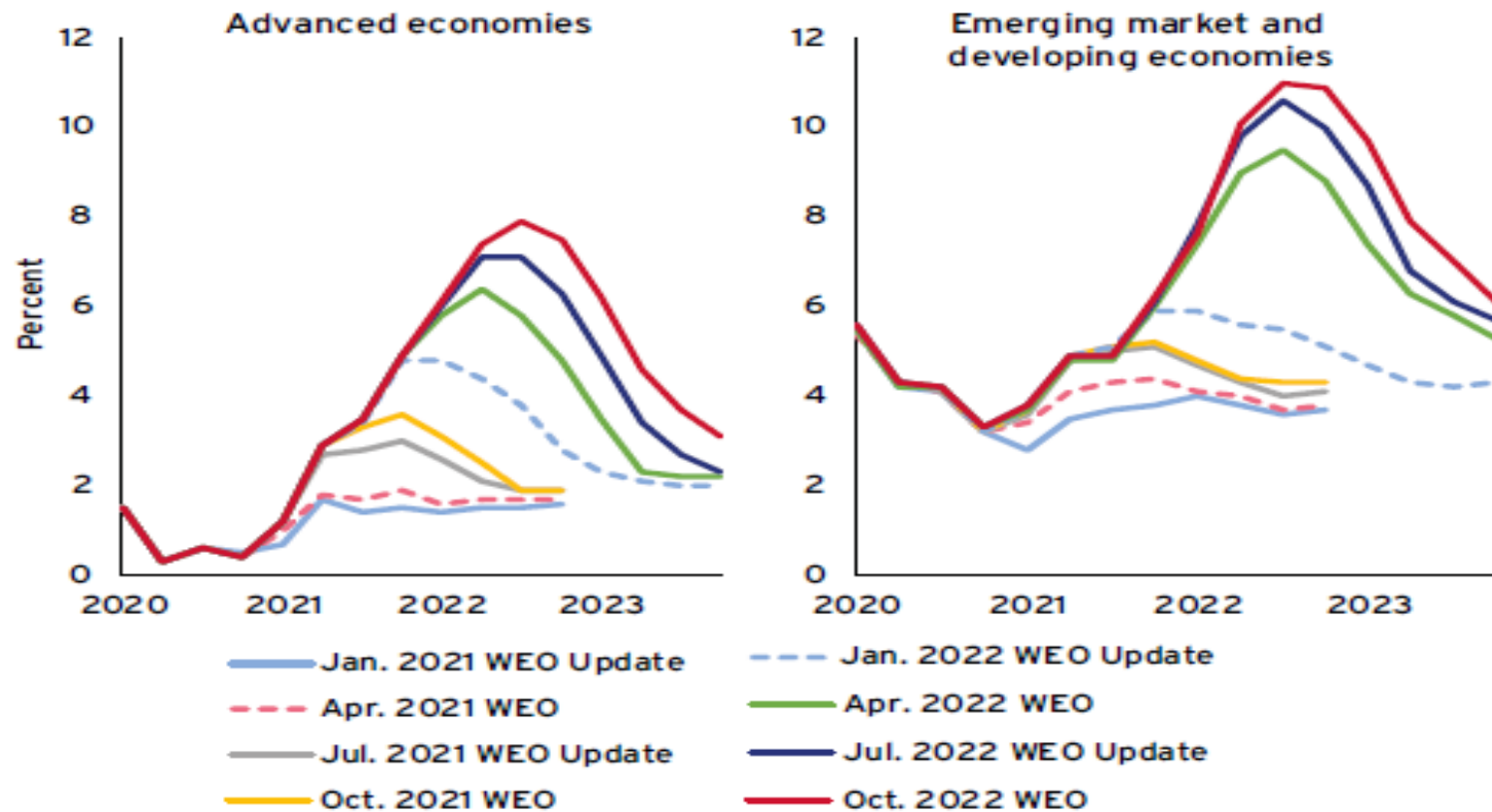
Note: Phase for 2021:Q4 has not been determined.

Source: Bureau of Economic Analysis via Haver Analytics; Chicago Fed staff calculations; Carpenter et al. (2022).

Booth Monetary Policy Forum, February 2022

Inflation surprises worldwide

FIGURE 7 INFLATION FORECAST VINTAGES, JANUARY 2021 TO OCTOBER 2022

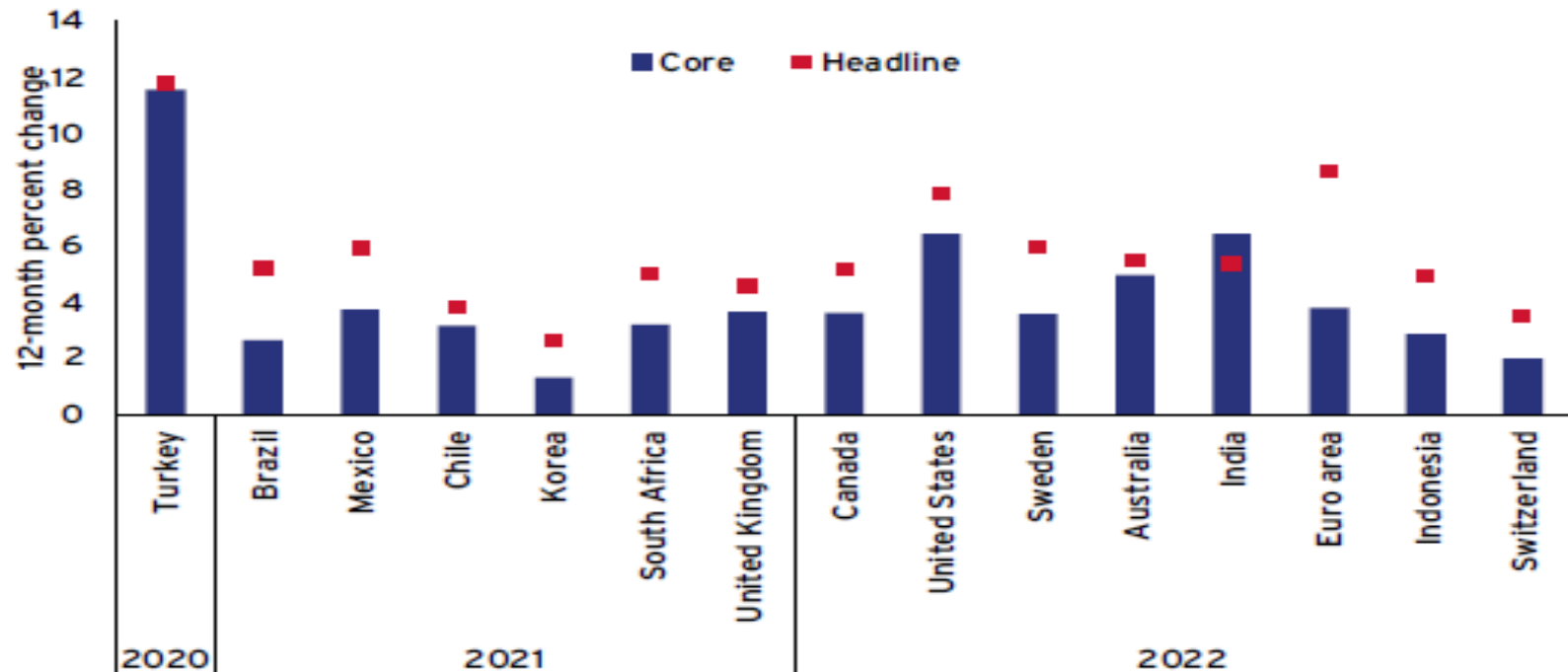


Source: Data based on IMF World Economic Outlook, October 2022.

Note: The lines plot the four-quarter purchasing-power-parity-GDP-weighted inflation forecasts at different dates.

Policy lift-off delays

FIGURE 8 INFLATION RATES AT TIME OF LIFT-OFF



Source: World Bank Global Inflation Database, OECDStat, national sources.

Note: Economies ordered by date of lift-off. Japan excluded. Inflation rates are for the 12-month period ending in the month of the latest data release available at the time of lift-off. Core inflation for most economies is all items excluding food and energy. For Indonesia, core is all items excluding food. For Australia, data are the Monthly CPI Indicator, rather than the quarterly CPI, which was not produced until after lift-off in August 2022, and core excludes volatile items and holiday travel.

March 2022 FOMC Dot plot

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

