Interest Rate Benchmarks

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An Interest Rate Benchmark: the Taylor Rule

$$FFR = \text{expected inflation}$$
$$+ \text{``natural real rate''}$$
$$+ \alpha_1 \text{ (inflation gap)}$$
$$+ \alpha_2 \text{ (employment gap)}$$

Inflation

Core PCE

CPI

GDP Deflator
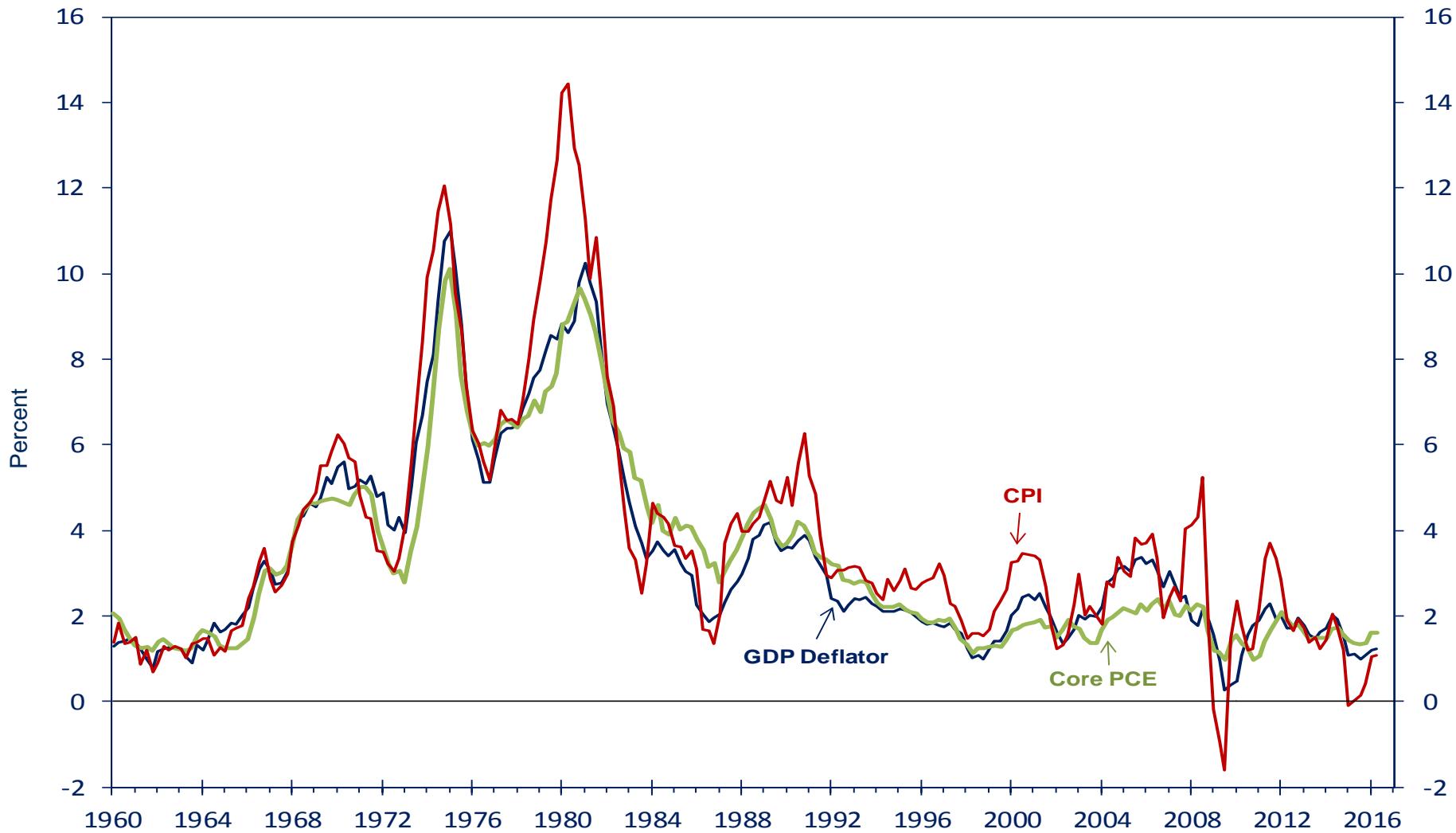
Sources: BEA & BLS via Haver Analytics

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Natural Rate of Interest
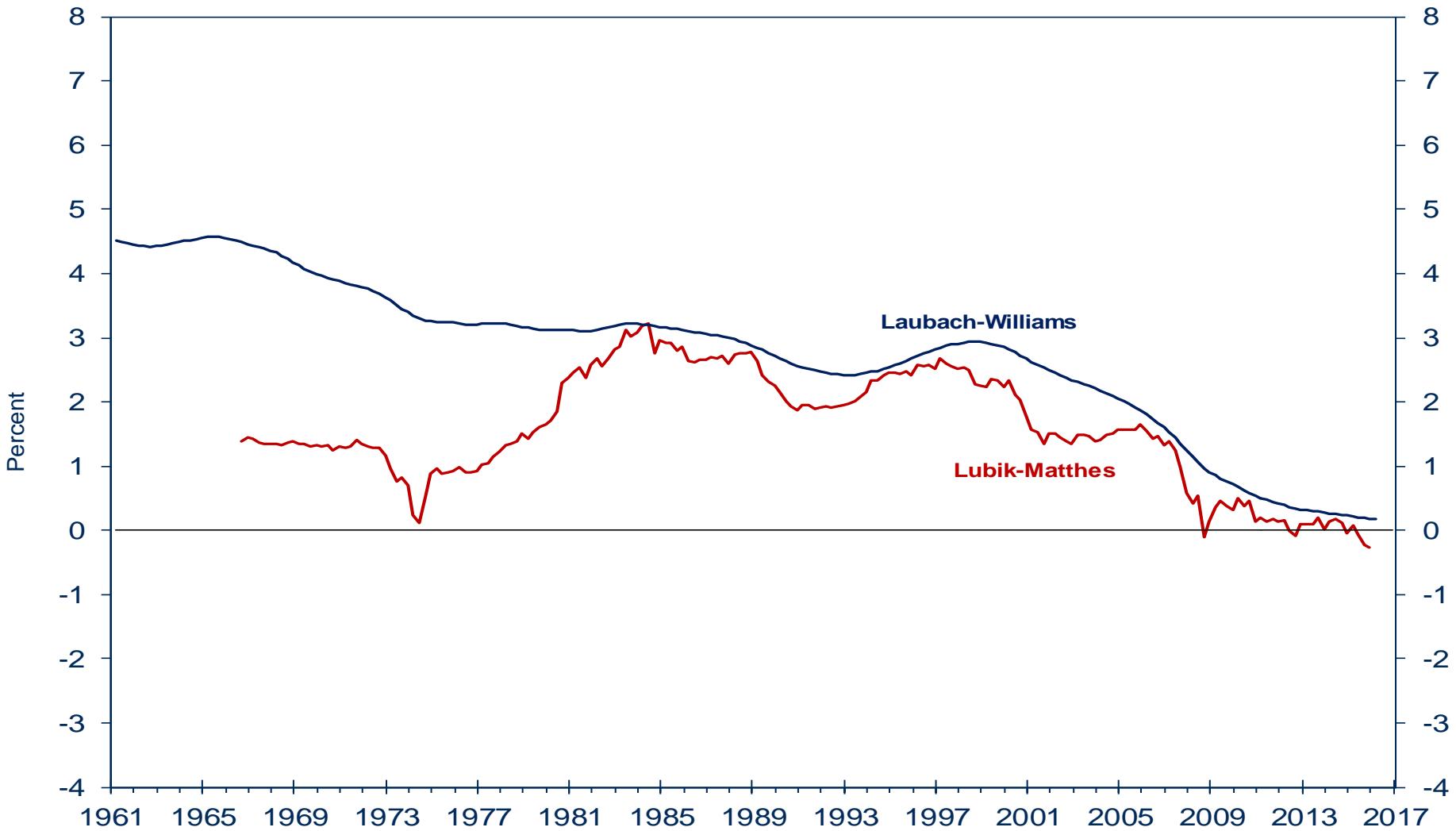
Sources: Laubach & Williams (2003), Lubik & Matthes (2015)

Federal Funds Rate vs Benchmark

Sources: BLS, Board of Governors, BEA, CBO via Haver Analytics. Laubach & Williams (2003)

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