

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESEARCH AND STATISTICS

DIVISION OF INTERNATIONAL FINANCE

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**Date:** July 11, 2017  
**To:** Federal Open Market Committee  
**From:** David W. Wilcox and Steven B. Kamin  
**Subject:** Explanations for Recent Low Inflation

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PCE prices in the most recent three months for which data are available have been surprisingly soft. The attached memorandum analyzing these developments was prepared by Andrea De Michelis of the Division of International Finance, and David Lebow, Jeremy Rudd, and Riccardo Trezzi of the Division of Research and Statistics.

- The memo begins by describing key aspects of the staff's baseline forecast. As in the June Tealbook and for reasons laid out in the memo, we continue to interpret the bulk of the recent softness as anomalous, and have not materially altered our forecast for inflation in 2018 or 2019.
- The memo then considers a range of hypotheses for why our baseline outlook might be proven wrong. We regard some of these hypotheses as sufficiently credible to represent downside risks to the forecast; others, we are more inclined to dismiss.

As you know, the next installment of the CPI is due to be published this Friday morning at 8:30 a.m.