Fed Unfiltered, Transcript
1/13/22 – Charles Evans, Interview: Milwaukee Business Journal

Speaker 1:

We saw a report yesterday, the highest rate of relationship since 1982. What's your reaction to that and what steps can be taken. Because of all the executives I talk to right now, that's probably the one thing I hear about the most, is supply chain issues, it would be labor chain, labor issues and then increases in prices.

Charles Evans:

Right. Well, thanks for getting off to a fast start.

Speaker 1:

We're going to walk into this.

Charles Evans:

So it's definitely the case that inflation is high and it's too high. I think today, the CPI was 7% on an annualized basis over the last 12 months. Now, it's unusual for inflation to pop up as quickly as it did. I've been the president of the bank now for 14 years and every time I've ever come here to Milwaukee, I've told you that inflation's too low and we need to get it up. And it takes a long time to get it up. And it took many, many years. Eventually all of a sudden it's really up. And the question is, did we all of a sudden, totally get our job wrong, were we effective in getting it up but over shooting, and things like that. You mentioned supply chains.

Charles Evans:

I think it's very difficult to appreciate the current environment without going back and replaying just a little bit, the COVID pandemic experience since March of 2020, and the fact that the economy came to a screeching halt. There were shutdowns. Households, consumers, businesses just didn't want to interact with each other for quite some period of time. But then quickly in the spring, many businesses learned how to produce safely. Manufacturers were very good at figuring that out very quickly. Engineers do what engineers do. They figured out how to manufacture under a different set of circumstances, but it was safe. And so manufacturing improved very quickly. That was an early tell on something very significant that's taken place during this period, which is the demand for goods has just exploded whereas of course, the demand for in person services, going out to restaurants, leisure, travel, entertainment, has not.

Charles Evans:

It is woefully below where it was, and any economy that all of a sudden... We're accustomed to producing and consuming in a certain way and now all of a sudden it's like no, we're not doing that but we're doing a lot of this. That takes a lot of adjustment. And in a marketplace economy, decentralized the way that adjustment often takes place is prices change to reflect the higher demand and the goods that are in short supply. Combined with that change in demand, okay, so let's see. So demand was high. It's very important to remember that the amount of fiscal support for the economy, households, businesses, PPP, and things like that, was extraordinarily high, very beneficial. We would not have wanted to repeat the experience after the 2008 great financial crisis where tremendous amounts of wealth were destroyed and households, people who had lost their jobs, didn't have a lot of means in order to keep consuming and things like that.

Charles Evans:

This was a temporary pandemic, we were able to get back on our feet and I think that the previous administration, the current administration, did a good job in supporting the American people and businesses. So the level of demand has been high. So goods demand has been very high and services are trying to get back. Goods demands been so high. And then there are other complications like semiconductors, which other countries have had more difficult experiences. And so semiconductor production in Malaysia, Indonesia and Vietnam came to a screeching standstill not too long ago. And then the car companies, when they were early in the spring of 2020, going I don't think people are going to be buying as much, and they shut down on some of their orders. Well, other people got in front of them, the consumer electronics folks, because people are staying at home, consumer electronics are flourishing.

Charles Evans:

And so the PlayStation five people got in front of the auto companies and so semiconductor supply really has been challenged and so that's really held back auto production for quite a long time, and everybody's feeling that. It's more than just autos, it's other large equipment manufacturers and household appliances and things like that. By the way, I never would've guessed though that the cost of the automotive chips was lower than the consumer electronics and so the suppliers, producers... Is like, do I produce more of the low margin chip or do I produce more of the high margin chip? That's another reason why consumer electronics production flourished and the auto companies have been catching up to them. Now, all of a sudden we've ramped up a lot and the supply chain just has buckled under the additional good.

Charles Evans:

We're moving more goods through the economy than we did before. All of that port activity that has been challenged, they're still moving more goods than the normal experience has been. And so that plus logistics challenges, truck drivers and things like that in short supply. So it's not surprising. You can't produce cars, car prices go up. Used car prices go up. New car, if you can get it, it goes up. Wages go up for people in important logistics parts of that. And so we've seen wage pressures, we've seen a lot of price pressures. It's also been a tremendous amount of a shift towards greater demand for residential houses. So young people who used to live in the city urban situation, maybe this was the time when all of a sudden they decided to move out to the suburbs and that's driven up home prices.

Charles Evans:

Rents are going up to. And so we've had a lot of increases in prices. I call this an increase in relative prices. Those prices of the goods that are in really high demand, really short supply, have skyrocketed. So when used car prices went up one month 10%, that's monthly. That's not annualized. That's not multiplied by 12, that's in one month that went up 10%. Next month it went up 7%, next month it went up 10%. That gets caught up in very large CPI inflation numbers. And we're still living with that. The cost of living has gone up, households are struggling with that. Wages have gone up, but prices have gone up more. So it's been a challenge for everyone.

Speaker 1:

So what can you do?

Charles Evans:

And so in that environment, inflation has been high. And fed monetary policy now was not well positioned for this. So we've been providing accommodation that continued to seem appropriate in 2020, but then the uncertainty, it's resolved itself in a way that we weren't expecting and now inflation is high. And so we need to be adjusting monetary policy to, first step, something closer to neutral as it takes us time to change our setting this year. By the end of the year, I think we're going to be in a better position to see exactly how persistent and long lasting the inflationary pressures are. And so I think that this is going to be a year where we readjust monetary policy, will increase by the summary of economic projections that were submitted in December. The committee very strongly is expecting 2, 3, 4 rate increases this year. We'll see how it plays out. But increase in short term rates and we're going to bring our asset purchasing program to an end. The balance sheet will stop rising and then we'll start thinking about how to bring it down.

Speaker 1:

Well listen, well let's maybe hit on a couple of those issues, which you just brought up.

Charles Evans:

I think should have hit on five issues.

Speaker 1:

You did hit on a lot. You we're going to unwrap a couple of those. I'm sure people in the room are going you hit this, this, this. Let's first talk about inflation. So what you're saying is, you're not sure how long this last and that's a big deal in terms of inflation, in terms of enterprise. Is this temporary or is this long term?

Charles Evans:

That's right. So you're being very gentle. A more pointed way of asking this could have been, for the longest time you guys were saying that the inflationary pressures were transitory. What is transitory? What's the definition of transitory? It depends. But we didn't think it would persist as long as it has. I certainly was surprised at this. I do not believe it's going to be permanent. It's just not possible that used car prices will remain at the level that they are when auto companies start producing the cars that they want. Also, the rental companies, you try to rent a car... I did last February and the price of a rental car was really low because I was one of the few people who was traveling at that time.

Charles Evans:

All of a sudden they've skyrocketed and they're three times the normal price because they shed all of their inventory of cars to get their own balance sheet... Now they're short changed and they had to bring more cars in there. As you produce more cars, those prices will, worst case, stay at a high level. That would reduce inflation. Much, much more likely, they're going to come down. That means that the inflation numbers would have some negative contributions as other things continue to increase. And so the larger concern for inflation is going to be how broad based it's going to be. Our inflation expectation's going to go up.

Charles Evans:

In wage setting and price setting, our firm's going to go, prices are going to start going up and I need to add that to my cost announcements for this year. I think we'll probably be in an environment where a lot of customers, clients, are going to go, I've seen enough of high prices, let's talk about getting this right. But that can only take place when there's an adequate degree of resources. Those are all real phenomenon. We've got to pay attention to that. I think that inflation is going to come down because the supply chain is going to improve, we'll get more production, demand will fall a little bit for consumers as we raise interest rates. And the key is going to be our inflation expectation's going to be higher and what are wages going to be doing going forward.

Speaker 1:

Well, I want to ask that question because obviously when you talk about wages being up, again, I hear from a lot of CEOs in town, a lot of executives saying I can't hire enough people and the people I hire, I have to pay a lot more. So I don't think that's going away anytime soon. So how much will the labor issue drive the inflation issue?

Charles Evans:

It's going to depend on a lot of factors and we'll have to see how long this plays out. So we've been hearing for longer than I would've expected, there are labor shortages out where I am and I travel around our district. I went out to Iowa in August to talk to some people in a very controlled environment and we're having trouble hiring workers. Now you also hear a story about how the mayor out in a Iowa town had negotiated with FedEx to add a distribution center. And so they were going to be hiring all these people. And the other people are going, I don't know where these workers are going to come from because we're not seeing a lot of in migration to the town, right?

Charles Evans:

So economic development is going to require additional workers and do you have the workforce model to support that or if you build it, will they come? I think there's a lot of longer term issues that a lot of places are going to have to deal with anyway. This has intensified that. I think that the most recent environment manufacturing, you talk to manufacturers and they're really challenged with getting component parts, demand is very high, also the workforce issues that you're talking about. But it's also the case that there's intense demand for goods and so also out in Iowa, I was asking about, well there's a manufacturer out there who's trying to add a third shift and they're increasing wages. How come they're struggling to get workers? And somebody goes yeah, but that's cyclical. A year from now and they're not going to have that third shift. So people are smart enough to see through that.

Charles Evans:

It's going to depend on how persistent the growth and demand is going to be. I don't think we can ignore the COVID environment too. I think there's a lot of fatigue. We've all gone through a lot. We've worried about keeping ourselves and our families and loved ones and everybody else safe. We're in a much better environment now with science and vaccines and boosters and so they're available for everyone who is interested and frankly, I would love for everybody to take up all the vaccines and boosters, and we'd be so much further along. But there's a lot of fatigue and I think people are making judgments in their lives that it like, I probably wanted to change occupations, and why do I go back? And if they had the means to get through that or if they readjust their lifestyle, I think there's more of that going on. The population is aging so people have retired and some people go well, there's a lot of retirements, early retirements.

Charles Evans:

Well, we actually lured a lot of people who were more elderly back into the workforce during the 2019 good job market too, so how long is somebody who returns from that situation going to hang around? What type of position are they going to take up? Maybe it's the one you want, maybe it isn't. Population is aging. It's a long slog, it's not going to turn around anytime soon and that's on top of everybody's fatigue for the labor force. But there are a lot of people who are sitting out. I think an attractive job market will bring more people back in. I think that higher wages will attract more people. I think the businesses are just going to have to work harder to match up with available workers and recruit. I know we have to think about that in the bank. So there's just an awful lot going on. I don't have answers. I think these challenges are going to persist for quite some time.

Speaker 1:

Well, let's talk about probably the question you're probably asked the most and I get asked the most walking in here today was how many rate increases? I know a month ago that it was a consensus of three, but then I saw earlier this week, the head of the fed say that it could be four. What do you think? And what will you support in terms of interest rate increases?

Charles Evans:

I should be paying more attention, I didn't see that quote. I'm sure you're right. I'm sure you got it right.

Speaker 1:

I could read it to you if you'd like.

Charles Evans:

No. We are clearly in a situation where the stance of monetary policy is wrong footed against the current situation that we're facing. Inflation is 7% by the CPI over the last 12 months. That's way too high but there are many extraordinary circumstances. It will be coming down, but will it come down more quickly, and coming down to 4% isn't satisfactory, right? So we need to get inflation back down in the ballpark of our 2% objective. I think it's probably, at the end of this year, it's going to be elevated. I don't think it's going to be 3% at the end of this year and I think it's more likely to be two and a half as measured by the personal consumption expenditure index, which is the one that we actually match up against. But I think it's more likely to be that. I think it's going to be adjusting for real reasons.

Charles Evans:

That is, we will not have moved away from our accommodated monetary policy stance quickly enough to have effected that outcome, so I think that's the improvement in the supply chain and business conditions and all of that. But still, it could be higher than that. So we need to move towards something that is at least more neutral. Neutral is more like a two and a half percent federal funds rate. We're currently at zero to a quarter percent. That's what we've been targeting. So we've got ways to go. 2, 3, 4 this year, that doesn't get us to neutral. It's going to take us into the next year to get close. Unless you decide that there's way more work to do, that Evans is wrong, it's not going to be as transitory. The persistence is going to be longer than that, in which case we'd probably want to get to neutral and assess that more quickly. But I think it's going to take some time. There's a lot of impatience. Prices are high. But it's going to take some time to work this out.

Speaker 1:

So would you say three or four and the 1st of March?

Charles Evans:

I got to go to the median and talk to people and what they say-

Speaker 1:

What would you support?

Charles Evans:

When the median response of committee members in December was three, I was aligned with that. And if more is needed, we're also going to have to make adjustments to our balance sheet. The way we did it back in 2017 was we paused the string of rate increases while we made the adjustment to begin allowing assets to mature off of the balance sheet. Just because we did it that way before, doesn't mean we have to do it this time. Our balance sheet is bigger, the need is more and so we'll adjust as appropriately.

Speaker 1:

How has the pandemic really changed our economy? You already talked about it in terms of the impact, but it's really changed even how you look at it and how you approach it. I've heard you say a couple times here today that you were surprised by something.

Charles Evans:

Well, absolutely. I was a little bit surprised, shouldn't have been, that manufacturers were able to ramp up as quickly as they did in 2020. That was a wonderful thing. As you talk to people and I learned more about it's like oh, that was obvious, of course they were going to do that. The return to in person service activities has been uneven. I'm guessing that we've all gone out and enjoyed a nice meal at a restaurant over the last couple of years, but there have been times where I felt more comfortable doing that and other times where it was like, maybe we should have stayed home or gotten takeout. I just think that that uncertainty is probably going to be with us a little bit longer.

Charles Evans:

I'm not saying I'm super risk averse, but the variant coming along this time Omicron, first time I read about the mRNA technology, the last thing that's going to happen is the mutation of the spike protein that's going to fool it. Well, this is the one that was the case. Thank goodness. Although it's three times as infectious as the Delta and more like measles, it's not nearly, by all accounts and early studies coming in, as challenging health wise if you've had the vaccine and things like that. So I think it must have been like this in the twenties after the big flu epidemic that killed hundreds of thousands of people or more. I think this is a defining event that we're just going to have in our memories and it will linger. But I also think that we'll power through it the way the economy has and we'll continue to do commerce and grow and take advantage of new opportunities.

Charles Evans:

This has really ignited, accelerated the shift in Amazon-like deliveries online. The things that were destined to happen have happened more quickly. Could be that some of those technologies and enterprises get ahead of themselves and they have to pause and adjust that. But am I the only one? Maybe I'm spending more time around my residential village because I've been working at home since March of 2020 for the most part. But as I drive around my village during the day, it feels more like an alley than it does a nice residential throughway, because there's always a van or something parked on the side that I got to wait to get around or something. There's a lot of commerce that takes place in a residential village these days.

Speaker 1:

There is. I'm going to ask some audience questions, I'm getting a lot of questions and you're really getting our audience thinking. Let me start with one from our friends at [inaudible 00:20:24]. And that's looking at the feds, how you react to the market and how the market moves, which I know you and I have talked about over the years, and the collective expectation of a fed put if the volatility really becomes extensive, how does the fed ever reduce its role in really driving asset prices?

Charles Evans:

Well, I think one factor that comes to mind in that type of question is, we have control over our short term interest rate. We actually have to work pretty hard at that, given that the federal funds market isn't the way that it used to be back in the nineties and two thousands. But nevertheless, we're able to control short term interest rates and that finds its way into credit rates pretty quickly and that influences consumer borrowing and lending and mortgages and things like that. But as you get further out on the yield curve, the question is what's the slope of the yield curve going to look like? Are long rates going to increase? And back in the mid two thousands, when Ben Bernanke and Allen Greenspan first pointed to, there's a puzzle here.

Charles Evans:

Greenspan said that there's a conundrum because we're raising short term interest rates and the 10 year treasury's not responding. It was flattening out and Ben Bernanke, who was a governor said, well there's a global savings glut, there's an intense desire for safe assets and people from around the world want to hold US treasuries, drives up the price, drives down the yield. So will long term interest rates respond? How will they respond to our withdraw of accommodation? On top of that, we've got a balance sheet so as we let more treasuries mature and they have to find their way into private hands, then term premia are going to change. But what's the demand for safe assets going to look like? This is going to have a big influence on different aspects of that asset pricing and how that plays out. We really only control that short term part.

Charles Evans:

We're focused on maintaining monetary financial conditions to support the economy at maximum and inclusive employment and also price stability. So we're going to keep true to that. And if we have to raise rates a little bit more, that could have an effect. If we raise it too much, then you might see long term rates fall if they get nervous, if it depends on things around the world. If the rest of the world doesn't catch up to us or if there's unevenness there, there might be some benefits in terms of trade, but longer term we're all better off if the whole world is sharing in this growth experience. And so there's a whole lot going on and how asset values are supported or change is going to respond to those evolutions as well. So much, much more than just a monetary policy. That's ignoring fiscal situation.

Speaker 1:

I asked you this question last time-

Charles Evans:

Which is not my job.

Speaker 1:

Not your job. I asked this question last time, and I think it's even more relevant now. And that's really looking at the stock market. We saw it really fall at the beginning of the pandemic. But it came back very quickly and it has stayed at near record levels or at record levels, even though we've seen the rate of inflation, even though we've seen the worker shortage, even though we've seen [inaudible 00:23:47]. Are you surprised at that and why is that? And is it its own reality?

Charles Evans:

It's not my forte to really make comments about how assets are valued in stocks. I'll give you a response, but I've always been influenced by my father and I'm a buy and hold person and all of that. So just let that take place. I will say that, obviously the setting of interest rates have some effect on stock prices, either through various investors ability to lever up and put more pressure on things like that. Just the fact that discounting of future cash flows takes place differently with the low interest rates, that can lead to higher values. This can also lead other types of commodity assets like gold, but not necessarily gold these days, but something... If interest rates are really low, that could drive up a level valuation for something and then from there on, it grows at that safe interest rate type of thing. But these one off adjustments to either a radical changing of monetary policy or a structural change in the environment can have these implications.

Charles Evans:

Look, I think firms have been very savvy throughout all of this. Everybody was very nervous when the pandemic hit. We didn't know what it was, we didn't know how pervasive it was going to be. Fortunately, the government response, pluses and minuses, but we've been working really hard to keep people safe. Businesses found ways to keep their workers safe, because you have to in order to deliver. I think everybody kept an eye on their costs. You got to right size the company for what you might be facing there, right? So I think early on, businesses tended to do well by making sure that their costs didn't blow out more than they had to. Then revenues increased if you were in the right sector, right? So if you're in a goods producing sector, it's great. I still remember, my older brothers in the furniture business, a lazy boy furniture franchise and I think at the outset he was extraordinarily nervous because who wasn't nervous.

Charles Evans:

And then all of a sudden you realize people are buying furniture because they're going to be spending more time at home and that was good for business. And so that happened to work out. But if you're in the restaurant business and just opened three or four restaurants, not so good. But businesses by and large took advantage of the opportunities that they had. They continued to sell things. Earnings are good, that's going to increase asset values. I think that they're very natural explanations for these valuations. I think you got to go back to the 2017 tax act, which also benefited certain types of activities and whatnot. So that's had level effects on things like that. And by large, the fiscal support was good and that kept the economy going. So that was an important part of it. A lot of things have come into play and so that certainly corresponds to tremendous amounts of rationale for those valuations. There's always fluctuations that I can't explain or necessarily understand. That's why buy and hold is like okay, I'm a long term investor.

Speaker 1:

That makes it easier. I have three or four questions around this topic. And one is that, a Professor Spiegal, who said it back last year, that increasing the money supply over 30% would most assuredly create inflation of a similar amount over a certain amount of time. At that point, you guys are now saying it's a surprise. Why is that? There were people who were predicting this. How would you respond to that?

Charles Evans:

There are people who've been predicting inflation for a very long period of time. If you start pointing to changes in the money supply, that's not been very successful every now and then I guess, because we blew out our balance sheet and that did have an effect on some monetary aggregate like that. Initially when that happened, inflation didn't increase. But then when the supply chain broke down, prices went up. So I think the test of a prediction like that is... I don't want to make it too easy or punt too much for myself, but it's really what's inflation going to be in 2023, '24. I don't think that monetary policy is going to be able to get on top. For monetary policy to drive the inflation rate lower, we're going to have to reduce households and businesses ability to have access to finance so that they slow down their activities and it would be associated with a slower growth economy. That's the most typical way that the fed would engineer that type of change in inflation. Even that, the Phillips curve's pretty flat so that doesn't necessarily work very well or very quickly.

Charles Evans:

Larry Summers has pointed out many concerns that he had before the supply chain really broke. And he said there was a one third probability that the fed is going to overreact to things and cause a recession. I think we're going to navigate the current circumstances carefully, that the real side of the economy is going to respond well, but it will take time. And these large inflation, unacceptably high on inflation rates, are going to come down and they're going to be more in a range that we can talk about two and a half, even three, but I don't think it's going to be like that. I think that the inflation rate in 2023 is going to be an important indicator of how much of this was real, how much this could have been that 30% increase in money that the critic suggested. I don't have much confidence in that latter explanation, but I have been surprised so my confidence level is not as high as it was some years ago when I'd seen year after year of underperforming on inflation.

Speaker 1:

Another question from our audience saying that, what you said before is that fiscal policy is not your job, but obviously managing the money supply is well. What levers are you able to pull if the fiscal policy really remains unchanged?

Charles Evans:

So fiscal policy's going to change because the legislation had certain amounts of support embedded in it and that's rolling off. And so that having a depressing effect on consumers. And so that by itself is going to reduce... If part of the supply chain problem is too many goods flowing through the chain relative to the capacity that we have, some of that is going to be the fiscal stimulus is not going to be as supportive of that. So we always have to be mindful of, we don't decide fiscal policy, far from it of course, but we respond to what does that mean for the economy? And in a world where inflation is much closer to a satisfactory level, why should the fed decide that more employment is inappropriate? We should have as much employment and it be as inclusive as is possible.

Charles Evans:

We do have to be mindful though that we need to preserve price stability. And normally the range of inflation variations is substantially less than what we're experiencing right now. So I readily admit, I have to be humble about this, I did not expect the inflation rates that we're seeing and they have lasted longer than I expected. And because they've lasted longer, I know that we need to take action more quickly than I would've guessed last year for this year. And so I've responded to that. And as we see longer lingering inflationary effects or broadening or anything like increases in inflationary expectations that are likely to be sustained, that would call for additional action, but we have to be patient still and follow the path that we've laid out, which is one of removing accommodation. It's patient along that path.

Speaker 1:

You said you've been in Iowa, you were obviously spoke to a group here this morning of executives. What are you hearing from them is really their number one concern? I assume it's labor, assume it's supply chain. What are you hearing specifically from executives throughout our region?

Charles Evans:

Labor is an issue that's always mentioned. The supply chain, how the particular business fits into the supply chain and where they're challenged. I've talked to a number of business people and our directors and advisory council members and people I talk to on the phone periodically, and in many cases, business is good in the sense that earnings are high, they've relatively got control of their costs. Now suppliers are showing up and they're announcing price increases and all, so that's really hard. But they're also able to pass those along at the moment and earnings are good now. So that's a good environment. They're really focused on how they keep that going or how they finish off something. So we could sell so much more product to the auto companies if they would only take it. But the auto companies have to get the semiconductors in order to finish off the cars and everything. So it really has to fit together. And so you hear a lot of commentary that fits into that storyline, that we're challenged.

Charles Evans:

If you're a supplier, you might be challenged even more. And it depends on your labor market. And then wages of course are going up. And wages over a long period of time, have not gone up as much as capital income. So labor share has been declining over a long period of time. It's somewhat natural for that to make some adjustment over some period of time but anything that happens quickly of course, is very difficult for any business entity or households. So those are some of the challenges that we face. And of course, inflation. Prices are rising. My suppliers are showing up and I've got a contract and they're supposed to be delivering but they just say, don't have it to deliver. Here's what I can give you. And by the way, here's the price and if you don't like it then there's a lot of other people who will take it, so what do you want? It's not surprising that everybody's going to give me the product. I don't know what the business discussion will be 1, 2, 3 years from now. It'll evolve.

Speaker 1:

All right. I just have a few minutes left. I want to ask from what you said in terms of your support for what's going to happen over the next few months. What are you going to be watching specifically? What specific things are you watching and where will they have to be?

Charles Evans:

So inflation's number one. Seeing meaningful evolution in the real factors that I think are underlying the high inflation numbers. If I don't see that evolution, then I'm going to have to come around to the idea that this is broader based and it could be inflationary and more nominal and more monetary policy. Maybe it's a bit of that 30% increase in the money supply or whatever factor that is, that does that. I'll be mindful of trying to disentangle that labor force. Labor force issues, bringing people back into the workforce is just an important part of the puzzle. And so there are just a lot of people who continue to sit out. I think they might be nervous, I think that their home situation might be different than it was before.

Charles Evans:

They might have enjoyed more generous government benefits, not so long ago and even though those have stopped. Although you do have the childcare tax payment as well, that's likely to stop as well. But that changes the dynamic. I think labor force is very important. Wage increases and benchmarking those against productivity improvements so that we can see whether or not the wage increases are distinctly supportive of higher inflation or it's an adjustment, businesses are able to adjust, maybe business markups adjust also to absorb. Those are some of the things, but basically it's getting at the supply chain and how that fits.

Speaker 1:

Hopefully you and I will be sitting here one year from now, having the same conversation. Do you have any predictions as to what we'll be at and where we'll be in terms of inflation? And you already talked about hopefully between and obviously no higher than three. What else do you think happens this year in terms of the economy?

Charles Evans:

So I think by the end of this year, the economy will still be growing nicely. I think the unemployment rate will be down around three and a half percent. We just went underneath 4% and I think that labor force issues, and I'm hopeful that more employment, more people will come in enough so that... It could go down even lower than three and a half percent, that might be reflective of people not coming enough into the labor force. But labor market, I think there will still be opportunities for people who want jobs. I think that'll be a good thing.

Charles Evans:

I expect that the tide on inflation will have turned and so I'll feel more comfortable thinking that the fed is on the right path with its adjustment on inflation. Of course, if inflation is headed for a higher number by the end of this year, I would also expect that the funds rate path would be, if not steeper by that time, the expectation for future increases would be higher. I think we're on a path that I would expect that would lead us to a more neutral setting of monetary policy first, before we decide, oh my gosh, we really need something restricted because things are out of hand. I think it's going to take a couple of years probably to get to neutral. But that could be accelerated too if necessary. It all depends on the data and how things are playing out. So it's a trick question.

Speaker 1:

Well no, see but I recorded it and I'm going to play it next year. So we'll make sure that we hold that against you.

Charles Evans:

Good luck getting me to answer, but okay.

Speaker 1:

Again, I appreciate your time as always, Charlie. Thank you.

Charles Evans:

Thank you, Mark. It's really pleasure to be here. Thank you for inviting me.