

Fed Unfiltered, Transcript

1/12/22 – Mary Daly, Interview: PBS News Hour

Speaker 1:

The last time inflation rose 7% annually was back in 1982. And the latest consumer price report shows that costs are continuing to spike for Americans across many categories. That is presenting real questions for the Federal Reserve which is tasked with promoting stable prices. Mary Daly is the president of the Federal Reserve Bank of San Francisco. She sits on the committee that decides what to do about interest rates and economic policy.

Speaker 1:

Mary Daly, welcome back to the NewsHour. I don't think there's any doubt anymore that prices are seriously rising. What does this mean do you believe for American consumers?

Mary Daly:

So American consumers are feeling the pain. There's no doubt that inflation is uncomfortably high and has been so for a while and people are feeling it in their pocketbooks. But what we are doing at the Fed is saying that we understand that's there. We also understand that more Americans have jobs now than they used to, and that it's really time for us to start removing some of the accommodation we've been giving to the economy, and get demand and supply back in balance so that Americans can say, "We have price stability and full employment."

Speaker 1:

Well, today at the White House, economic advisor, Brian Deese was saying that the White House expects prices to moderate by the end of this year, by the end of 2022. Is that your sense as well?

Mary Daly:

I do think that we're going to see prices moderate. We're going to see supply chains get a little bit more back in balance. Now we've been saying that we hope supply chains would get back in balance and then we have more COVID, and the supply chains are out of balance. I don't want to get too hopeful when we haven't seen the data yet, but I do expect that as we get past COVID, COVID recedes, supply chains will get back in balance.

Mary Daly:

But also the Fed's withdrawing accommodation is putting some of that pressure on supply chains. It's an easing, because demand will just get back in balance with supply. Those two things together, the easing of supply chains, the getting through COVID and the Fed's response to this, we should all help make this a better situation.

Speaker 1:

Well, let's talk about the Fed's response. We heard the president of the St. Louis Fed, Bill Dudley say today that he thinks the Fed may need to raise interest rates as many as four times this year. What's your expectation about what the Fed should do?

Mary Daly:

I don't want us to get too far ahead on calling the number of interest rate increases because we have to be data dependent. We're still sitting right here with Omicron. We just saw that in the previous segment

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where there are disruptions. I'm very bullish about the strength of the economy. I think American consumers will weather this. We will continue to add jobs and go back to school and get through this.

Mary Daly:

But I don't think it's appropriate really to call four or two or one. It really is going to be, "The Fed will respond as the data come in," and we will ensure that we deliver to the American people, price stability and full employment. That's the job. And right now it's a challenging one, but we're committed to doing it.

Speaker 1:

Is there any doubt in your mind though that the Fed is going to be raising rates this year a few times?

Mary Daly:

I definitely see rate increases coming as early as March even. Because it really is clear that prices have been uncomfortably high rising, and uncomfortably high rates for some time. And this inflation we're seeing this, we haven't had something since 1982. That's not price stability. And I think every American knows it and feels it, but also the Fed knows it and feels it.

Speaker 1:

How much, Mary Daly, was the Fed caught off guard by this inflation?

Mary Daly:

Really, it's not about being behind the curve or even getting ahead of the curve. It's really about watching the inflation data, seeing how long they'll persist. The thing that I think we've all been surprised about, not just beneficial, but the entire globe is just how long the pandemic has lasted even when we have vaccinations available. As a consequence, this has just been more disruptive than we ever imagined, and we have inflation to show for it.

Mary Daly:

But the good news, and I think this is something that every American should know is while we were waiting to react as the Fed, 5 million more jobs were created since early last year. And we got unemployment from 6% to 3.9, which is very close to what I would consider full employment. And so achieving full employment and price stability is important because ultimately American wants jobs and they want their dollar to have the same value year after year.

Speaker 1:

I'm sure you're aware of this, but there are economists out there including some former fed officials who are saying that the Fed has just not fully grasped the depth of inflationary pressures. I think I used the name Bill Dudley earlier for the name of the St. Louis Fed. I didn't mean to do that, but former Federal Reserve governor today was quoted as saying that the Fed is guilty of what he called Alice-in-Wonderland thinking, arguing it needs to be much more hawkish in its outlook.

Mary Daly:

Well, I'll be honest with you. We get criticisms on both sides. Some people will say we're being Alice-in-Wonderland because we're not reacting to inflation. Others would say we're taking the punch bowl

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away right when the economy's strong enough to bring 4 million workers who have not worked since the pandemic back into the labor market. It's never a popular to be a central banker, but what's important is that you're always in this balancing act. We have price stability and full employment. I think policy is in a good place.

Mary Daly:

We are tapering our asset purchases so that we're completed by March. We're in a position to raise interest rates. We're in a position to withdraw the support for the economy as it gets its own feet under it. And we're in a position to respond more if we need to, and less if we need to. That's exactly where we should be. I feel very good about where we are and not like we're either behind or ahead of the curve.

Speaker 1:

For ordinary Americans who are listening to this and asking and wondering, "When am I going to feel relief from higher rents, higher cost for food, for clothes, used cars?" As we set up 7%, what do you say to them?

Mary Daly:

Well, first of all, I say, I absolutely understand that this is painful. These are not comfortable adjustments for all of us. In fact, inflation's a regressive tax. It hurts low and moderate income communities more than many of us. So those are really painful things. And what I say to the American people is that, "We understand that, we are on that. We are withdrawing that accommodation planning too as we go forward into this year." This will be able to more quickly than we think probably, bring demand and supply back into balance.

Mary Daly:

But it's going to take most of 2022 in my judgment to really get those things back in balance. And the most important thing that every American can do to participate is get vaccinated, get boosted, and wear a mask and get COVID behind us. When the pandemic is behind us, our lives will be able to return to normal.

Speaker 1:

Last thing I want to ask you about is, the Federal Reserve system and ethics, as you know, three top officials at the Fed have left their posts over the last few months after it was disclosed, questionable stock trades were made. We're now hearing from chair Jerome Powell, that there's going to be an overhaul of ethics rules. But how much do you think the Fed credibility has been hurt by this? And how confident should people be that this kind of thing is not going to be seen again?

Mary Daly:

Well, trust as you know is our most important tool, but it's something you have to earn every single day. We have to show up and earn the trust. And what this has told me is that the things we've been doing, trades that some Fed officials have made, but mostly the rules we've been living by aren't up to the thresholds they need to be, to assure the American people that we are actually working on their behalf, because we are working on their behalf.

Mary Daly:

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I think these trading issues have been quite an unwelcome distraction from the work that we need to do for the American people. Because again, we are looking at inflation, we are looking at employment and we are living through a pandemic. Those are the top of mind things. I welcome the overhaul of the rules. I welcome getting our rules and guidance in balance with what the American people should expect and demand. And I am absolutely supportive of these changes.

Speaker 1:

Mary Daly, the president of the San Francisco Federal Reserve Bank, thank you very much.

Mary Daly:

Thank you.