

Fed Unfiltered, Transcript
8/25/22 – Patrick Harker, Interview: CNBC

Steve:

Hey, good morning, Carl and David. Pleased to bring you Patrick Harker, the President of the Philadelphia Fed as one of our first-on interviews here from our coverage from Jackson Hole. President Harker, thanks for joining us.

Patrick Harker:

Thanks Steve. Thanks for having me.

Steve:

Great. So I want to start off checking a couple of critical boxes that are out there right now in terms of what the market wants to know. How high are you going with rates? What's your best guess?

Patrick Harker:

Yeah, I don't know exactly yet because the data needs to let that play out, but we need to get to a restrictive stance, which we'll do by the end of the year. And then we need to see how things turn out. That is, we don't need to rush way up and then way down. We need to go up and sit for a while and let things play out. We talk about long and variable lags. We actually have to believe it and let this play out a little bit.

Steve:

When you say not going down, you're pushing back a little bit against how the market is priced right now, which of course in the last week or so, things have gotten a little tighter. But you have the market, if you look at the Fed rate outlook, it goes to 375 now, but then it comes down. Do you think those cuts that are built into the market structure are wrong?

Patrick Harker:

Well, I can only speak for myself. I'd like to see us get to say above 3.4. That was the last median and the SEP. And then maybe sit for a while. But if the data says we need to keep increasing, we keep increasing. We've got to get inflation under control. That is job one.

Steve:

What would you be looking for? What would be your metric for inflation being under control?

Patrick Harker:

Yeah, not only just the core measures, but also the distribution. One of the things I really focus on is, how many goods and services are above 5%, 4%? As we start to see that shrink back to where it was in the beginning of the pandemic, when it was only used cars and some other things, you start to feel better about where we are in the economy. We're not there yet.

Steve:

So sometimes, Patrick, I just have to do my job. I think it's a stupid question. The market is obsessed over this. 50 or 75 in September? And what's the difference?

Patrick Harker:

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Yeah. So I want to see the next reading and then decide.

Steve:

Next inflation reading?

Patrick Harker:

Yeah. Next inflation reading. That said, I want to put this in a bit of a historical context. Since 1983, the Fed has raised rates 86 times. 75 of those were under 50 basis points. And I think we have to recognize that a 50-basis-point move is still a substantial move. So whether it's 50 or 75, I can't say right now, but let's not think that 75 is not a substantial move. 50 is a substantial move.

Steve:

Two more quick questions, and then I don't know if Carl and David want to weigh in here. Is this a recession or not a recession? And does it matter? Does it matter for policy if it indeed is a recession?

Patrick Harker:

I think right now in terms of policy, we need to get inflation under control, no matter what. And so I don't know if it matters a whole lot whether we call the recession or not, technically. It is an odd recession, if it were a recession. Right? And given the strength of the job market. So I don't think we can call it a recession, but that's not my job. That's the NBER's job.

Steve:

I did some work on this. And if this were a recession, typically we would be down 700,000 jobs by now, and we're up 3.2 million. So that's a 4-million-job swing from being a recession, so it's one heck of a recession if it is.

Patrick Harker:

Yeah. It doesn't feel like one in that sense.

Steve:

That brings me to an area of expertise that I've come to you over the years about, which is on the jobs front. Where are the workers? Are there more coming back or are we in a permanent mode here of restrained labor supply?

Patrick Harker:

Go back before the pandemic. We had tight labor markets then. I think what's worth remembering, we had some structural problems even before the pandemic. The pandemic just accelerated retirements, other choices people are making, plus think about where we are with foreign-born workers. We're about 2.4 million workers shy of where we would've been with trend. That's a big number in the US economy, and we're missing those workers.

Steve:

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So when I talk about this, and I have long maintained that one of the best cures for inflation is immigration, but people come back and say, "What about illegal immigration? Does that not solve the problem?"

Patrick Harker:

Look, I don't opine on whether legal or illegal. That's in the hands of Congress and the administration. I'm just talking about the workers. We need more workers. Obviously, we want them to be legal. This is America. We want people to abide by the law. But I talk to contact after contact after contact. They are shy these workers and they want some reasonable immigration policy to fix the problem.