Fed Unfiltered, Transcript
6/3/22 - Loretta Mester, Interview: CNBC

Speaker 1:

Thanks for joining us, President Mester.

Loretta Mester:

Thanks. Thank you.

Speaker 1:

Great.

Loretta Mester:

Thanks for having me.

Speaker 1:

So let's talk about that jobs report. How do you view it? What I said this morning for what it's worth is that every report these days is viewed as an inflation report even if it's a jobs report.

Loretta Mester:

I mean, it was a strong report. It shows that there's still strength in labor market, which is a good thing. We want to see some moderation in both activity and growth and in the labor market to cool things off a little bit. And so I think that having the number come in, the headline number come in a little bit lower than the previous month is a good thing, but it's too soon to tell that's going to change our outlook or my outlook on policy. I mean, the number one problem in the economy remains very, very high inflation, well above acceptable levels.

Loretta Mester:

And that's got to be our focus going forward. And we're committed to doing, using both our tools to get that inflation rate down. So the moderation in the wage growth, that's not a bad thing. That's a good thing. It shows that we're not in a wage price spiral, but we need to see more consistent, tempering of both the underlying demand, which is outpacing supply before we can get those price pressures down.

Speaker 1:

So you brought up the one aspect, the inflationary aspect of the report, which is what happens with wages. Let's talk about participation. You have 330,000 people come in, you have this upward adjustment, obviously in January of 1.3 million people. I don't think that's telling us where do you stand? Have you given up the hope that there's going to be this influx of workers into the workforce, that's going to solve the inflation problem or at least loosen up the job market?

Loretta Mester:

I mean, I think we're going to see some more participation come back, but the downward trend, the long run trend at least prime age is down. And we're not that far away from that. So I've never been of the view that we're going to have a savior come in and bring everybody back to the labor market. We know that people have come back, we've seen labor force participation increase, and that is one of the things that's going to be happening over the balance of the year.

Loretta Mester:

We're going to have both demand adjusting that excessive demand, and we're going to have something go on the supply side. It would be great if we see labor force participation moving back up, and it would be great if some of those supply constraints ease because that all help rebalance demand and supply, but we can't rely on the supply side doing the work. That's why we need to use our tools and we're committed to doing so. And we've already started that process.

Kelly:

President Mester, it's Kelly here. And to pick up on that point, why not try to get to neutral this year? I mean, if it's going to take the rest of the year into next year with such strong trans nominal income trends growing at almost 10% aggregated based on this report shortages. Now we're worried about on the energy side of the equation sure exacerbated by Ukraine, but also just driven by demand relative to supply. So why not take the funds rate up 75 basis points or a full point, or try to get more to neutral in the next couple of months?

Loretta Mester:

Well, we're on a path to bring the funds rate up quite a bit. And so as the chair indicated where he is another 50 at the next two meetings, I think that's appropriate. I think we've got to be moving rates up and on a path and be intentional about it and being consistent with it. And we do know that the economy is having pressures that are exogenous to monetary policy happening as well.

Loretta Mester:

So really the process is bringing interest rates up, keep that going, look at how demand is reacting to that. We've already seen tightening of financial conditions and that will help temper demand. We know that things are going to happen on the supply side. We know war in Ukraine has really raised a lot of commodity prices, including energy. And we have the lockdowns, the COVID lockdowns in China, which also has disrupt supply chain.

Loretta Mester:

So again, it's both supply and demand moving. And I think the Fed has shown that we're in the process of recalibrating our policy to get inflation back down to our 2% goal. And that's the job before us that we're going to use our tools to do that. Now, it will take some time to get to that 2% goal. So what I'm going to be looking for is, those monthly readings on inflation to see that they are starting to come down. I don't want to declare victory on inflation before I see really compelling evidence that our actions are beginning to do the work of bringing demand into better balance with aggregate supply.

Speaker 1:

President Mester, you're now in the tag team portion of the interview, if you haven't noticed yet. So that my turn, I want to ask you about some comments that have been made. Elon Musk said, "Things are about to get super bad." Jamie Dimon from JP Morgan said, "We're about to have a hurricane here." And I actually have three questions that come off of this.

Speaker 1:

First of all, how do you respond to CEOs who say something like that? The second thing is, is it possible that we end up talking our way into a recession in the sense that these guys have their fingers on a variety of key economic activities? And if they pull back, well, then there's going to be a pullback. And then obviously the third question is, what is your outlook in terms of avoiding super bad and a hurricane?

Loretta Mester:

Right. So I don't see a hurricane, but we have to realize that the risk of a recession have gone up. I mean, we're in the midst of recalibrating our monetary policy. There are a lot of other things happening in the economy. We know growth in Europe is slowed. War in Ukraine is affecting the economy. So we have to be eyes open that the risks have gone up.

Loretta Mester:

Nonetheless, I still think of good case can be made that we can moderate demand with our policy tools and then get price pressures back contained, and keep longer on inflation expectations contained, and really get back to price stability over time. So I don't necessarily... I always listen to everyone in the economy has an opinion and you're right, people who are running companies. I listen to that. We have a lot of business contacts that we contact all the time to see what they're seeing and what they're doing in their businesses.

Loretta Mester:

I can tell you from the fourth district that many of the businesses, they're a little more pessimistic in terms of just the way everyone is, the uncertainties around the outlook, but they still have a book of business and they're still facing supply shortages, because they want to do activities. They're still facing hiring constraints that they really want to hire. So again, there hasn't been really a change in the underlying demand momentum in the economy, but it is a struggle to get that supply and demand back in balance. And so that's why recession risk have gone up and we have to be cognizant of that. And we want-

Shepard Smith:

Shepard Smith here. Thanks for watching CNBC on YouTube.