**Fed Unfiltered, Transcript**
**6/28/22 – John Williams, Interview: CNBC**

Interviewer:

Is recession a base case of yours, is it a probable case? Where do you put the probability of recession right now and how does the Fed avoid it?

John Williams:

Well, first of all, the recession is not my base case right now. I think the economy is strong. Clearly, financial conditions have tightened and I'm expecting growth to slow this year quite a bit, relative to what we had last year and actually slow to probably one to 1.5% GDP growth for the year. But that's not a recession, it's a slow down that we need to see in the economy to really reduce the inflationary pressures that we have and bring inflation down. Now you ask, is in terms of probabilities. Of course, it's very hard to predict a recession. They occur for lots of different reasons. And from my point of view, I think we do have a path forward to bringing inflation down as we need to do and keep the economy growing. But there can be shocks and events that can happen that would not cuts off track for that and obviously have to be on the lookout for that. But right now, my view is the base case is we're going to have lower growth, but still growth this year.

Interviewer:

Is it possible the shock has already happened that could push us into recession?I.e., for example, the combination of the COVID crisis coming out of it, as well as what happened with Ukraine and the invasion there?

John Williams:

Well, we watch all the indicators very carefully and financial conditions, obviously commodity prices, and global growth. Because I do think some of the downside risks to the USA economy are really could come from abroad, partly due to the invasion of Ukraine. So we we're watching that data carefully, watching the effects of the tightening on financial conditions and higher oil prices on the economy. Right now, consumer spending still looks to be on a positive track. We are seeing slowing in some sectors. We're seeing slowing in the interest-sensitive sectors, like housing and business investment, but that's comes with a territory of somewhat tighter financial conditions.

Interviewer:

John, this is a difficult question to ask, but I'm just wondering, would you say if you had recession as your base case? Because in the sense the Fed is driving the car and to say "Are you going to have a recession?" is like asking the driver of a car, "Are you going to have an accident?" And of course, you'd say no.

John Williams:

I do think transparency is really important.

Interviewer:

Yeah.

John Williams:

You've seen a significant shift in the FMOC's projections on growth.

Interviewer:

True.

John Williams:

And now we're seeing in our projections and I very much agree with this, the unemployment rates actually going to be moving up over the next few years. So that's not a recession, but I think that's my base case is the economy slows enough to see the unemployment rate get up to about a little over 4% over the next couple years. So that is how I see it. Of course, there's a great deal of uncertainty around that outlook and if that changes, I'm going to change my projection.

Interviewer:

John, one of the reasons I wanted to have this interview, we normally talk in December, but I thought now is a really important time to talk is because you're an expert on the idea of the neutral rate of monetary policy. Can you tell us where that neutral rate is? Does higher inflation now mean the neutral rate is higher and you need to aim higher because of that?

John Williams:

Well, there's lots of ideas about the neutral rate and how to think about it. I tend to focus on the longer run neutral rate, which is really determined by things like demographics and productivity growth and things like that. I don't think that longer run notion of a neutral rate has changed in the last couple years. I still think it's quite low.

John Williams:

But to getting to your point, the neutral rate is really about a real interest rate.

Interviewer:

Right.

John Williams:

It's about the nominal interest rate, less inflation. So to your question, given that inflation and inflation expectations are higher than they were, of course, the nominal neutral rate or the interest rate that we need to have to bring equilibrium to the economy is higher while inflation is higher. And that's an important ingredient in why we need to raise interest rates quite a bit this year and into next year, because we didn't need to get only nominal interest rates higher, but we need to make sure that the real interest rate, the interest rate adjusted for inflation, are above zero and really achieving our goals.