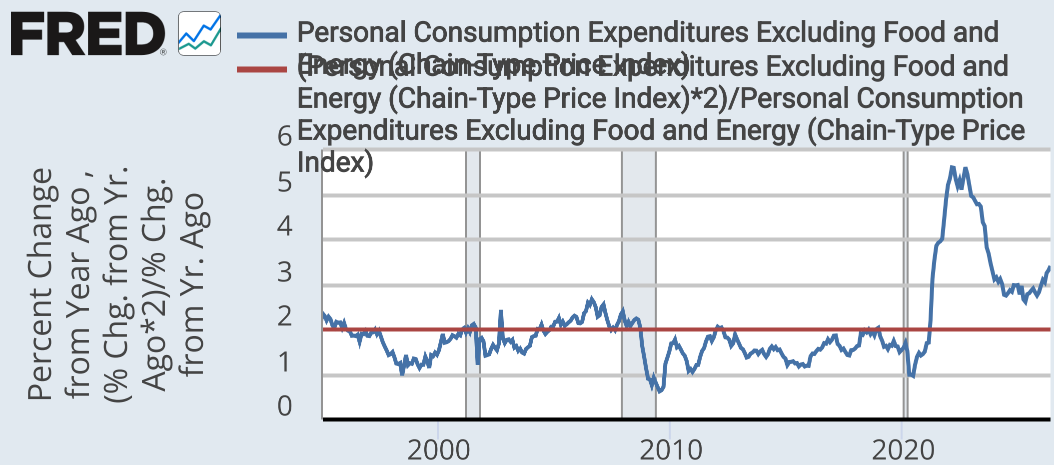
The FRED® Blog

From inflation targeting to average inflation targeting

The Fed’s new long-run monetary framework

Posted on November 9, 2020



Source: U.S. Bureau of Economic Analysis via FRED®
Shaded areas indicate U.S. recessions.

Since 1996, it has been understood among Fed policymakers that the (undeclared) target for inflation was around 2%. In January 2012, Chairman Ben Bernanke made this *implicit* inflation target *explicit* and official, thereby aligning the Fed’s inflation target with that of all the major central banks. In this framework, when inflation has approached or exceeded the traditional 2% target, even temporarily as it did in 2018, the FOMC has responded by raising the baseline federal funds rate to combat rising prices.

In August 2020 at the online Jackson Hole conference, Chair Jay Powell announced a revision to the Fed’s long-run monetary policy framework by re-framing this goal as an *average* inflation target (AIT) of 2% over the long-run. With this new framework, the FOMC is communicating that it will tolerate inflation above its target for a period of time to offset periods when inflation was below its target. In other words, the FOMC is targeting *average* inflation of 2% in the long run.

Search FRED Blog

Search

Recent Posts

- US manufacturing employment is down, but each state has its own story
- Real GDP growth by state: First quarter 2026
- Primary deficits: a short history
- What US assets are held overseas?
- Durable goods inflation and effective tariffs

So, what does past inflation data say about the feasibility of the new AIT? The FRED graph above plots two lines of data points over the past 25 years:

- the FOMC's preferred inflation measure, the core personal consumption expenditures index (core PCE), in blue and
- the 2% target in red.

Given the recent asymmetric history of inflation, the concept of a symmetric target would represent a substantial change: Since the Great Recession of 2008-2009, there have been only two brief periods when the preferred inflation rate has exceeded the 2% target.

The FRED graph above also demonstrates how the new AIT guidance on inflation represents a substantial shift in thinking. In the past, the Federal Reserve has rarely tolerated rates above 2% and has raised interest rates whenever approaching the target. This new policy suggests that, if inflation can return to a range above 2%, the Federal Reserve will have to tolerate higher inflation than it has for much of the past 20 years—and tolerate it for significantly longer periods. Yet, given the pandemic, it could be challenging at this time to sustain average inflation above 2%.

How this graph was created: Search for and select "Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Index)." Select the time period January 1995 to the present month. Then select "Percent Change from a Year Ago" as the units. Next, use the "Add Line" tab to search for and select the same series. In the formula box type *(a*2)/a*, which results in a horizontal line of 2% for the target.

Suggested by Matthew Famiglietti and Carlos Garriga.

View on FRED, series used in this post: PCEPILFE

Recent St. Louis Fed research

- US manufacturing employment is down, but each state has its own story
- Real GDP growth by state: First quarter 2026
- Primary deficits: a short history
- What US assets are held overseas?

- Durable goods inflation and effective tariffs

Archives

- April 2020
- March 2020
- February 2020
- January 2020
- December 2019
- November 2019
- October 2019
- September 2019
- August 2019
- July 2019
- June 2019
- May 2019
- April 2019
- March 2019
- February 2019
- January 2019
- December 2018
- November 2018
- October 2018
- September 2018
- August 2018
- July 2018
- June 2018
- May 2018
- April 2018
- March 2018
- February 2018
- January 2018
- December 2017
- November 2017
- October 2017
- September 2017
- August 2017
- July 2017
- June 2017
- May 2017
- April 2017
- March 2017
- February 2017
- January 2017

- December 2016
- November 2016
- October 2016
- September 2016
- August 2016
- July 2016
- June 2016
- May 2016
- April 2016
- March 2016
- February 2016
- January 2016
- December 2015
- November 2015
- October 2015
- September 2015
- August 2015
- July 2015
- June 2015
- May 2015
- April 2015
- March 2015
- February 2015
- January 2015
- December 2014
- November 2014
- October 2014
- September 2014
- August 2014
- July 2014
- June 2014
- May 2014
- April 2014
- March 2014