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Presentation

The critical role of anchored inflation expectations for the Fed and central banks

After years of below-target inflation in the United States during the 2010s, inflation leaped to high single digits during the pandemic. The Fed was expecting inflation to increase modestly above 2 percent as the post-pandemic recovery took hold. But supply chain disruptions and strong fiscal support led relative prices to shift abruptly and show up as sharp increases in consumer price indexes. Nimble though delayed monetary policy responses seemed crucial for delivering anchored inflation expectations and hopefully return inflation to the Fed's 2 percent objective before much longer. Preventing relative price shocks from becoming embedded as a monetary mistake seems particularly important going forward in a global economy with volatile tariff policies and trade patterns.