Fed Unfiltered, Transcript
2/13/22 – Mary Daly, Interview: CBS Face the Nation

Speaker 1:

Inflation went up again in January and there is growing pressure on the Federal Reserve to increase interest rates in order to cool down the economy. Mary Daley is president and CEO of the San Francisco Federal Reserve Bank. Good morning to you.

Mary Daly:

Good morning.

Speaker 1:

We say consumer prices are at the highest level in 40 years. I mean, if you look at certain items like car prices, they're up more than 40% compared to where they were last year. Energy's up 27%, bacon up 18%. I mean, you've said inflation is going to get worse before it gets better. What do consumers need to be bracing for and what needs to be done to get this under control?

Mary Daly:

So first it is very true that inflation is too high and is really hitting the pocketbook of average Americans across a wide range of categories. The Federal Reserve is actively focused on this. As you know, we've talked about changing our policy stance. Raising rates as early as March, which would certainly be something I would support barring any surprises. That's really meant to take some of the accommodation out of the economy and help inflation come back down to a place where people don't have to worry about the price of bacon or the price of used cars.

Mary Daly:

But as you know, we're not the only part of this puzzle. We also have to get supply chains repaired and we have to get back out of our homes after COVID and start talking about service consumption, not just goods and goods consumption.

Speaker 1:

You said you do not favor a half a percent increase in interest rates in March. What do you favor?

Mary Daly:

So I look at the data and I see that it is obvious that we need to pull some of the accommodation out of the economy. But history tells us with Fed policy that abrupt and aggressive action can actually have a destabilizing effect on the very growth and price stability we're trying to achieve. So what I would favor is moving in March and then watching, measuring, being very careful about what we see ahead of us and then taking the next interest rate increase when it seems the best place to do that. That could be in the next meeting, or it could be a meeting away. But either way, the most important thing is to be measured in our pace and importantly, data dependent.

Speaker 1:

Measured in your pace. The financial markets are anticipating six to seven rate hikes in the year ahead. Is that the kind of tempo you foresee?

Mary Daly:

Well, I think it's too early to call. I mean, you talk about it. We have Ukraine right now, geopolitical risk. We are just coming out of our homes after Omicron. We hope that the virus will stay at bay, but we have to watch. We have another print before the March meeting on both the employment, the jobs report and inflation.

Mary Daly:

All of those things are very important before we make any pronouncements about exactly what we'd be doing on this year. I think what every American wants to know and deserves to hear is that we're on this and we're going to take those data in and get the accommodation right sized for the economy.

Speaker 1:

So I mean, one of your colleagues out of the Kansas City Fed has said current monetary policy's out of sync with the economy. The Fed's still injecting some emergency support measures here because of the pandemic. Can you continue to do this when inflation is at seven point half percent? Is this just about rate hikes? Does something more need to happen?

Mary Daly:

That's a terrific question and you're right. We are continuing to taper our asset purchases, but those will be complete by the early March and markets understand that we're just doing that to ensure that we have a predictable decline in our purchases so we don't dislocate financial markets.

Mary Daly:

If you look at financial markets, they've already priced in the removal of that part of our accommodation, that injection as you referred to it. They've also priced in rate increases over the coming year. So I think markets and households in all of my context in the business community that I speak to regularly, they understand that the Fed is moving on the policy path and adjusting it so that we get it right sized for the economy we have.

Speaker 1:

You mentioned geopolitical risk. The Federal Reserve chair has mentioned the crisis in Eastern Europe as a potential risk. How should people at home understand that? I mean the White House is vowing to wage financial war on Russia here. They're cautioning US businesses to be prepared about potential blow back from cyber attacks. How do you foresee this playing out?

Mary Daly:

Well, anytime, as you know, that we have geopolitical risk it creates uncertainty and Americans are already facing quite a bit of uncertainty. Uncertainty about when COVID's ever going to leave our shores, uncertainty about how the economy's going. So this is just another factor in uncertainty we know affects consumer sentiment and ultimately affects consumer demand.

Mary Daly:

So what I think businesses, and I know businesses in my district are thinking about is cautious optimism. They're bullish on our US economy. They're bullish on coming out of the pandemic strong, but they're also very aware that we're not out of concerns yet and we have many things of in our future that we have to balance.

Speaker 1:

So is that an argument against taking emergency action before March? Is that a prediction that energy prices... How do you see the risk that we're facing right now?

Mary Daly:

So I see risks on both sides. If we act too aggressively, then we could actually add to American's uncertainty. Now they have to worry about whether the Fed is being too aggressive. If we act too slowly, then of course we have accommodation that's too much for the economy. So that's why this balanced approach... We might look at it, I see March as an appropriate time to raise the interest rate and then we have to take in all of the information that you've mentioned and make the right decision at the right time for the economy.

Speaker 1:

Mary Daley, thank you very much for your analysis.