



FEDERAL RESERVE BANK
OF SAN FRANCISCO

How Supply Shocks Are Shaping the Economic Outlook

Monterey Bay Economic Partnership

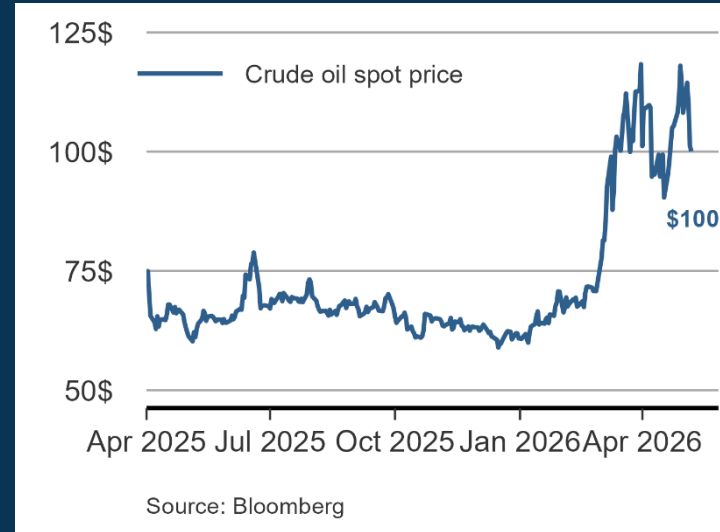
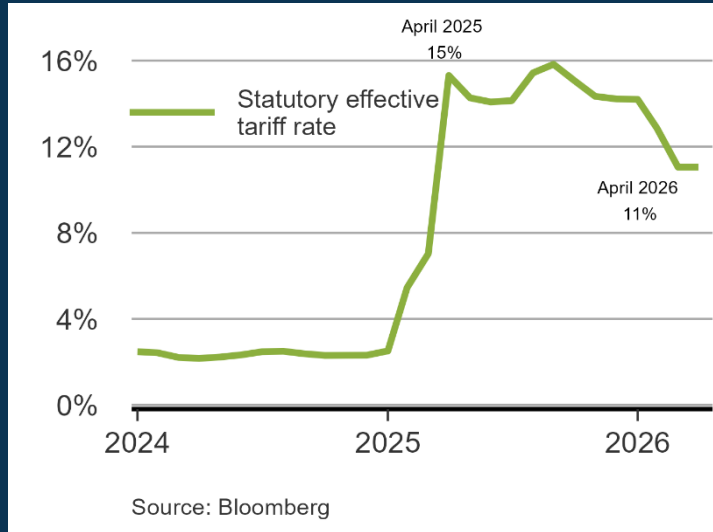
May 15, 2026

Sylvain Leduc


Executive Vice President & Director of Research

Two recent large negative supply shocks

U.S. effective tariff rates and crude oil prices



The Fed has two mandates



Maximum
Employment



Price
Stability

Supply shocks are tricky for policymakers

Negative supply shocks tend to:

Increase inflation



higher policy rate

Lower employment



lower policy rate

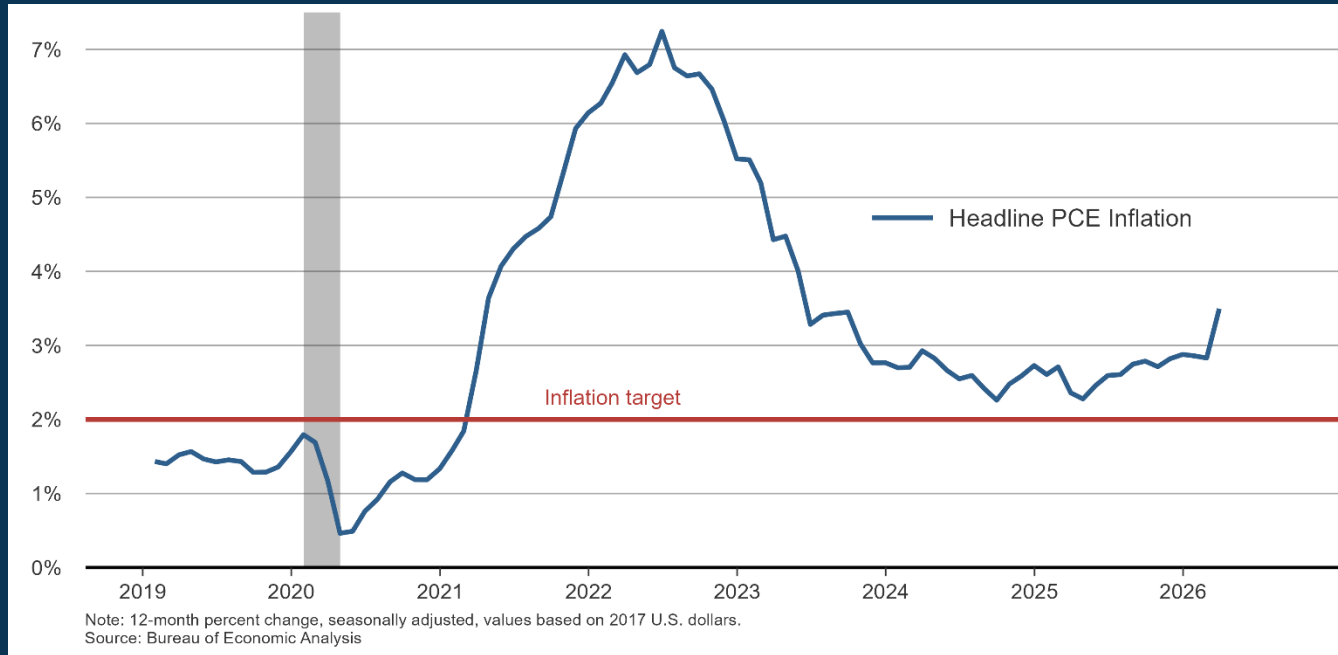
Policymakers take a balanced approach



Inflation

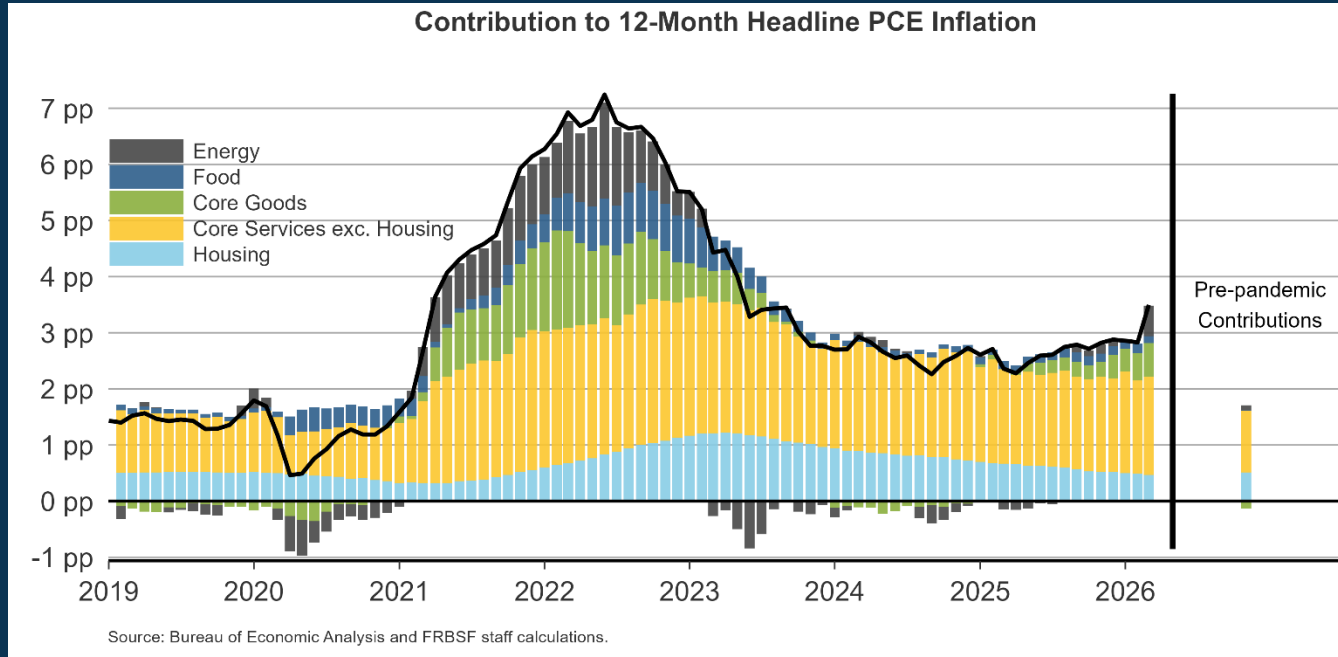
Inflation has been rising over the past year

Headline PCE inflation



Energy and goods prices are boosting inflation

Headline PCE inflation and contributions

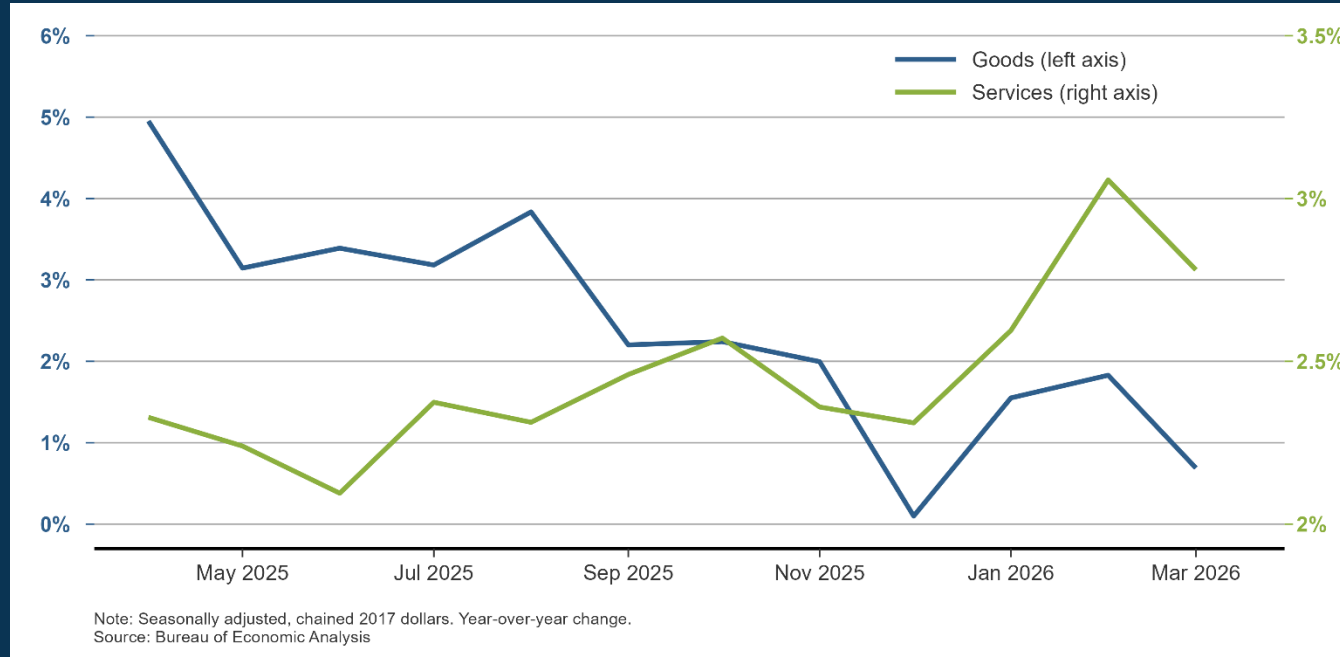




Resilient labor markets and consumer spending

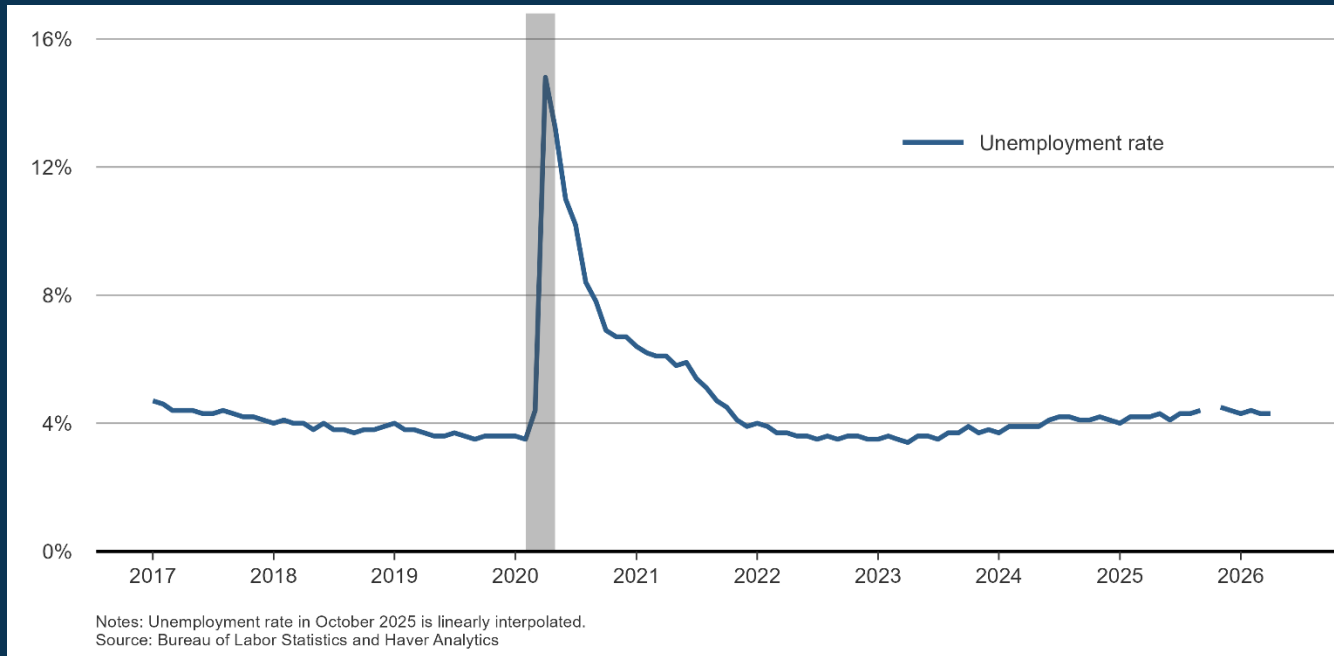
Spending less on goods, more on services

Consumer spending on goods and services



The labor market has been resilient

Unemployment rate





What is supporting growth?

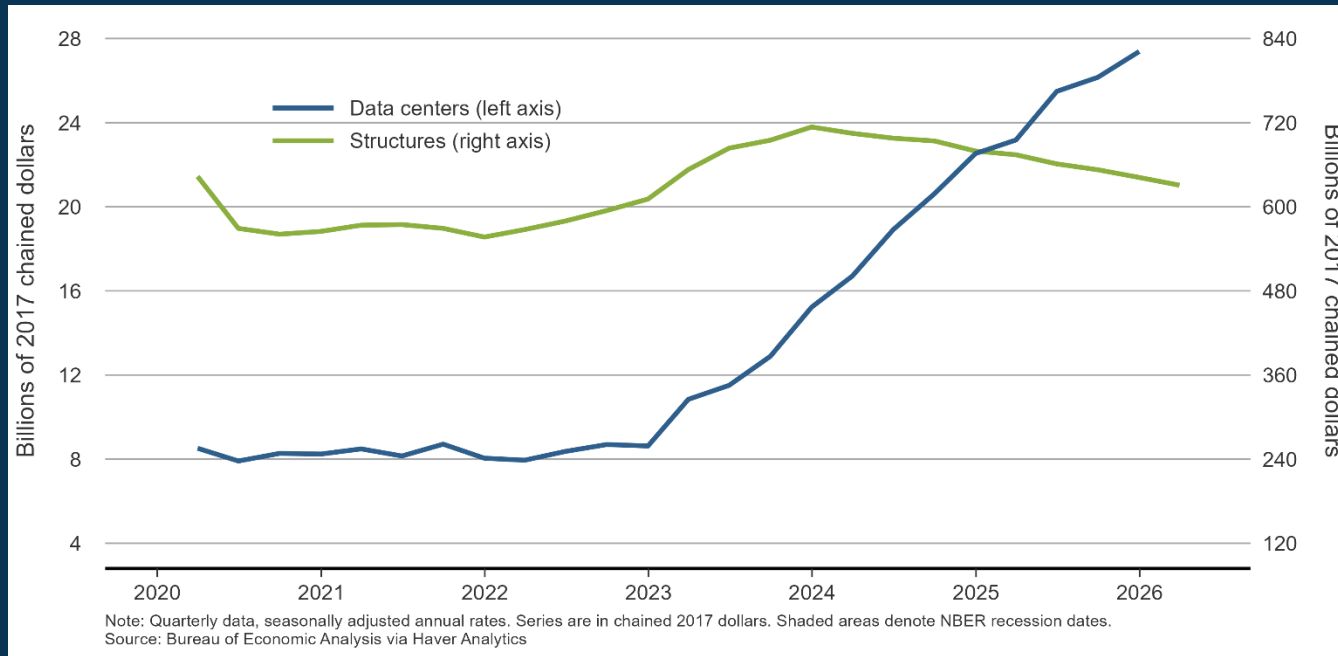
A few firms are gaining from AI enthusiasm

Market capitalization share of top five firms in S&P 500



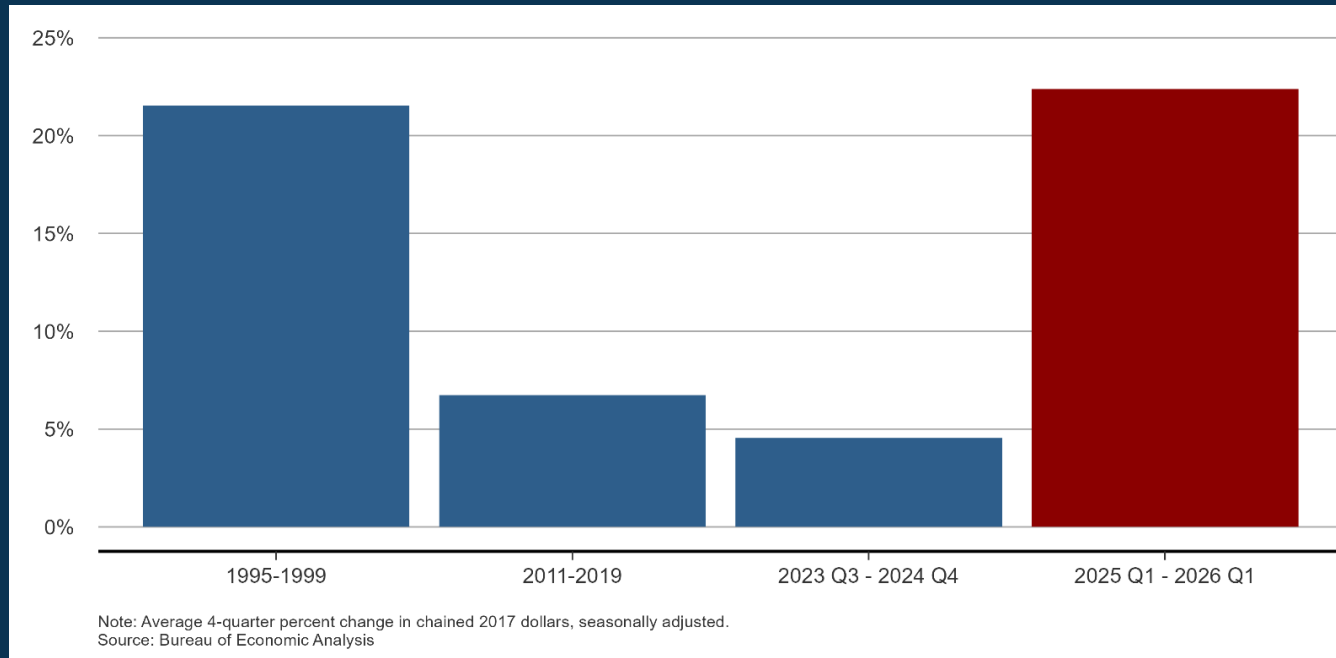
Investment in data centers is rising steadily

Real private investment: Data centers and structures



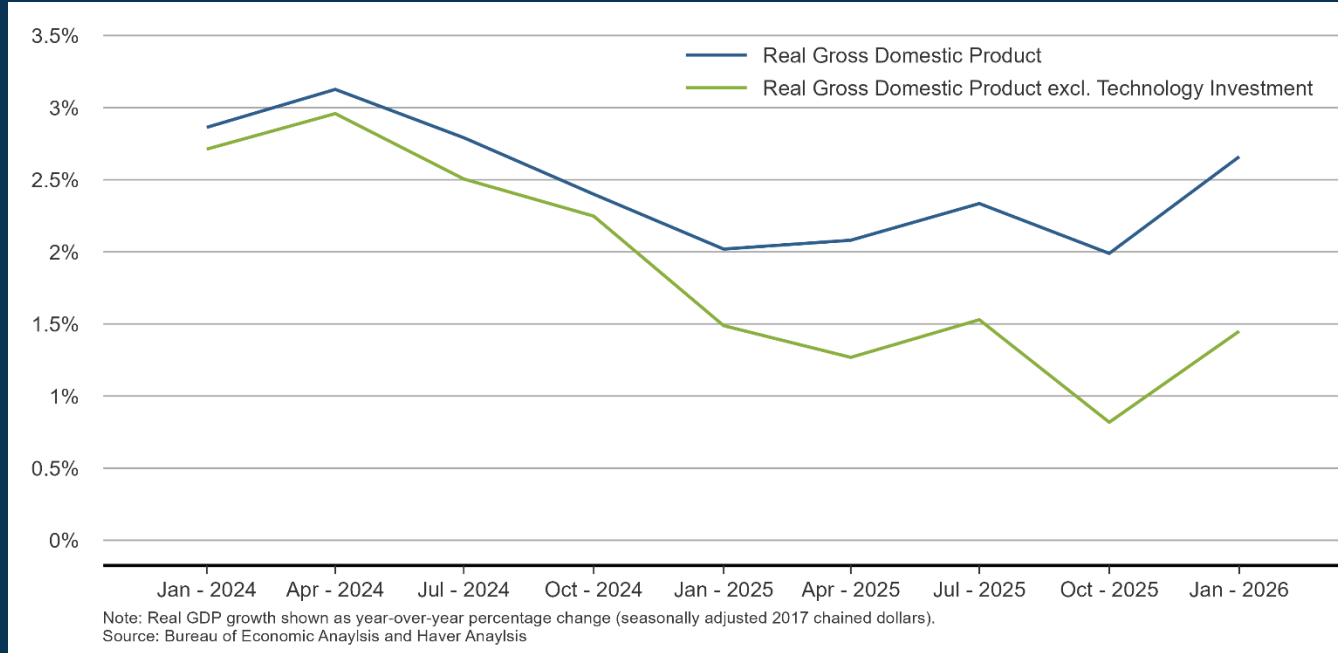
Strong AI-induced equipment investment

Real investment in information processing equipment



AI-related investments supporting growth

Real investment in information processing equipment

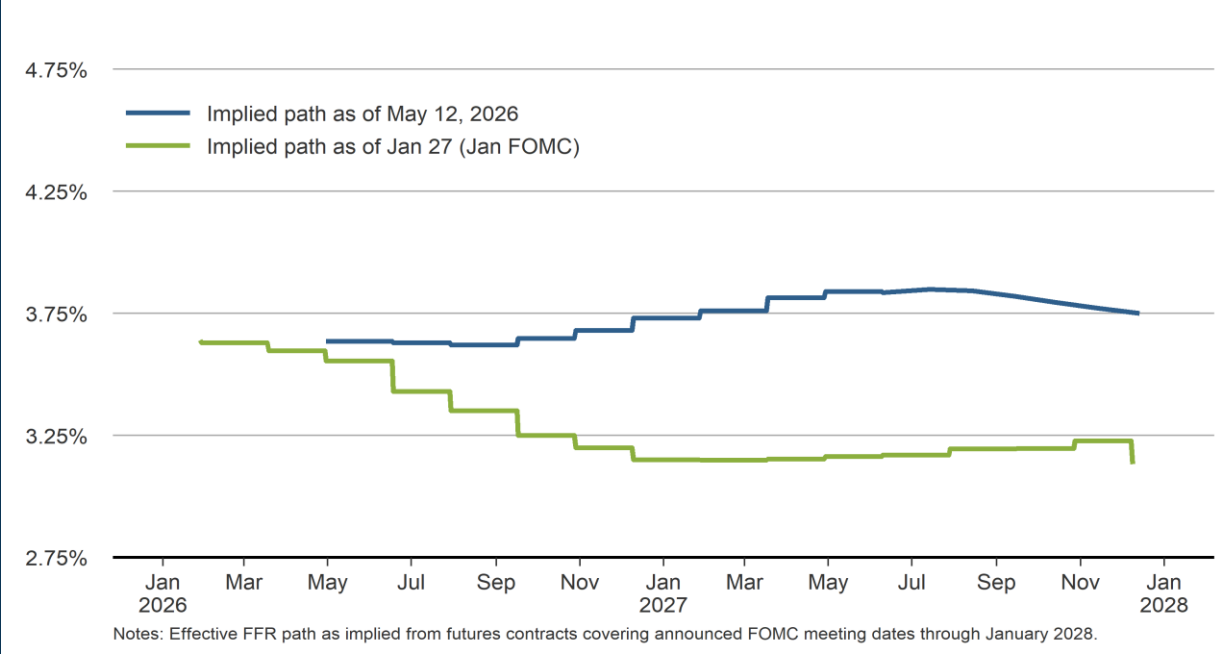




What is the Fed expected to do?

Markets expect the Fed to be on hold

Federal funds rate futures



Questions?