

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESEARCH AND STATISTICS

Date: June 4, 2014
To: Federal Open Market Committee
From: David Wilcox
Subject: Memo on Persistently Low Inflation in the Judgmental Forecast

In the Tealbook forecast, PCE price inflation eventually returns to the Committee's announced objective of 2 percent but that convergence occurs only very gradually, over the course of several years. The attached memorandum, prepared by Deb Lindner of the Division of Research and Statistics, unpacks that assessment. It first surveys a range of evidence suggesting that, in the medium term, if the gap in resource utilization were to be closed at roughly the speed anticipated in the Tealbook, inflation would settle out at a rate slightly below 2 percent. On the basis of this reexamination, we have adjusted our inflation projection slightly lower over the next few years. To be sure, this discussion puts a fine point on relatively small differentials of inflation from 2 percent, and the range of forecast uncertainty is considerably wider than these small differentials. But taken at face value, the evidence in the memo suggests that, in order to for the Committee to achieve its 2-percent objective, a period of some overshooting of full resource utilization may be required.