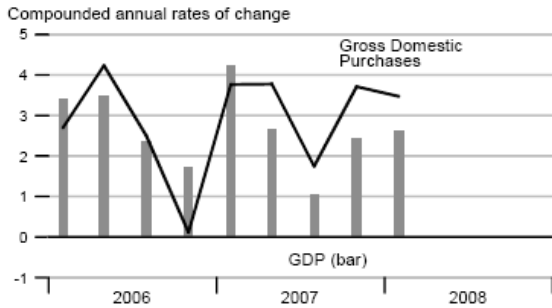


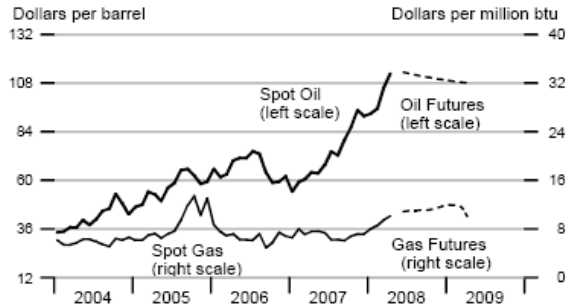
### Inflation, the Taylor Rule, Real Time Issues

From St. Louis Fed, *National Economic Trends*, May 2008

#### NIPA Chain Price Indexes

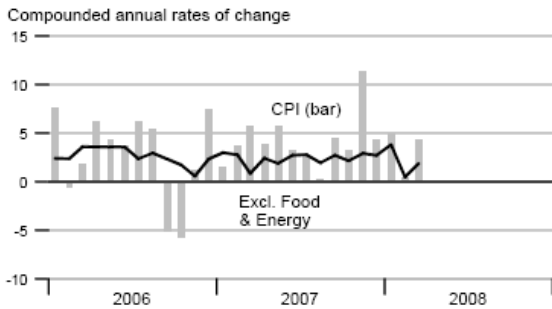


#### Oil & Natural Gas Prices: Spot & Futures

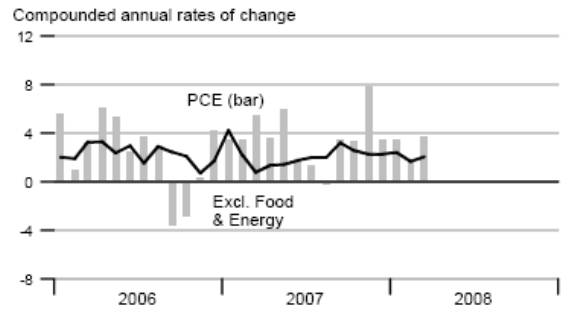


Note: Futures prices as of 04/30/2008.

#### Consumer Price Index



#### Consumption Chain Price Index



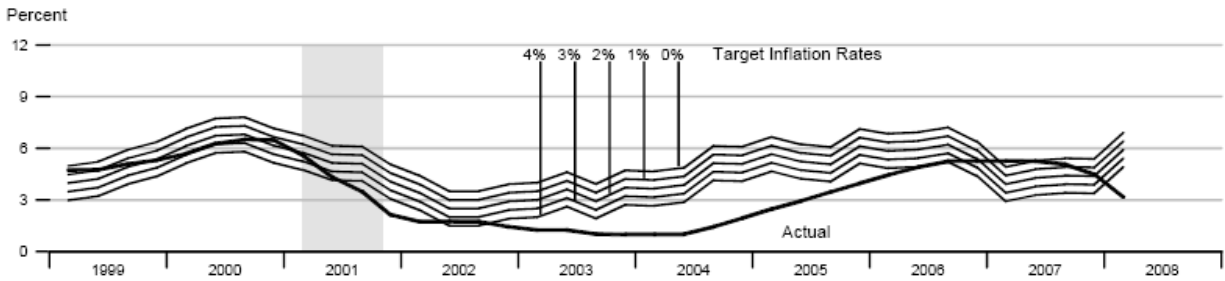
From St. Louis Fed, *Monetary Trends*, May 2008

Page 10: **Federal Funds Rate and Inflation Targets** shows the observed federal funds rate, quarterly, and the level of the funds rate implied by applying Taylor's (1993) equation

$$f_t^* = 2.5 + \pi_{t-1} + (\pi_{t-1} - \pi^*)/2 + 100 \times (y_{t-1} - y_{t-1}^P)/2$$

to five alternative target inflation rates,  $\pi^* = 0, 1, 2, 3, 4$  percent, where  $f_t^*$  is the implied federal funds rate,  $\pi_{t-1}$  is the previous period's inflation rate (PCE) measured on a year-over-year basis,  $y_{t-1}$  is the log of the previous period's level of real gross domestic product (GDP), and  $y_{t-1}^P$  is the log of an estimate of the previous period's level of potential output. **Potential Real GDP** is as estimated by the Congressional Budget Office.

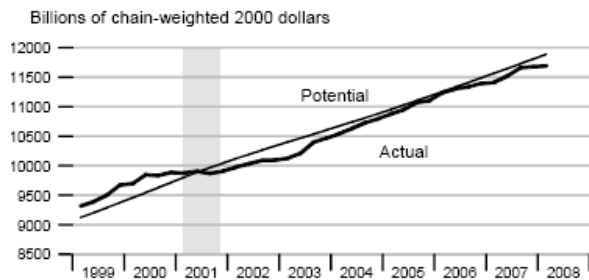
## Federal Funds Rate and Inflation Targets



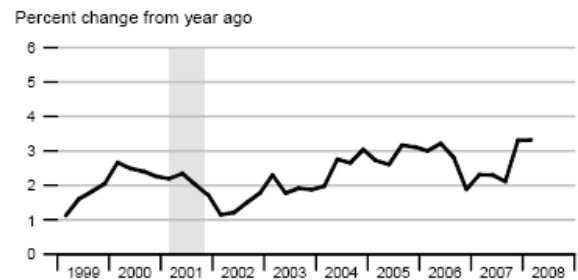
Calculated federal funds rate is based on Taylor's rule. See notes on page 19.

## Components of Taylor's Rule

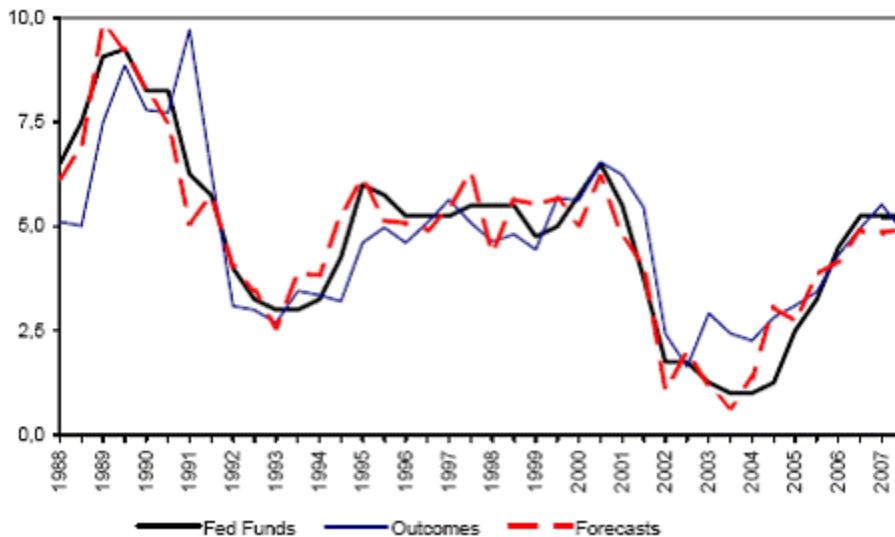
### Actual and Potential Real GDP



### PCE Inflation



What about real time data?



Actual path of fed funds rate (black line), path predicted by a Taylor Rule that uses actual values of PCE inflation and GDP (blue line), and path predicted by a Taylor Rule that uses forecasts of inflation and GDP (red line). Source: Figure 6, Orphanides and Wieland (2007).

[http://research.stlouisfed.org/conferences/policyconf/papers2007/Orphanides\\_Wieland.pdf](http://research.stlouisfed.org/conferences/policyconf/papers2007/Orphanides_Wieland.pdf)