

Panel Discussion

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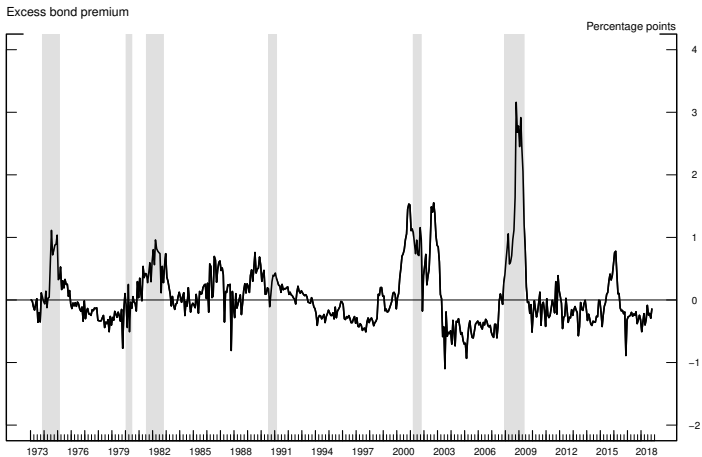
Two Issues

- Financial Indicators and Economic Activity
- Inflation and Economic Activity

Financial Indicators and Economic Activity

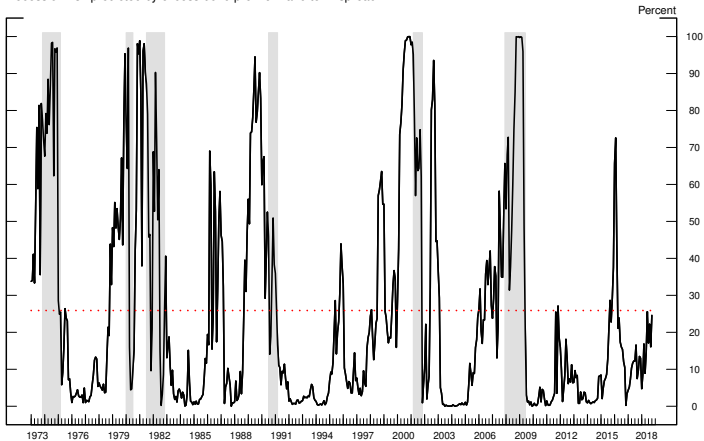
- Are there measures of financial distress that do well at predicting future economic activity?
- Is monetary policy effective at reducing financial distress?

Gilchrist-Zakrajsek Excess Bond Premium



Recession Probabilities: EBP and Term Premium

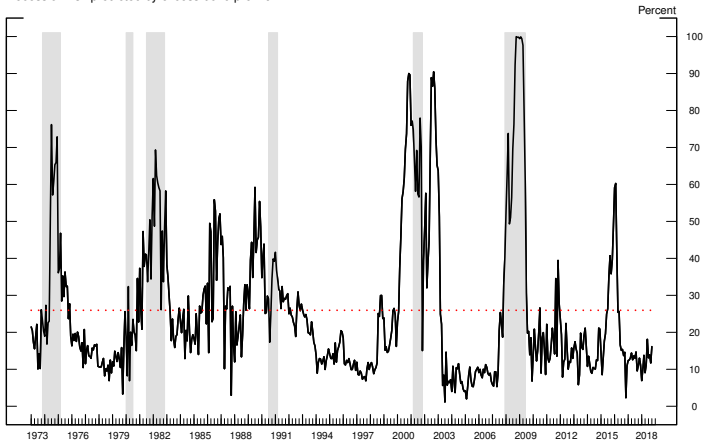
Recession risk predicted by excess bond premium and term spread



The solid line depicts the in-sample probability of an NBER-dated recession occurring at any point over the subsequent 12 months estimated by a probit regression with EBP and term spread as the explanatory variable; the dotted red line denotes the unconditional probability of entering into a recession at any point over the subsequent 12 months.

Recession Probabilities: EBP Only

Recession risk predicted by excess bond premium



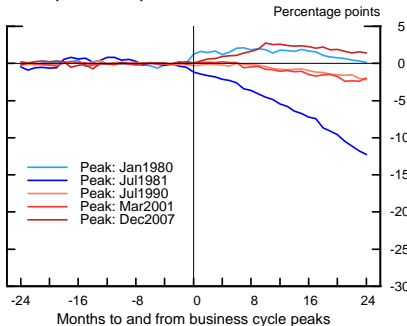
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Inflation and Output

- Is there a robust relationship between inflation and economic slack?
- How has it changed over time?

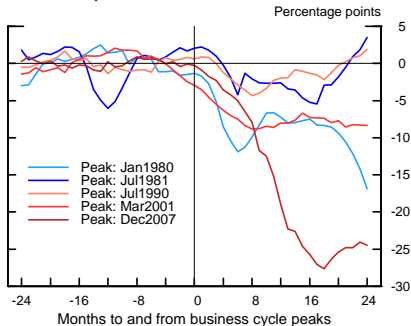
Cyclical Dynamics of Producer Prices and Inflation

Core producer prices*



* Deviations from a linear trend estimated over the 24 months preceding the specified recession.

Industrial production*

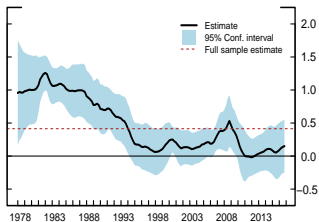


* Deviations from a linear trend estimated over the 24 months preceding the specified recession.

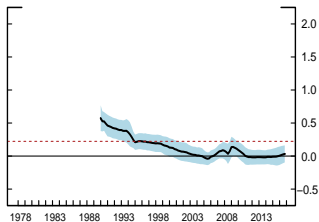
Time-Varying Coefficients for Output Gap

15-Year Rolling Window Estimates

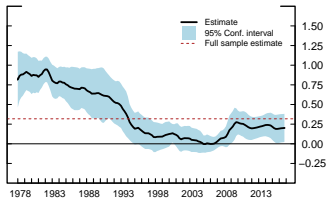
Producer prices



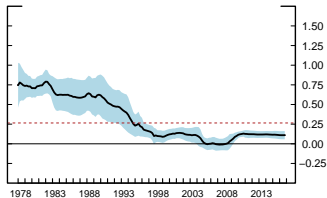
Core producer prices



Consumer prices



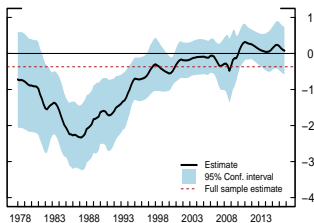
Core consumer prices



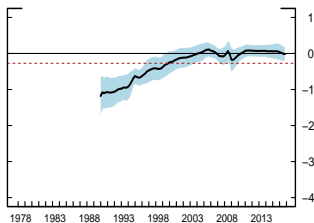
Time-Varying Coefficients for Unemployment Gap

15-Year Rolling Window Estimates

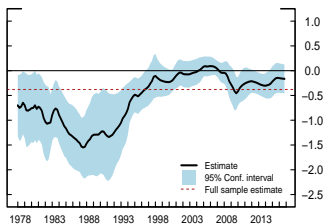
Producer prices



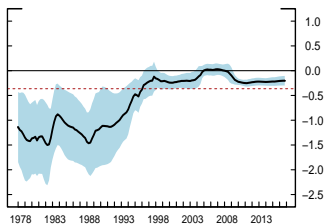
Core producer prices



Consumer prices



Core consumer prices



Conclusion

- Strong relationship between financial distress and economic activity.
- Weak relationship between economic activity and inflation.
- What lessons should we draw from this for monetary policy?
 - ▶ Are we trading off asset price inflation versus goods price inflation?