Fed Unfiltered, Transcript
8/4/22 – Loretta Mester, Interview: 90.5 WESA

Speaker 1:

The Federal Reserve plans to keep raising interest rates in its effort to fight inflation. Loretta Mester, the president of the Fed's bank in Cleveland, says those rate hikes are necessary to cool consumer demand. Mester was in Pittsburgh, Thursday. She spoke with 90.5 WESA's An-Li Herring about how long the battle against rising prices could last.

An-Li Herring:

The overall mismatch between supply and demand is what's driving much of the inflation increases we've been experiencing. Is there anything the Federal Reserve can do to alleviate supply shortages?

Loretta Mester:

Our tools of monetary policy work on the demand side. We have to take the supply conditions as given and we know that supply has been very constrained, partly because of the pandemic restrictions, and just the reopening of the economy has been a challenge. And so, what we're doing with monetary policy by raising interest rate is that it affects financial conditions and therefore helps moderate demand. And so, we're working on the demand side of the economy to try to bring it back into balance with that supply side. Our tools will not really work on the supply side.

An-Li Herring:

Naturally, workers will demand higher pay as prices go up. But if wages spiral upward, the economy heats up even more leading to more inflation. What advice do you have to people who want to be paid more?

Loretta Mester:

Yeah. I mean, I think it's natural that people want to get paid more and that firms want to have workers. That's how markets work. I think right now what we're seeing is, again, demand for employment well out-serving the supply. And so, that's putting upward pressure on wages. The level of wages though I think is really what you're asking about. Yeah, there're some jobs where the level of wages went up and that's fine, but that's not the inflationary spiral that you're talking about. I don't think we're in a wage price spiral right now, but again, wage increases that we've seen aren't really consistent with price stability. And so, while we are increasing our Fed funds rate, that should help to alleviate excess demand in the labor market and it should also help to bring price pressures under control.

An-Li Herring:

How and for how long do you expect rising inflation to impact American households?

Loretta Mester:

Yeah. Right now, we're using our tools to get inflation first stabilized and then on this, I call it a sustainable downward path, it will take some time for inflation to come back down just because of the nature of what really affected the inflation rates, including the supply side of the economy and demand. So it's going to take some time, but we're really committed at the Fed to doing what we can do to put it on that sustainable downward path. It will perhaps take another year or two to get back to 2% inflation, but we will see inflation moving down over that time to more closer to our goal.

An-Li Herring:

In the meantime, what can households expect the experience to entail?

Loretta Mester:

Yeah. I mean, you're pointing out something that I am very concerned about is that this inflation is a real problem for many people, many households, and it's disproportionately, of course, falling on lower income households because it was disproportionately on essential items at the beginning. But it's very clear to me that if we want to sustain healthy labor markets, we've got to get back to price stability. I understand this is very painful and all I can do is commit to do what I can with the monetary policy tools at our disposal to get price control back, get price pressures under control, get inflation under control, and bring it back down to our goal of 2%.

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That was Loretta Mester, President of the Federal Reserve Bank of Cleveland, speaking with 90.5 WESA's An-Li Herring.