The Fed's view on inflation is quietly shifting. Here's why.

By Jeanna Smialek
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In the summer of 1999, the Federal Reserve chair, Alan Greenspan, had a strange conundrum on his hands.

Unemployment was low and companies were profitable. International risks that had prompted the central bank to cut interest rates three times in 1998 had faded from view. Yet inflation, which the Fed is charged with stabilizing, remained subdued.

"What we have now is clearly an ambivalent set of circumstances," Mr. Greenspan said at a July policy-setting meeting. "We are getting a very dramatic acceleration in aggregate demand but we are not seeing the usual effect in prices."

Fast forward 20 years, and today's Fed could soon face a strikingly similar situation. Officials cut interest rates for the third time this year on Wednesday, part of an effort to inoculate the economy against any harmful fallout from President Trump's trade war and slowing global growth. The 2019 interest rate cuts have been modeled, in part, on Mr. Greenspan's 1998 cycle.

Stock prices are soaring and corporate earnings are coming in strong. Should risks stemming from Mr. Trump's trade war and Britain's exit from the European Union fade, the Fed could see a stabilization similar to what occurred in 1999. Officials have signaled that they are going to hold off on cutting rates further for now, assuming the data hold up.

A steadying risk outlook could once again come amid soft inflation. A key price index posted a 1.3 percent gain in September, data released Thursday showed, far short of the central bank's 2 percent target.

But there is a critical difference between then and now. In 1999, Mr. Greenspan and his colleagues lifted interest rates to guard against the quicker price gains they were confident a strong economy would bring.

Today, that expectation has dissipated and the current Fed chair, Jerome H. Powell, indicated this week that the central bank might need to see real-life increases before taking any action.

"The reason why we raise interest rates, generally, is because we see inflation as moving up, or in danger of moving up significantly, and we really don't see that now," Mr. Powell said Wednesday, speaking at a news conference following the Fed's October meeting.

"We would need to see a really significant move up in inflation that's persistent before we would consider raising rates to address inflation concerns," he added later.

The Fed's more reactive, rather than proactive, stance has been shaping up over the course of this year and signals a break with its recent past.

The Fed raised interest rates nine times from 2015 to 2018 to guard against more rapid price increases. As the unemployment rate plummeted after hitting 10 percent in 2009, officials believed that faster wage gains and higher inflation must be around the corner.

Paychecks did swell, though less substantially than the jobless rate, now at 3.5 percent, might have suggested. Prices barely budged.

"We have been below target, in round numbers, 90 percent of the time for the past 10 years," said Torsten Slok, a managing director at Deutsche Bank Securities. That is driving a "fundamental shift" in how central bankers think about inflation.

It more than a simple change in tone. The Fed is midway through a review of its policy framework, and Mr. Powell said this week that he was hoping to come up with a better way to keep inflation oscillating around 2 percent.

"That's at the very heart of what we're doing in the review," he said.

Many economists think the Fed could decide to try to average 2 percent inflation over time. In recent business cycles, that would have called for longer periods of very low interest rates.

Slow price increases might sound great to an everyday shopper, but they are bad news for monetary policymakers.

Central banks began targeting inflation in the 1990s as a way to keep the value of money from changing quickly, destabilizing the economy. The Fed formally adopted a 2 percent target in 2012, making a case that the level was low enough to allow for comfort and confidence on Main Street while guarding against outright price decreases. That target is meant to be symmetric, meaning that the Fed is equally unhappy if prices run below or above 2 percent.

The seven years of consistent misses that have followed are a cause for concern — partly because of how similar stories have played out abroad.

In Japan, inflation expectations began to slip in the early 1990s as real-time price gains muddled along below 2 percent. Businesses and consumers became hesitant to charge or pay more, and that locked in tepid increases. Prices are now growing less than 1 percent a year, even after the central bank slashed interest rates into negative territory and unleashed an aggressive asset-buying campaign.

The malaise seems to have spread to the eurozone. One set of forecasts published by the European Central Bank suggests economists do not expect inflation to hit its 2 percent target anytime within the next five years, despite a recent policy rate cut.

"We of course have watched the situation in Japan, and now the situation in Europe," Mr. Powell said this week. "We note that there are significant disinflationary pressures around the world, and we don't think we're exempt from those."

The Fed has come comparatively close to hitting its price target and prices have been slowly climbing this year — many economists still expect them to hit 2 percent.

Randal Quarles, the Fed's vice chair for supervision, said Friday that while current inflation readings "are below our 2 percent inflation objective, they are fairly close, and my assessment is that inflation will inch toward our objective in the coming months."

But consumer inflation expectations have begun slipping in the United States.

A Federal Reserve Bank of New York measure of longer-run consumer inflation expectations is at its lowest level since the series started in 2013. The University of Michigan consumer survey's inflation expectation index has also edged down.

Richard Clarida, the Fed's vice chair, said on Friday that "measures of inflation expectations reside at the low end of a range I consider consistent with price stability." Mr. Powell has emphasized the importance of anchoring them at a level consistent with hitting the central bank's price goal.

They are not alone in that focus. Lael Brainard, a Fed governor, has suggested that the central bank could embrace "opportunistic" reflation: allowing temporary price increases from tariffs or other sources to go unopposed, proving that the Fed is serious about its target.

Even Mr. Trump, who has been pressuring the politically independent Fed to lower interest rates and support growth, has occasionally couched his criticism in terms of prices.

"The USA should always be paying the lowest rate. No Inflation! It is only the naïveté of Jay Powell and the Federal Reserve that doesn't allow us to do what other countries are already doing," he posted on Twitter in August.

But leaving interest rates low to push inflation higher could come at a cost.

Cheap money can spur excessive risk-taking as investors chase higher returns, as happened in both the early 2000s — when a bubble in internet stocks burst and killed the expansion — and in 2008, when low interest rates helped to contribute to a housing boom that, compounded by financial packaging, brought the global financial system to its knees.

That has kept some officials, like Esther George, president of the Federal Reserve Bank of Kansas City, from supporting the central bank's recent rate cuts.

"Easing policy might lift inflation, but at the cost of further tightening an already hot labor market and perhaps fostering financial imbalances," Ms. George said in a recent speech. "And given the reduced responsiveness of inflation to economic slack, it might take a considerable dose of monetary accommodation to nudge inflation upward."

For now, Wall Street is convinced that borrowing costs will not move higher in the near term. It is probably at least partly reflective of glum economic outlooks, but market pricing suggests that investors see rate cuts — and not rate increases — as a possibility next year.

"We're not thinking about raising rates right now," Mr. Powell said this week.