

Voting FOMC Board Member: Lael Brainard

<http://www.federalreserve.gov/newsevents/speech/brainard20160912a.htm>

New Normal

1. “Inflation has been undershooting, and the Phillips Curve has flattened.”
2. “Labor market slack has been greater than anticipated.”
3. “Foreign markets matter, especially because financial transmission is strong.”



1. “Inflation has been undershooting, and the Phillips Curve has flattened.”
2. “Labor market slack has been greater than anticipated.”
3. “Foreign markets matter, especially because financial transmission is strong.”

Labor Concerns

- Is there a new natural rate of employment?
- Still 1.5% below pre-crisis participation rate
- 2.5% wage growth only “modestly above” what we seen post-crisis
- “My main point here is that in the presence of uncertainty and the absence of accelerating inflationary pressures, it would be unwise for policy to foreclose on the possibility of making further gains in the labor market.”

1. “Inflation has been undershooting, and the Phillips Curve has flattened.”
2. “Labor market slack has been greater than anticipated.”
3. “Foreign markets matter, especially because financial transmission is strong.”

Foreign Markets

- Global demand is weak
- US Dollar, flight to quality
- Appreciating dollar: “estimates from the FRB/US model suggest...20% appreciation in dollar roughly equivalent to a 200 bp increase in the Federal Funds Rate.”

4. “The neutral rate is likely to remain very low for some time.”
5. “Policy options are asymmetric.”

Policy Options

- Limited tested options
- Toolkit could include:
 - Raising inflation target
 - Moving to a nominal income target
 - Negative rates
- “guarding against downside risks”