



Is This Time Different? Recent Monetary Policy Cycles in Retrospect

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Disclaimer: The views I will express today are my own and not necessarily those of the Federal Open Market Committee (FOMC) or the Federal Reserve System.



Roadmap of Talk

- Outlook on the U.S. economy and risks
- Review of past monetary policy cycles
- Lessons for current monetary policy



Figure 1: Job Opening Counts Index

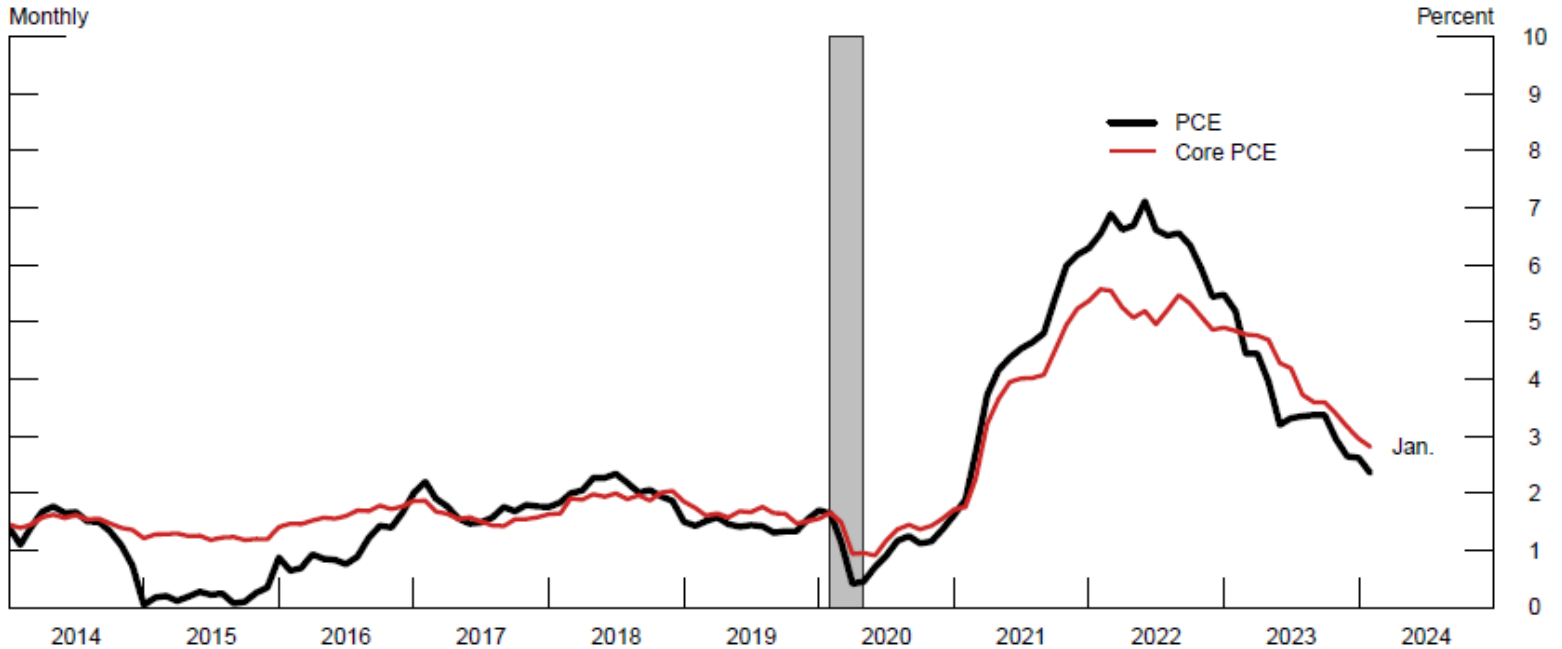


Note: JOLTS job opening counts at the end of each week divided by the average job opening counts in the year 2019. The gray shaded bar indicates a period of business recession as defined by the National Bureau of Economic Research. The shaded recession period extends from February 2020 through April 2020.

Source: Bureau of Labor Statistics, Job Openings and Labor Turnover Survey (JOLTS).



Figure 2: PCE and Core PCE Inflation

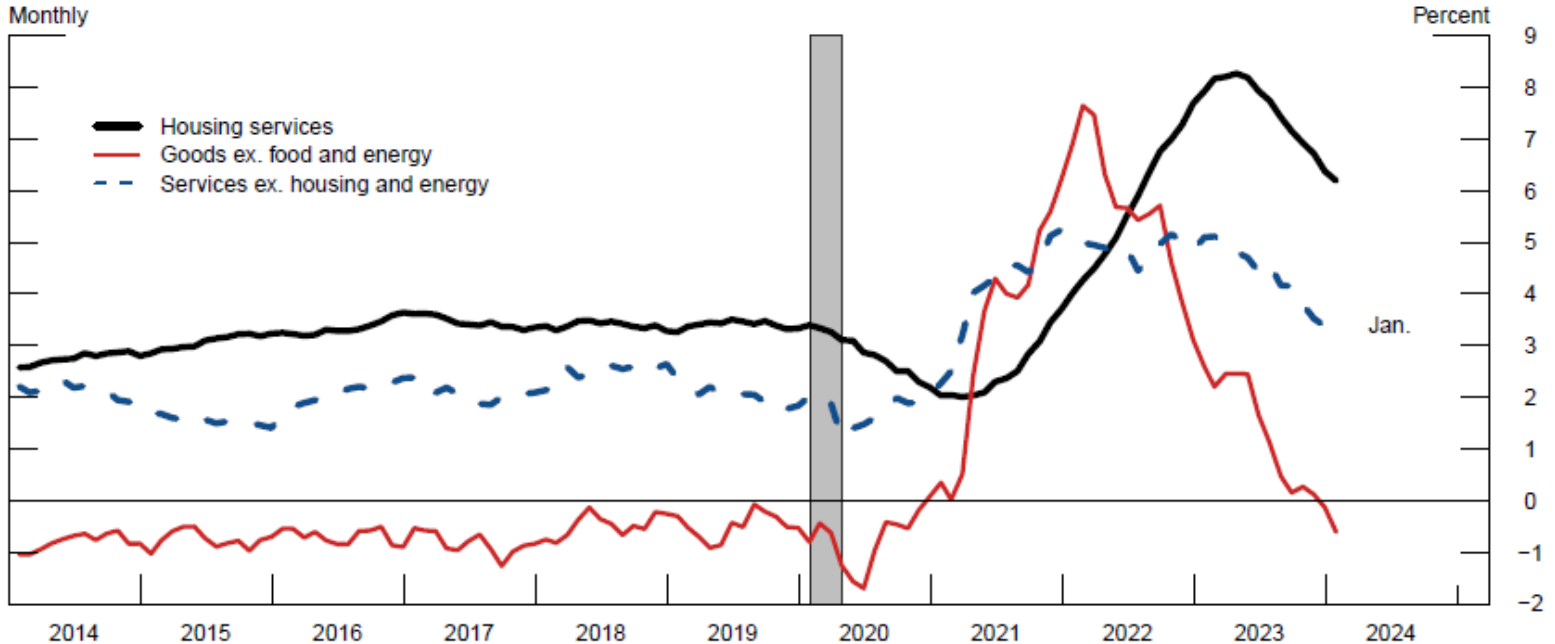


Note: Percent change in the personal consumption expenditures (PCE) price index from 12 months ago. Core refers to the price index excluding food and energy. The figure plots data from the Bureau of Economic Analysis; data for January 2024 are Federal Reserve Board staff estimates based on available consumer price index and producer price index data. The gray shaded bar indicates a period of business recession as defined by the National Bureau of Economic Research. The shaded period extends from February 2020 through April 2020.

Source: Bureau of Economic Analysis, PCE price index; Board of Governors of the Federal Reserve System.



Figure 3: Select Components of Core PCE Inflation



Note: Percent change in select categories of the personal consumption expenditures (PCE) price index from 12 months ago. The figure plots data from the Bureau of Economic Analysis; data for January 2024 are Federal Reserve Board staff estimates based on available consumer price index and producer price index data. The gray shaded bar indicates a period of business recession as defined by the National Bureau of Economic Research. The shaded period extends from February 2020 through April 2020.

Source: Bureau of Economic Analysis, PCE price index; Board of Governors of the Federal Reserve System.



Table 1. Summary of past six policy rate peak episodes

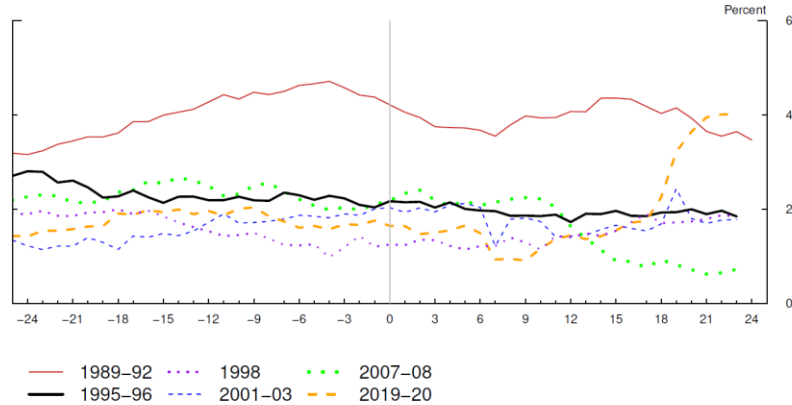
Start and end date of policy rate peaks preceding easing cycle	Economic Growth Backdrop	Inflation Backdrop
Mar. 1989-May 1989 (3 months)	Moderating and later slowing growth	Elevated inflation and tight labor markets: PCE inflation 4.7% Core PCE inflation 4.6%
Mar. 1995-June 1995 (4 months)	Moderating growth	Inflation close to 2% and tight labor markets: PCE inflation 2.17% Core PCE inflation 2.20%
Apr. 1997-Aug. 1998 (17 months)	Strong domestic growth, but risks from strains in emerging market economies and associated financial turmoil	Inflation close to 2% and tight labor markets: PCE inflation 1.9% Core PCE inflation 2%
June 2000-Dec. 2000 (7 months)	Moderating growth	Inflation close to 2.5% and tight labor markets: PCE inflation 2.7% Core PCE inflation 1.7%
July 2006-Aug. 2007 (14 months)	Moderate growth despite housing sector weakness	Inflation moderating and tight labor markets: PCE inflation 3.4% Core PCE inflation 2.5%
Jan. 2019-July 2019 (7 months)	Solid growth, but rising downside risks from weaker global growth and trade uncertainty	Inflation muted: PCE inflation 1.5% Core PCE inflation 1.8%

Note: The second and third columns summarize economic conditions as described in official accounts of monetary policy released at the time, such as FOMC statements, minutes of Committee meetings, and the Federal Reserve Board's semiannual *Monetary Policy Report*. The PCE inflation numbers are revised data.

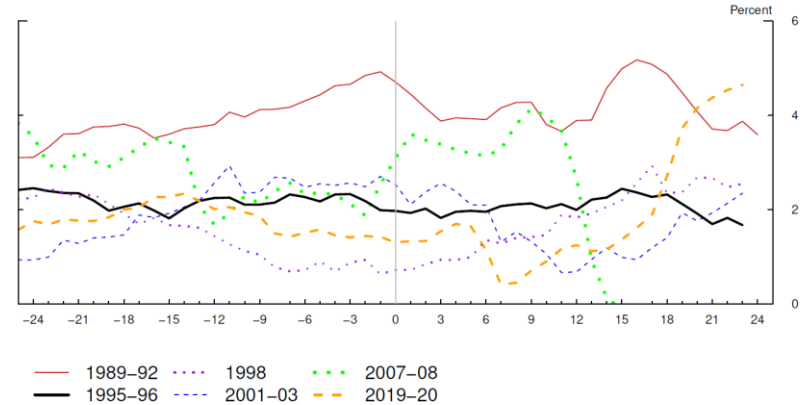


Figure 4. Inflation around the Start of Easing Cycles

Core PCE Inflation (12 month percent change)



Headline PCE Inflation (12 month percent change)



Note: 12-month percent change in the personal consumption expenditures (PCE) price index 24 months before and after easing cycles start. Core refers to the price index excluding food and energy. The vertical grey line marks the beginning of an easing cycle. The figure shows six easing cycles with the following starting dates: June 1989 (red line), July 1995 (black line), September 1998 (purple line), January 2001 (blue line), September 2007 (green line), and August 2019 (orange line).

Source: Bureau of Economic Analysis, PCE price index.



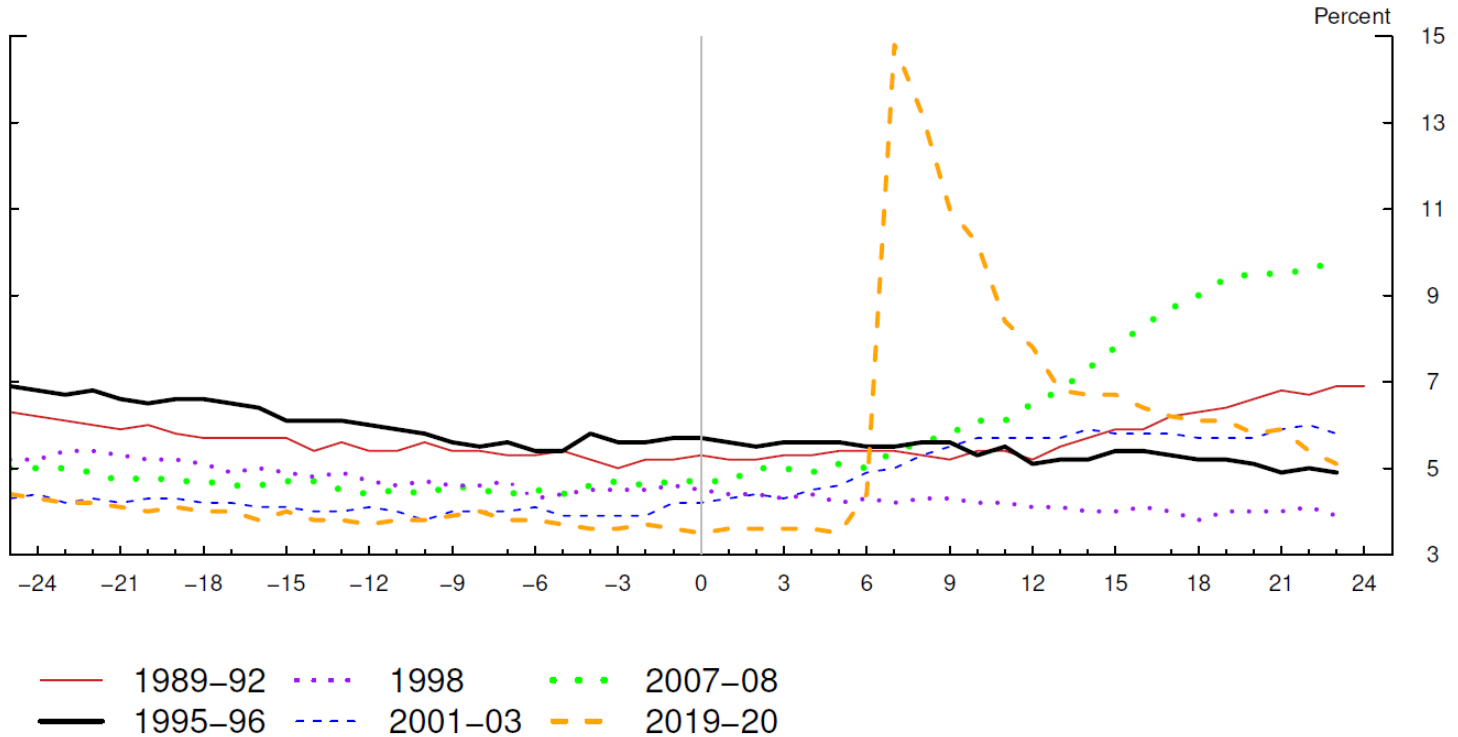
Table 2. Summary of past six easing cycles

Start and end date of easing cycle	Reason for starting easing cycle	Reason for subsequent easing
June 1989-Sep. 1992 (40 months)	Slowing growth and reduced concern of an upsurge in inflation	1991 Gulf War recession and sluggish recovery
July 1995-Feb. 1996 (8 months)	Reduced inflation concerns	No subsequent easing
Sept. 1998-Nov. 1998 (3 months)	To cushion the U.S. economy from increased market volatility stemming from Russia's debt default	No subsequent easing
Jan. 2001-June 2003 (30 months)	Weakening growth	9/11 terrorist attack, sluggish recovery, low inflation
Sep. 2007-Dec. 2008 (16 months)	Financial stress and weakening growth	Deepening financial crisis and Global Financial Crisis
Aug. 2019-Mar. 2020 (7 months)	Downside risks from weaker global growth and trade uncertainty	COVID-19 pandemic



Figure 5. Unemployment Rate around the Start of Easing Cycles

Unemployment Rate (percent)



Note: Unemployment rate 24 months before and after easing cycles start. The vertical grey line marks the beginning of an easing cycle. The figure shows six easing cycles with the following starting dates: June 1989 (red line), July 1995 (black line), September 1998 (purple line), January 2001 (blue line), September 2007 (green line), and August 2019 (orange line).

Source: Bureau of Labor Statistics.



Lessons for Current Monetary Policy

- Is this time different? Yes, but every time is different
- Policymakers must be vigilant and nimble because unanticipated shocks may occur
- If the economy evolves as expected, it will likely be appropriate to begin dialing back policy restraint later this year