

NGDPLT: STRENGTHENING THE CASE?

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A STRONGER CASE FOR NGDPLT

1. Comparing path of NGDP during and after Great Recession and Covid-19 Recession
2. Importance of “looking through” supply shocks
3. Informational advantage of NGDPLT more apparent after “navigating by the stars under cloudy skies”
4. Frustration with asymmetry and ambiguity of flexible average inflation targeting (FAIT)

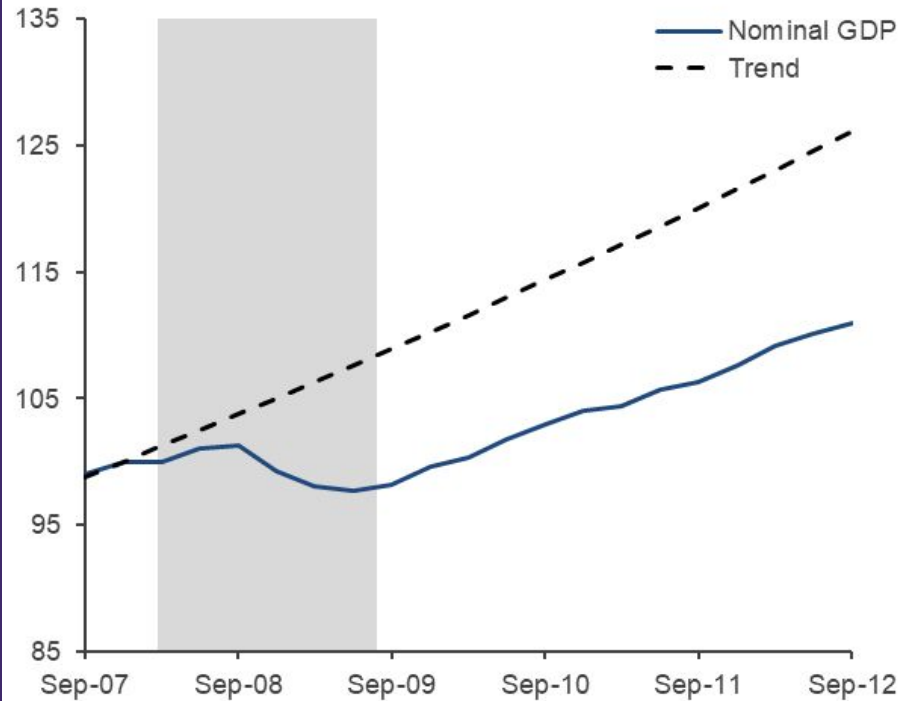
1. COMPARING PATH OF NGDP

Chart 1

Incomes Below Trend After Global Financial Crisis, on Track to Overshoot After COVID-19 Recession

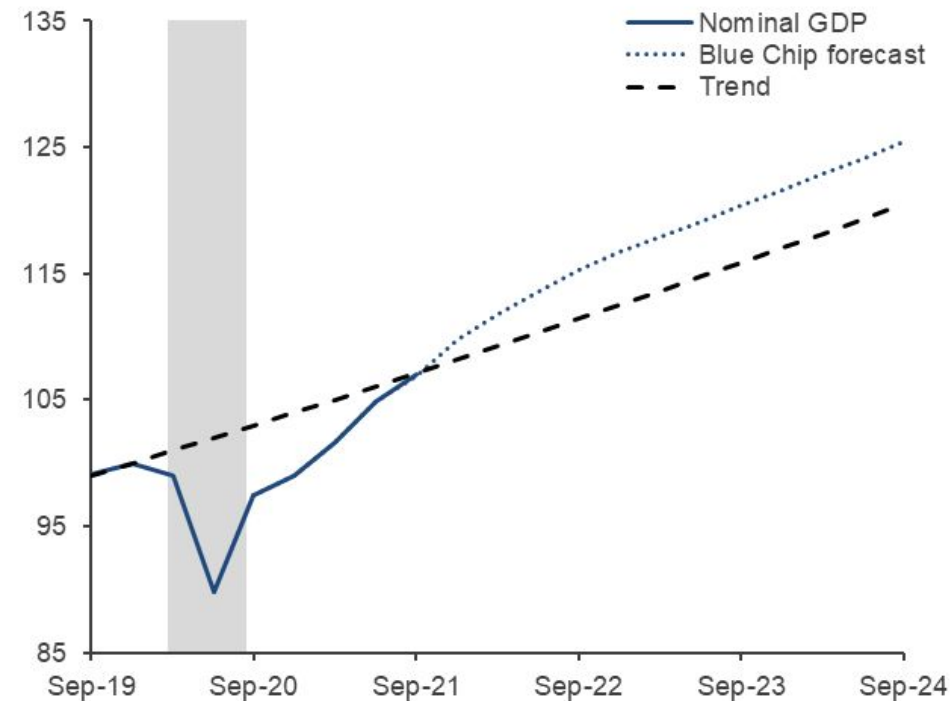
NGDP after global financial crisis

Index, 2007:Q4 = 100



NGDP after COVID-19

Index, 2019:Q4 = 100



NOTES: NGDP refers to nominal gross domestic product. Gray bars denote recessions. The trend is 5 percent for 2007-12 and 4 percent for 2019-24.

SOURCES: Bureau of Economic Analysis; Wolters Kluwer; National Bureau of Economic Research.

Federal Reserve Bank of Dallas

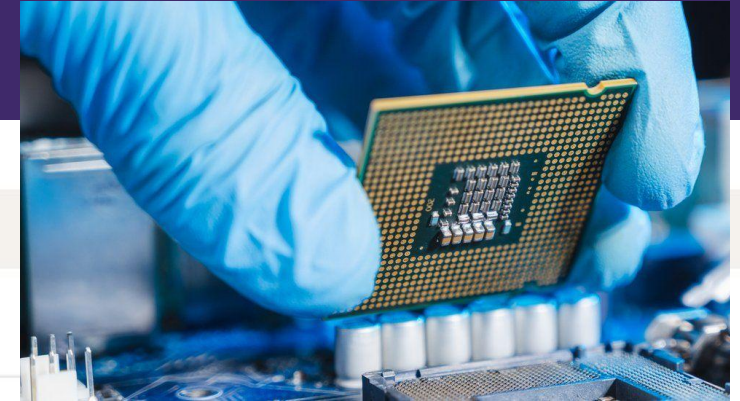
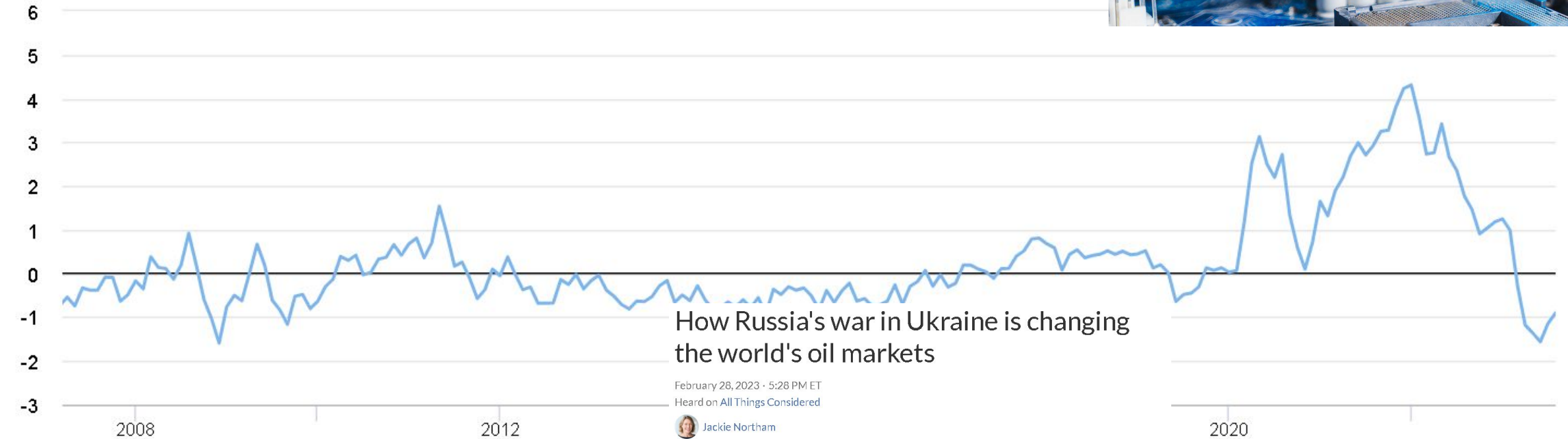
(Atkinson, Koenig, and Max 2022 Dallas Fed)

2. "LOOKING THROUGH" SUPPLY SHOCKS

Latest Update July 2023

FRBNY Global Supply Chain Pressure Index

Standard deviations from average value



How Russia's war in Ukraine is changing the world's oil markets

February 28, 2023 · 5:28 PM ET
Heard on All Things Considered

 Jackie Northam

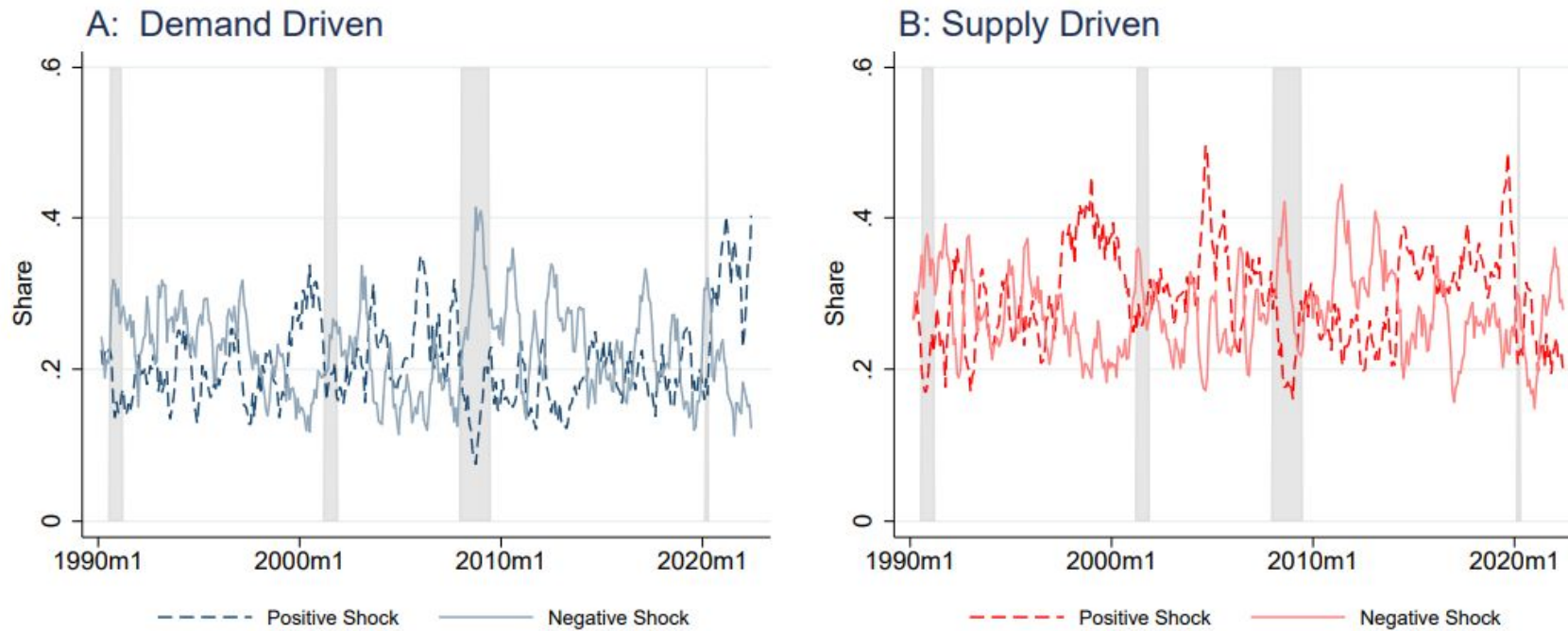
 3-Minute Listen

 + PLAYLIST   

Russia's war in Ukraine is causing a profound and permanent shift in the world's oil markets, creating new geopolitical alliances. Analysts say it's comparable to the 1970s Arab oil embargo.

2. “LOOKING THROUGH” SUPPLY SHOCKS

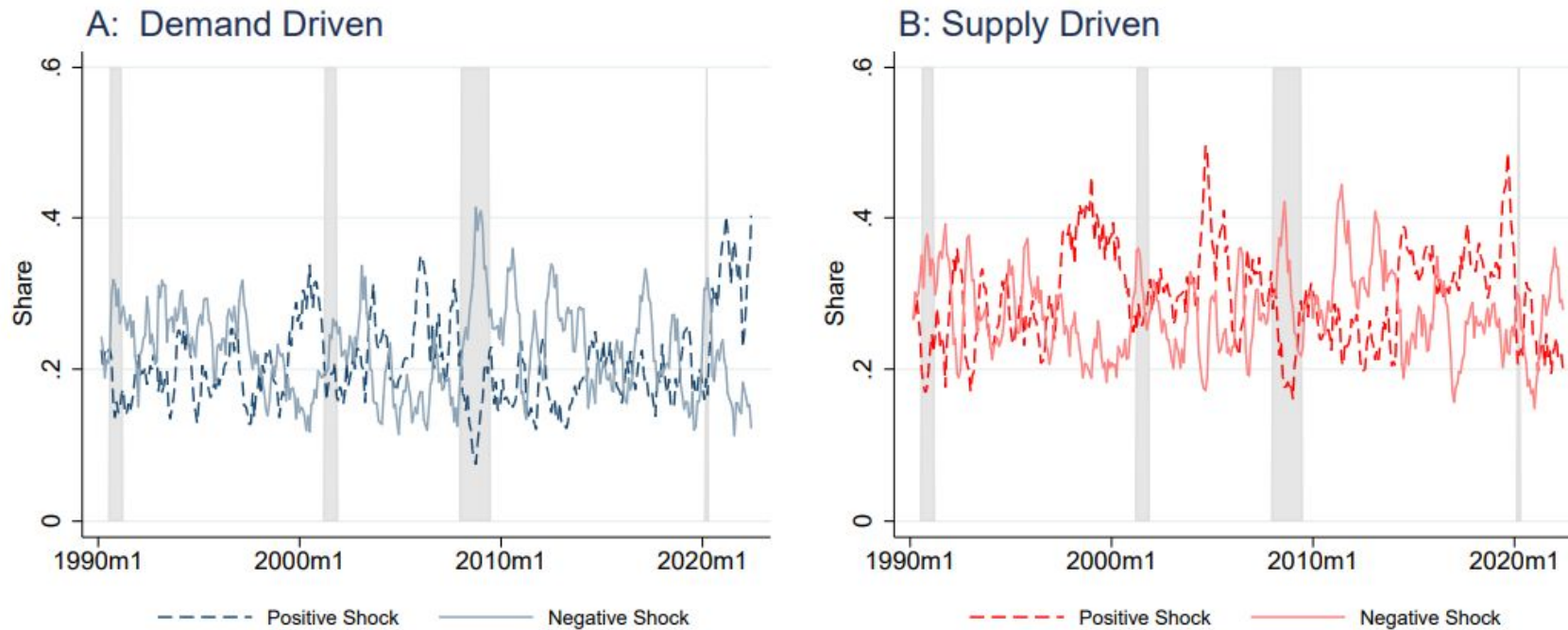
Figure 1: Share of PCE by shock type



Notes: Plotted is the expenditure-weighted share of PCE that is labeled as supply or demand driven in a given month, centered five-month moving average. Panel A shows the share of PCE labeled demand driven, and then further decomposed into negative and positive shocks. Panel B shows the analogous series for supply driven labels. All four series above sum to one for any given month. Unweighted shares are shown in online appendix figure A1

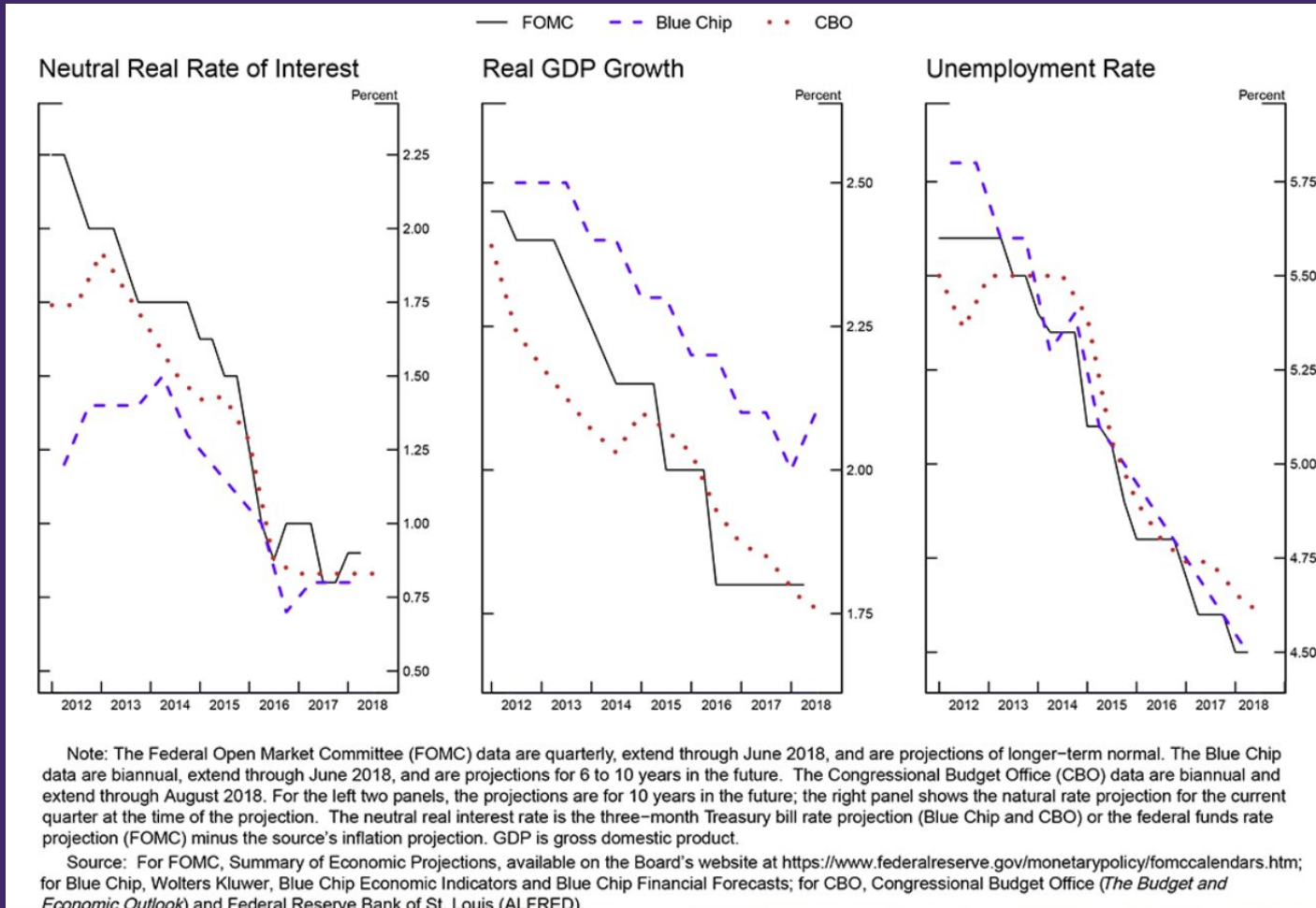
3. INFORMATIONAL ADVANTAGES OF NGDPLT

Figure 1: Share of PCE by shock type



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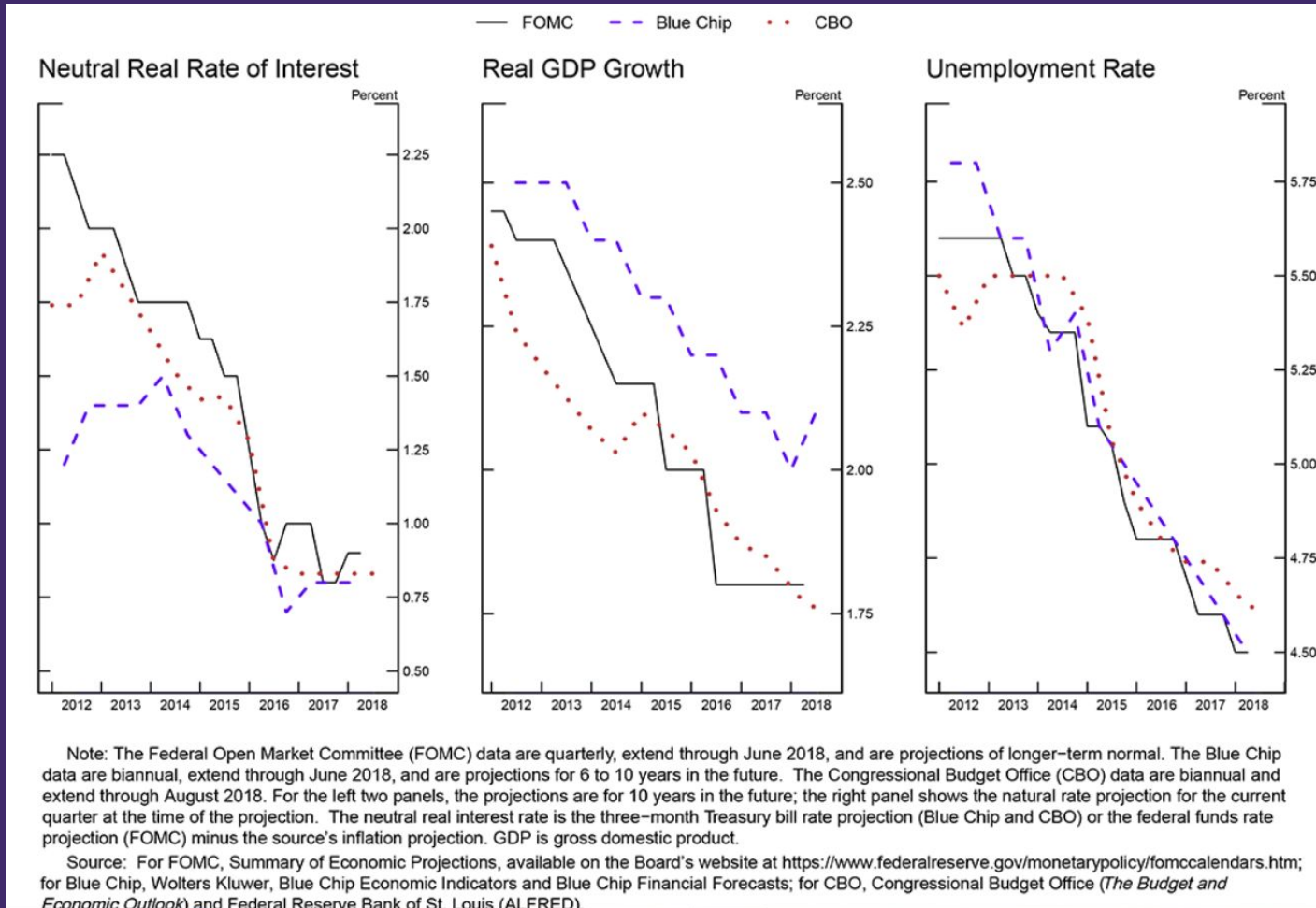
3. INFORMATIONAL ADVANTAGES OF NGDPLT



“The famous Taylor rule calls for setting the federal funds rate based on where inflation and unemployment stand in relation to the stars. If inflation is higher than π^* , raise the real federal funds rate relative to r^* ...if the unemployment rate is above u^* , lower the real federal funds rate relative to r^* , which will stimulate spending and raise employment...”

Powell 2018 “Monetary Policy in a Changing Economy”

3. INFORMATIONAL ADVANTAGES OF NGDPLT



“...Navigating by the stars can sound straightforward. Guiding policy by the stars in practice, however, has been quite challenging of late because our best assessments of the location of the stars have been changing significantly.”

Powell 2018 “Monetary Policy in a Changing Economy”

4. FRUSTRATION WITH AMBIGUITY AND ASYMMETRY OF AIT

“...the Committee seeks to achieve inflation that averages 2 percent over time, and therefore judges that, 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.”

Fed policymakers do their own math on 'average' inflation

By Jonnelle Marte, Howard Schneider

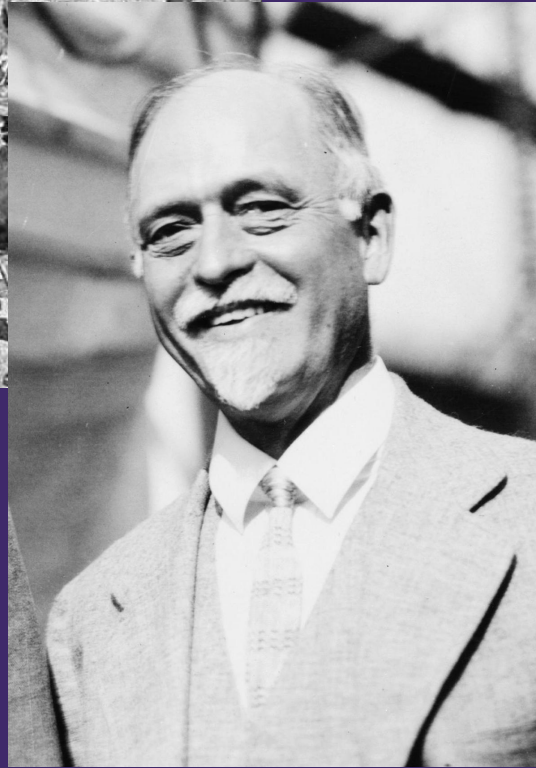
6 MIN READ

WEAKENING THE CASE

- Risk of appearing “opportunistic”
- Higher salience of inflation

CENTRAL BANK LOSS FUNCTION

$$L_t = (\pi_t - \pi^*)^2 + (u_t - u_t^*)^2$$







THE FATE OF FAIT
SALVAGING THE FED'S FRAMEWORK

David Beckworth and Patrick Horan, *Mercatus Center*

“Uncertainty is not just an important feature of the monetary policy landscape; it is the defining characteristic of that landscape”
(Greenspan 2003).