

Fed Unfiltered, Transcript

9/26/22 – Susan M. Collins, Interview: Greater Boston Chamber of Commerce

James E. Rooney:

... from Federal Reserve. I'm Jim Rooney, president and CEO of the Greater Boston Chamber of Commerce. I want to welcome you to this special event presented in partnership with the Federal Reserve Bank of Boston, featuring Boston Federal Reserve Bank president and CEO, Susan M. Collins. Susan, welcome to Boston.

James E. Rooney:

Before I introduce Dr. Collins, I want to wish a happy New year to our Jewish community that is celebrating Rosh Hashanah. We have the honor of hearing from President Collins in her first public address since assuming her role as head of the Boston Federal Reserve Bank this past summer. At the end of the program, after Dr. Collins makes some remarks, we'll sit down and have a chat. For attendees and those in the virtual audience, if you'd like to submit a question for President Collins, we'll try to work those in near the end of the program. You can email bostonchamber.com, and we'll try to work those in.

James E. Rooney:

For those of you in the room, there's cards at the back of the room that you can put your question on, and someone will get those up to me. Now, I'd like to introduce Dr. Collins more completely, is president and CEO of the Federal Reserve Bank of Boston. Dr. Collins oversees all of the bank's activities including economic research, analysis, banking, supervision, and financial stability efforts, community economic development activities, and a wide range of payments, technology, and finance initiatives. She is an international macro economist with a lifelong interest in policy and its impact on living standards.

James E. Rooney:

Earlier in Dr. Collins' career, she spent 16 years living in Massachusetts, first as an undergrad and grad student at Harvard and MIT respectively, and later as a professor at Harvard. Most recently, Dr. Collins was at the University of Michigan first as dean of the Ford School of Public Policy, and eventually as provost, the chief academic and budget officer for the university. We're thrilled to have Dr. Collins back in Boston. Please join me in welcoming Dr. Susan Collins to the stage.

Susan M. Collins:

Good morning everyone, and thank you so much for joining us here today. I'm just absolutely delighted to be here with you for my first public remarks. I did want to start by thanking Jim for such a kind introduction, and also with the team at the Chamber for inviting me to make remarks as part of this joint event, and also for opening things up to everyone who wishes to tune in or who might like to do so going forward. I also want to give my absolute warmest wishes to those who are celebrating Rosh Hashanah, reflecting on the year that's been, and thinking forward to the year ahead.

Susan M. Collins:

We did make sure that the video would be posted and available online for anyone who's not able to join us right now. I'd also just like to take a moment to congratulate the Greater Boston Chamber, which has had a longstanding focus on issues that are related to our economic environment. That includes expanding opportunities for people throughout the region to really contribute and to prosper regardless of gender, of age, of race, of background, of regions. So, that's something that we congratulate them on. Those kinds of opportunities are really key to a vibrant economy.

Fed Unfiltered, Transcript

9/26/22 – Susan M. Collins, Interview: Greater Boston Chamber of Commerce

Susan M. Collins:

Then we also very much appreciate the Chamber and a number of other partners who are participating in the work that is underway to assess and address barriers to the creation of generational wealth in communities of color. Thank you for being such a wonderful partner to the Boston Fed in so many different ways. My comments today will touch on monetary policy as well as the national and regional economy. I'd also like to share just some very early observations about this very, very special institution with a public mission, and in many ways that we work collaboratively to foster a vibrant, inclusive economy that works for all.

Susan M. Collins:

As Jim mentioned, after my remarks, I look forward to your questions and then taking some from the audience. So first, by way of introduction, I'll just very briefly say a bit about me. My parents were both from Jamaica, but I was born in Scotland, and I grew up in New York City. I always say maybe not much of a surprise that I became an international economist, because you have all of those perspectives throughout your background. That's something I've really brought with me. After grad school, as Jim mentioned, I did work as a professor, a researcher, a policy advisor, an institution builder, both here in Boston and also in Washington D.C.

Susan M. Collins:

As Jim mentioned, spent 10 years as dean of the Ford School of Public Policy at the University of Michigan, and then most recently as provost, the chief academic and budget officer of the university. I also had the opportunity to serve for nine years on the boards of the Chicago Fed. That really broadened my understanding of the breadth of work that the Federal Reserve system does to foster a vibrant inclusive economy, and to really improve people's lives in a variety of different ways. That was very formative for me in terms of how excited I am to be in this role.

Susan M. Collins:

This role here, as president of the Boston Fed, really does combine, I would say, three key things about me. One is a background as a policy-focused macro economist. Another is a commitment to education. While there aren't students at the Boston Fed, I actually think there's a lot that we can and need to do in terms of helping people understand our work, and helping both to learn from and learn with one another in a variety of spaces, so I do see an educator hat as part of the role. Then also experienced leading complex organization with a public mission, that's very fundamental to the Boston Fed and the Federal Reserve more generally like it was to a large public university.

Susan M. Collins:

I also want to say that I recognize that I am the first black woman to lead a federal reserve bank, and I see that as a privilege. It's also a responsibility, and it's an opportunity. In particular, it's an opportunity to engage even more broadly with constituents across our region, and to expand understanding of how our economy works and importantly how it could work better as we think more broadly about fostering a vibrant inclusive economy. I'm really excited to be here to continue and build on the Boston Fed, our bank's work, including with groups that have traditionally been underrepresented in leadership and policy roles.

Susan M. Collins:

Fed Unfiltered, Transcript

9/26/22 – Susan M. Collins, Interview: Greater Boston Chamber of Commerce

Our economy, we need best ideas, and we need the best energy and creativity and effort from everyone. That's something I'm very committed to. Now, I'd like to turn to some high-level perspectives on current economic conditions and monetary policy. I do need to make that disclaimer. These views are my own and do not necessarily represent those of my colleagues either at other reserve banks or at the board in Washington. Congress has charged the Federal Reserve with a dual mandate of price stability and maximum employment. We define price stability as 2% inflation, which is a low level where consumers and businesses don't have to focus on protecting themselves from eroding purchasing power.

Susan M. Collins:

Maximum employment is not quite as specifically defined. I would say it refers to the broad inclusive goal of job opportunities for all Americans. History has shown that price stability is a pre-condition to achieving that maximum employment over the medium to long run. So in important ways, those two dimensions of our mandate are intertwined. But at the moment, inflation is just clearly too high with rapidly rising prices for necessities like food, housing, and transportation. That actually disproportionately affects the most vulnerable.

Susan M. Collins:

It's also true that rising input costs and wage pressures complicate investment and planning decisions for firms. It's the fed's mandate to bring inflation back down to that 2% target. The Fed's monetary policy body is called the Federal Open Market Committee or FOMC, and policy actions taken by the FOMC since March together with guidance that's provided in our most recent projections illustrate our resolve to address the high inflation expeditiously, and prevent it from becoming entrenched in expectations. The rise in overall inflation rate after the early stages of the pandemic stems from a number of things.

Susan M. Collins:

It stems from supply bottlenecks caused by the pandemic, from the food and energy disruptions related to the war in Ukraine, and also from the very rapid economic recovery from the Covid after the Covid outbreak, which has resulted in an extremely tight domestic labor market. There's little the Fed can do to alleviate pandemic-related bottlenecks in the global supply chain, or increases in energy and commodity prices that are related to the war in Ukraine, as well as some of the global supply chain problems that contributed to temporarily high inflation. Some good news is that those are beginning to fade, but of course we don't know when the war will end or when the effects of the pandemic will fully abate.

Susan M. Collins:

Furthermore, domestic labor supply developments are also beyond the fed's control. Of course, we study those because the implications are important to understand for the broader work that we do. Aging population, lower immigration, pandemic-related health concerns, early retirements, all of those have contributed to the shortage of workers, which is part of the very tight labor market that we're grappling with at the moment. Monetary policy does, however, play an active role in affecting demand. Right now, the demand for goods and services clearly exceeds the economy's productive capacity, which is being manifested in a very tight labor market.

Susan M. Collins:

Fed Unfiltered, Transcript

9/26/22 – Susan M. Collins, Interview: Greater Boston Chamber of Commerce

The excessive labor market tightness is illustrated by historically high levels of job vacancies. There are two job vacancies recently for every one unemployed worker, and also by the inflationary push that's associated with rapidly rising wages, and the wages chasing that inflation, which is not good for consumers, for workers, or for firms. To address the situation, the Fed is raising interest rates, which slows the interest sensitive components of demand. Returning the markets for goods, services, and labor to a more stable balance is how monetary policy lowers inflation back to the 2% target.

Susan M. Collins:

I do anticipate that accomplishing our price stability goal will require slower employment growth and a somewhat higher unemployment rate. I take very seriously that unemployment is painful, and that its costs have disproportionately been concentrated among groups that have traditionally been marginalized. So, I think it's no surprise that as monetary policy moves to a more restricted stance in order to transition the economy to more sustainable labor market conditions, and to bring inflation down that there's some apprehension about the possibility of a significant downturn. I do believe that the goal, which I share with my FOMC colleagues, of a more modest slowdown while challenging is achievable.

Susan M. Collins:

There are a number of reasons to be somewhat more optimistic about the ability to achieve the necessary slowing of demand without leading to a significant downturn this time around. In particular, household and business balance sheets are considerably stronger than in previous tightening cycles, which reduces the risk of a significant retrenchment in spending and investment as interest rates rise. Labor market conditions also differ from past cycles. Firms seem to have too few workers, and we have heard lots of examples of that in the discussions that I've been having with stakeholders in the past weeks.

Susan M. Collins:

So, having too few workers and not in excess, which suggests that this time, a slowdown in activity may have a smaller impact on employment, so reducing those vacancies without requiring a large increase in the unemployment rate. Despite these potentially more favorable conditions, of course, there are also downside risks to the outlook, and I think it's important to acknowledge that. A significant economic or geopolitical event could push our economy into a recession as policy tightens further. Moreover, calibrating policy in these circumstances will be complicated by the fact that some effects of monetary policy do work with the lag.

Susan M. Collins:

I'll end this part of my remarks by reiterating my commitment to bring inflation back to the 2% target, recognizing the toll that high inflation is already taking, noting that it will be harder to bring inflation down if high inflation expectations were to become entrenched, and reiterating that price stability really sets the foundation for maximum employment that is sustainable. Returning inflation to our 2% target will require further tightening of monetary policy as signaled in the recent FOMC projections. It will be important to see clear and convincing signs that inflation is falling, and I will continue to assess the range of incoming data, both quantitative and qualitative, as inputs to my own policy determinations going forward.

Susan M. Collins:

Fed Unfiltered, Transcript

9/26/22 – Susan M. Collins, Interview: Greater Boston Chamber of Commerce

Now, I'd like to turn briefly to the New England economy. Of course, like everywhere, there are challenges, but I have to say the mix of just cutting-edge work and the dedicated smart people here who are engaged in it really do make this region a treasure nationally and a powerhouse internationally as well. I'd like to say just a bit more building from both statistical analyses and what we hear from our stakeholders. I know that some of the themes that I'm going to mention, I'm sure, will be very familiar to many if not most of you.

Susan M. Collins:

Among the strengths, I'll highlight the region's collective brain power. It's diverse and skilled workforce, an ecosystem of innovation, the world class institutions and organizations in so many fields, notably education, health, technology, and finance, but others, of course, as well. We have a vibrant non-profit cultural and public policy sectors across the region. As we all know, the geography and the physical features make New England just an absolutely wonderful place to live, to locate a business, and to visit. Last but not least in this, of course, partial list, job opportunities historically have been plentiful in our region.

Susan M. Collins:

Of course, there's variation by area. Also, I'll note that the high unfilled job openings at the moment do factor into the region's economic challenges as well. So in terms of some key challenges and opportunities, I have just heard repeatedly about the cost and availability of housing. House price and rent increases have been substantial. Housing affordability, I've heard from many, really endangers our ability to attract and retain the workers that we need for our region's economy. In addition, there are pockets of the region that face persistent social and economic challenges.

Susan M. Collins:

There are concerns about the reliability of key services that are essential to participating in the job market such as dependent care and transportation. New England, like many parts of our country, is also challenged by a reduced labor force participation, and demographic factors, including the net aging of the population, contribute to lower labor market participation, and have implications for demand and supply of goods and services. The New England region is aging a bit faster than some other parts of our country.

Susan M. Collins:

Many of these challenges are really the purview of elected leaders and fiscal policy makers, not monetary policy. At the Fed, our commitment to a vibrant, inclusive economy and financial system leads us to contribute as objective researchers and at times as conveners bringing attention to cross sector opportunities. I want to talk a bit more about some of that role. So with the fresh eyes of someone who's just been immersed in this organization for a few months, I also want to share some early observations about the Boston Fed, its roles, and some of the things I'd like us to prioritize and build on going forward.

Susan M. Collins:

One is the tradition of analytic rigor as we study the economy. Nonpartisan, unbiased research can be a public service, and we hope is really a public service for anyone. It is widely available and particularly for those whose decisions impact others. With a commitment to pursue our dual mandate, I will continue with my team to focus on data and analysis as I participate in the FOMC as a voting member this year,

Fed Unfiltered, Transcript

9/26/22 – Susan M. Collins, Interview: Greater Boston Chamber of Commerce

and of course going forward as well. To me, statistical data is really complimented by the qualitative information.

Susan M. Collins:

The insights that stakeholders from different regions and sectors provide, they're lulled on the ground, and being able to round out and build additional context to what we're seeing in the numbers is really incredibly helpful. It's also something I really enjoy talking to stakeholders, and getting out, and something I'm looking forward to and starting to do more as I settle in. It helps us better understand the challenges and the strengths and the opportunities from the range of different perspectives. That relates to the mission of inclusive as well as a vibrant economy.

Susan M. Collins:

I'm also really committed to the breadth of our work at the Boston Fed. I have to say the range of things that we do are more extensive and varied than most people realize. The roles we play are very broad. All of them though have a strong link to supporting a healthy economy and financial system that's characterized by price stability and maximum employment. So the breadth of things that we do may be surprising, but they all directly relate to our public mission and to our mandate. I'd like to mention just two of those areas. First, there's some really exciting work underway to ensure that our country's payments infrastructure meets the public's needs.

Susan M. Collins:

Reserve banks underpin many of the ways that Americans make and receive payment from supporting coins and currencies, checks, electronic payments like the Automated Clearing House, which supports direct deposit services and systems that support wire transfers. At the moment, the Fed is very far along in building a new real-time payments rail that will change the future of payments. It's called the FedNow Service. Our COO, Kim Montgomery, who's here with us and many others at the Boston Fed are leading at the execution of this work. FedNow will provide a new clearing and settlement infrastructure enabling participating financial institutions to provide instant payment services in real time, 24/7, 365.

Susan M. Collins:

The Fed's connections with more than 10,000 financial institutions mean that this instant payments infrastructure really will be nationwide. For businesses, it will mean the ability to make just in time payments to workers or suppliers, or to receive an immediate payment at the time of sale. For individuals, instant payments can be used to facilitate time sensitive bill pays, or to reduce those high cost bridge borrowing. We recently announced that FedNow's release is planned for mid 2023, so just in the coming year. Second, I'd like to mention our work to support community economic development, expanding opportunities for everyone to participate in the economy.

Susan M. Collins:

The Boston Fed is making a unique impact on economies of smaller cities, regions, and rural areas through our Working Places initiatives. The work builds on the lessons from formerly industrial areas that adapted well to the loss of manufacturing jobs some decades ago. Research has showed that for resurgence, the key seems to be collaboration across sectors, and working towards a common long-term goal at the local level. So, building on that research, the working place's initiatives, which began in 2013, have helped foster increases in collaboration among state government, the private sector, philanthropy, local organizations, and residents.

Fed Unfiltered, Transcript

9/26/22 – Susan M. Collins, Interview: Greater Boston Chamber of Commerce

Susan M. Collins:

The Fed does not direct this work. It really is local. What we do is we help convene, catalyze, and connect, and it really makes a difference. Communities that are participating in Working Places report solving problems, making changes that create opportunities and jobs, and enlisting new voices and new partners to shape progress. The local teams develop goals and strategies. Just to give some examples of some of the things those commonly include, workforce development, poverty reduction, affordable housing, removing barriers to entrepreneurship.

Susan M. Collins:

The Working Places initiative has now expanded to 30 communities in five New England states. It's something that we're quite excited about, and I wanted to mention in part the breadth of work I think is perhaps illustrated well by the very technical aspects of something like FedNow and the very community-engaged dimensions of something like the Working Places Initiative. That's just a short list of the many, many things in addition to monetary policy that we do to support our mission. So in conclusion, at the Boston Fed, our focus will always be on serving the public interest. We'll work in ways both that are well known, but also under the hood as some of the kinds of things I've mentioned may seem.

Susan M. Collins:

Again, the goal is to support a vibrant economy and a financial system that all can depend on. The challenges in our region, some of which I've mentioned, clearly do require cross-sector collaboration. That's something that I'm actually quite passionate about. I think that's the way we get things done, and that's the way that we enhance the work, and build on the work that we're already doing. So, if sectors work together, there are opportunities to secure a regional economy that flourishes for generations to come. Like so many of you, I find that prospect energizing and absolutely inspiring, and is something that I look forward to.

Susan M. Collins:

Thank you for the opportunity to share some of my views. I look forward, Jim, to speaking with you, and also to answering some questions from the audience. I just want to end by saying it's really a pleasure to find ways to talk with people in our region in a variety of different contexts, including in a forum like this. So, delighted to be here. Look forward to the conversation. Thank you very much.

James E. Rooney:

Well, Dr. Collins, first, thank you for your message of collaboration and for your kind words about the partnership over many years between the Boston Chamber and the Boston Fed. I do want to give some shoutouts to Kim Montgomery and Steve Wright who have nurtured that relationship over many years, and have been quite active in community outreach and in collaboration with not just us, but so many in our community. Thank you for that message. You're back in Boston.

Susan M. Collins:

Absolutely.

James E. Rooney:

Fed Unfiltered, Transcript

9/26/22 – Susan M. Collins, Interview: Greater Boston Chamber of Commerce

You've spent 16 years here, and returned in July. After being away for a while, give us some early impressions about the Boston that you left and the Boston that you returned to, and your first few months at the Boston Fed.

Susan M. Collins:

There's so much to say. So just a couple of things, I'm absolutely delighted to be back in the Boston area. I have such wonderful, very fond memories, but 30 years is a long time, and many things have changed. I have to say there're cranes everywhere. There's a lot of vibrancy. There's a lot going on. Certainly, the area near the Boston Fed, the seaport area is totally different from what it was like 30 years ago when I was here at that point. I would say that the vibrancy and the commitment that I'm hearing of people to work together to identify challenges and to find solutions and solve them is, as I said before, really inspiring to me.

Susan M. Collins:

I'm looking forward to meeting more people, building on those connections, and also being out and about throughout the region and reconnecting. That's a great place to start. Thanks for that question.

James E. Rooney:

Prior to taking this role, we mentioned that you served as provost and executive vice president at the University of Michigan. What made this move to the Boston Fed the right move at this time in your career? What motivated you, drew you into a role like this?

Susan M. Collins:

I mean, as I mentioned in my remarks, I really do see this role as combining three things that I have been passionate about and cared about throughout my career. One is macro policy that is really grounded in analytic research. Second, as I mentioned, is my role as an educator. I think, communicating and connecting with people, and learning together is really important, and then the ability to really lead a complex organization with a public mission, that's something that I am quite passionate about. It so characterizes the work that's done here at the Federal Reserve.

James E. Rooney:

You got to see the inside of Fed operations in Chicago.

Susan M. Collins:

Absolutely. As I mentioned in my remarks, people know a bit about monetary policy, but there's so much that is underway here, and the strength and dedication of the people who are here at the Fed working in so many different areas is really... It made me very excited about... I often said that very little would have me leave higher ed, but this opportunity to really make a difference with experts who are dedicated to the public mission was hard to resist.

James E. Rooney:

Well, thank you for that passion. You mentioned this in your remarks, but I want to probe this a little bit more. Becoming the Boston Fed's new president, you made history, the first black woman to hold such a position, not just in Boston but in the Federal Reserve system. Talk a little bit more about your thoughts

Fed Unfiltered, Transcript

9/26/22 – Susan M. Collins, Interview: Greater Boston Chamber of Commerce

on that, taking on this role especially for communities of color here in the region across the nation that see you take this role.

Susan M. Collins:

Let me start by saying that my own thoughts about this really are encapsulated in what I said in my remarks that I see this as a privilege. It absolutely is. It's an opportunity, and it's a responsibility. Throughout my career, I have focused on inclusion, on opening doors, on finding ways to really support other students in higher education, but more broadly in a variety of different contexts. That's something I've always been passionate about. I do think that role models can matter. I am really honored by the many people who've reached out and said to me that seeing me in this role matters to them, and it matters to people that they work with and people that they teach.

Susan M. Collins:

So, I take that as a responsibility. I do think it's important. I'm committed to making sure that all of the work we do really does foster an inclusive, supportive environment both within the Fed. I have to say that the Boston Fed's commitment to diversity and its steps in that direction were very attractive to me as well. We're working together on a shared mission. There is work to be done. In certainly my own field, economics, that's been an area of challenge, and there are many who are working to make things better. I see it as one of the dimensions of the responsibility and the opportunity of being the Boston Fed president.

James E. Rooney:

Let's talk about business and the economy a little bit.

Susan M. Collins:

Absolutely.

James E. Rooney:

Fed raised key short-term interest rates last week by three quarters of a point, as you said, in your remarks help ease inflation. The Fed continues to focus on inflation, and you mentioned the twin tasks, price stability and maintaining unemployment or unemployment levels. We hear a lot about this phrase soft landing. What is a soft landing that we keep hearing about in the medium, and how do you think about achieving that balance between focusing on inflation that is too high, getting it down to that 2% while maintaining employment levels?

Susan M. Collins:

So, really, really important issue and question. As I said in my remarks, the Federal Reserve does have a dual mandate, which is price stability and maximum employment. At the moment, Job One really is bringing inflation down, and recognizing that waiting to do that will only make it harder and have a more challenging impact on the economy and on employment, and that the two really are intertwined, as I said, that when can you sustain maximum employment? It's in a low inflationary environment. But at the same time, as I mentioned, these are unusual times, and there are a lot of uncertainties.

Susan M. Collins:

Fed Unfiltered, Transcript

9/26/22 – Susan M. Collins, Interview: Greater Boston Chamber of Commerce

So, it is challenging, and I think it's important to recognize that. I would call a soft dish landing the outlook that I described. That's one where there is a slowing in demand, which we need in order to align supply and demand, reduce the pressures on wages and prices, and bring inflation down, but that we accomplish that with only a moderate increase in unemployment before we're able to get back to our longer run levels of growth, of labor market vibrancy, and stable low price level. That would be a soft dish scenario.

Susan M. Collins:

As I said in my comments, yes, it's challenging. There are a lot of unusual dimensions, but some of those unusual dimensions of where we are actually go in our favor. I do believe that we can achieve this, but I think it's important to recognize that there are risks on both sides.

James E. Rooney:

You mentioned many of the drivers of what we're experiencing in inflation now, the impacts of Covid, supply chain, the war in Ukraine, so much going on outside of the Fed's control. I was thinking about an analogy, and it felt like fighting a wildfire and hoping for rain and hoping that the wind doesn't blow, but you can't control those things. What do you hope for outside of your control that might impact your ability to meet those dual mandates?

Susan M. Collins:

Let me start by just saying that there are some things, in particular demand which are central to achieving our price stability goals that are in the Fed's control. While we have to recognize the uncertainties, and I'll say a bit more about that in a moment, that can't get in the way of us doing our job. In terms of hope, I mean, I mentioned that some of the key channels that have led to higher prices are the supply bottlenecks and some of those challenges. We have seen some abatement in the supply bottlenecks.

Susan M. Collins:

I would hope that those continue, and that the lower costs do feed through to moderate the price inflation gains as well. Of course, I hope for an end to the war. Certainly, that would be top of the list from that standpoint. There's many things. We hope for the best, but we often have to plan for the worst because I'm a realist, and so I believe in doing that.

James E. Rooney:

I was intrigued by a point you made about a monetary policy at times having a lagging impact. Could you talk about that a little bit more?

Susan M. Collins:

Sure. Sure. Our economy is complicated. There are many, many different dimensions of demand. Some of them are what we call very interest sensitive, so they react pretty quickly to changes in interest rates. Some of them react more slowly because of how decisions get made, because of a variety of different contexts. So what are some of the things that react quickly? Financial markets. Financial markets often react immediately when we announce a change in the interest rate, and sometimes even in advance. If expectations are that the Fed's going to raise interest rates, financial markets might actually respond or typically do respond to those expectations.

Fed Unfiltered, Transcript

9/26/22 – Susan M. Collins, Interview: Greater Boston Chamber of Commerce

Susan M. Collins:

Things like the housing sector is quite interest sensitive. We've certainly already seen mortgage rates increase. We've seen changes in demands for housing purchases. Some of that's moved demand over to the rental markets, so that has a more complicated impact. A variety of other kinds of things, for example, some types of business investment decisions as one example can take longer to try to feed through the system, so there are variety of different ways. Wages are often not set. They're often set on an annual basis or a multi-year basis, and so that can take time as well to filter through as we bring demand and supply back into balance.

James E. Rooney:

Let's shift to the impact people feel, households, consumers, small businesses. We've talked about the Fed working towards bringing inflation down while maintaining the strength of the labor market. Last week, the U.S. Chamber released a survey report that a top concern of small businesses in the U.S. is inflation, and that 70% of those that deal with inflation, their costs, they're raising prices. As you think about and the Fed thinks about taking steps to slow down the economy, and deal with inflation, take us inside in terms of how these impacts that you know about affect the thinking.

Susan M. Collins:

Sure. Let me say a few things about that. One is exactly as you mentioned, increasingly surveys of firms, small businesses, also households are putting concerns about inflation at the top, something that they're really, really concerned about. That's certainly what we're hearing, and the surveys are bearing that out. As I mentioned, the higher costs of inputs, the higher the challenging labor market context in which it's very hard to find workers, all of those do put a toll on firms, and make it more challenging for them to operate, to plan, to make investment decisions as well.

Susan M. Collins:

Those are very much part of the rationale and the considerations that we are thinking about in terms of the policy decisions that we're making, trying to get to a more balanced place, where those are not the front of mind decisions as firms are moving forward.

James E. Rooney:

Dr. Collins, you anticipated one of the questions we have from the audience when you mentioned mortgage rates, so let me jump on that.

Susan M. Collins:

Sure.

James E. Rooney:

Mortgage rates have jumped significantly over the past few months with Boston having some of the highest. Is this a housing market correction? How do you see this playing out in markets like Boston?

Susan M. Collins:

Let me say a bit like that, and I will say that I have a lot to learn about the specifics of the Boston and New England area in terms of what's unusual, what's different here, et cetera. It's certainly true that mortgage rates have reacted. They doubled and they increased quite quickly. I would say as part of the

Fed Unfiltered, Transcript

9/26/22 – Susan M. Collins, Interview: Greater Boston Chamber of Commerce

outlook, as the Fed continues to tighten monetary policy to bring back alignment, that it would not be surprising if mortgage rates increased somewhat in addition. The housing market is challenging. There has been a longer term shortage of supply.

Susan M. Collins:

I know that that is certainly true here in the New England area. It's true across the country as well, and there are some parts of the country where it's more pronounced than others. An unfortunate temporary dimension of raising interest rates is it can slow down some of the housing construction. These markets are interrelated, and we need to recognize that. These tools have multiple kinds of effects, and they influence different parts of the economy in a couple of different ways. So, the housing market is something that we're watching very closely.

Susan M. Collins:

We have seen some moderation in housing prices, and are looking carefully at what's happening with rents and with some of the others. Again, there are some long-term issues, that I've certainly heard quite a bit about in terms of addressing the shortage of housing, particularly for low and moderate income households throughout the region in the Boston area, but in other parts of New England as well.

James E. Rooney:

Dr. Collins, like you, we try to think about our role in a database research and analytical way, but at the same time, while listening. When we listen into our member companies, various sizes, various industries, particularly over the past couple of years, the challenges of the workforce, finding workers, finding people with the right skills, low unemployment, tight labor market. Haven't surveyed lately. I suspect inflation will pop up on their answers. But for the past couple of years, it's been talent and workforce.

James E. Rooney:

When you think about the labor market, what do you think about as the factors driving the availability of workers and low unemployment?

Susan M. Collins:

There are some factors. There are multiple factors, some of which I mentioned in my remarks, but let me elaborate just a little bit. Some of the factors that are driving are labor supply or longer term, and some of them are more pandemic related. The broader context, of course, is at the moment, we have this very strong demand as well as a supply that is somewhat less than one might have anticipated, and so that's causing together the shortage to seem even more acute, and so recognizing that broader context, I think, is important here.

Susan M. Collins:

As we all know, the U.S., like countries around the world, is aging. That has led to a trend decline in our labor force, and a significant part of the trends that we've seen relate to that demographic change. With fewer younger people entering the labor force, and a number of older people retiring, I will say that that has changed a bit in the context of the pandemic. Health-related concerns initially had people retiring somewhat earlier. There also are some folks who retire who then come back in in other types of ways, and there was less of that during the pandemic.

Fed Unfiltered, Transcript

9/26/22 – Susan M. Collins, Interview: Greater Boston Chamber of Commerce

Susan M. Collins:

Some of those changes may evolve. It's hard to predict. Again, this is not directly Fed purview, but it's certainly something that we study that we monitor because we need to understand what those trends look like. So, aging and retirement patterns are really one of the key pieces. We also have considerably less immigration at the moment, so government policy relates to that. Not monetary policy, of course, but less immigration, and there's certainly particular sectors where that is felt. The tourism sector heard a number of restaurants hospitality, which have traditionally relied on immigrants as part of their labor force.

Susan M. Collins:

The health concerns have also influenced labor force participation of those who are of what the typical key working ages are. All of those factors are actually working together. In terms of the skills of our workforce, as someone who spent most of her career in higher education, I mean, I think that we can work together to think through how to make sure that we are preparing workers with the skills that are needed now and the skills of tomorrow. That's something that I've heard quite a bit of interest about in my weeks here already.

Susan M. Collins:

New England is a treasure in terms of education, in a variety of different contexts, including a strong network of community colleges as well as other institutions as well. There's more to do in that context, and something that matters.

James E. Rooney:

I was glad to hear you bring up the issue of immigration. I'm sure you know that given that there's two vacancies for every worker, no matter how successful we are in playing with all the other levers. I gave a talk at the U.S. Chamber last week, and said that given the data about the lack of immigration, particularly in a market like Boston, which is for centuries depended on waves of immigration to create the economy that we have and the growth that we have, we just need the federal government to get after this, and H-1B visas, H-2B visas for the tourism industry.

James E. Rooney:

We're also advocating for an entrepreneurship or startup visa, because as you know, with all these colleges and universities, there's a lot of those students that want to start their own business, or be entrepreneurs. It's something we're very interested in trying to see a breakthrough with the federal level on immigration, because we can't do it alone here in the local market. You've been meeting with local business and other leaders across the city, the state and the region. What are you hearing?

James E. Rooney:

What's your sense of what's on people's minds here in Boston, here in Massachusetts, and how do you take that import, and then when you're having meetings at FMOC, how does that factor in? How does that weigh in in Boston, or how do others bring it to the table as well?

Susan M. Collins:

So far, most of my engagements have been here. I'm really excited that later this week actually, I'll be starting to visit other parts of the region, starting with a trip to Hartford. Looking forward to being out

Fed Unfiltered, Transcript

9/26/22 – Susan M. Collins, Interview: Greater Boston Chamber of Commerce

and about and hearing perspectives from people in different parts of the region. Some of the things that I've been hearing... We've already talked a bit about the housing concerns about shortages of workers as we've talked about. I've also heard a lot about strengths, about the vibrancy, about the extent to which people are committed to working together to identify challenges and address them, and really just the brain power, and the number of sectors that are thriving here.

Susan M. Collins:

There are a lot of strengths as well as challenges. I'm really hearing about both of those. From my perspective, the qualitative information, what I'm hearing on the ground is both important for how I think about the economy. It's also part of what I bring when I go to the FOMC. I've had two meetings so far, and in both of those meetings, I, like many of my colleagues, reflected on and shared with a broader group some of the key things that I'm hearing in the area. From my perspective, those compliment what we learn from the statistical analyses, from following the data, the range of different kinds of data that we look at very closely.

Susan M. Collins:

I think that especially when things are perhaps evolving, sometimes the data gives us a look at what happened last month or in the past, and some of what's happening on the ground in those conversations are particularly helpful in that context when things are evolving, and sometimes when the data are sharing conflicting messages, and there's so many different series that we're looking at. I do think that they compliment each other. Sometimes, we'll hear things that will lead us to do a deeper dive into statistical analyses, for example, and so they really work together.

Susan M. Collins:

They both inform what I and my team think about, and how I assess what I think makes sense for policy going forward, and certainly does factor into what I share with my colleagues at FOMC meetings as well.

James E. Rooney:

We talk about, and I think the public thinks about, the big tool and the fed toolbox is raising and lowering interest rates. Can you comment on what other tools might be in the Fed toolbox to stabilize price growth?

Susan M. Collins:

Sure. To bring inflation back to target, I have to start by saying that the interest rate changes. The primary credit rate really is the primary tool. There are other aspects as well though. Let me just say a bit about them. I mean, things like open market operations, like changing reserve requirements for commercial banks, like forward guidance, I mean, there are range of different things that are in there. Let me just say a bit more about that. I think that communicating clearly what the monetary policy is is important in terms of how it's perceived and influencing people's behavior.

Susan M. Collins:

I think Chair Powell has done a very good clear job in his recent remarks, for example, last week after the last FOMC meeting of being very clear. Also, one of the things that's really important is our credibility. I don't think of that as a tool actually. I think of that as more of an asset. It's something that the Federal Reserve earned from many years of maintaining inflation in that target range, that

Fed Unfiltered, Transcript

9/26/22 – Susan M. Collins, Interview: Greater Boston Chamber of Commerce

credibility's really valuable and important, is, I believe, a key part of why if you look at medium to longer run inflationary expectations, those are still relatively well anchored is the phrase that we use.

Susan M. Collins:

They're consistent with us bringing inflation back down to target. That I think really is a reflection of credibility. That's one of the many reasons why it's important for us to act expeditiously. Then I'll also mention the balance sheet. For example... That's a tool that really works in compliment with interest rates. Sales of assets can help to increase longer term interest rates. I would say that the runoff to those assets at the moment is I would think of as a passive tool related to the more active interest rate management that happens at the FOMC meetings. Those really work hand in hand together.

Susan M. Collins:

I will also say that we do take into account the impact that that runoff has on financial market tightening when we make our assessments.

James E. Rooney:

Dr. Collins, I'm going to ask the question that everyone wants me to ask, the crystal ball question. What do you expect in our economy for the rest of 2022, and what do you see on the horizon beyond 2022? Has inflation peaked?

Susan M. Collins:

Of course, I don't have a crystal ball. None of us do. Even in normal times, it's hard to say with lots of confidence where the economy will be some months from now, much less a year from now, but I will talk a bit about my outlook. I think that it's quite likely that inflation is near peaking and perhaps may have peaked already. I mentioned that some of those supply bottleneck challenges we've seen abating. I've also said that I hope that continues. Of course, there's uncertainties there. My outlook is for a much slower growth in 2022. The indicators are that there's modest growth at the moment.

Susan M. Collins:

Of course, earlier in the year, some of the data suggests that growth turned down, and that we'll have slower growth next year as well. As I mentioned in my remarks, I do anticipate that as part of getting inflation back down that that's going to be associated with what I'll call a modest increase in unemployment. That would be the key pieces of what my outlook would be. But of course, as you alluded to, there are certainly many uncertainties around there, and none of us has a crystal ball.

James E. Rooney:

Well, I'm glad you made those predictions. You won't see me doing them, so thank you for that. I want to shift a moment to creating an inclusive economy at the Chamber under the leadership of our current chair, Ronald O'Hanley at State Street, and our most recent chair, Micho Spring at Weber Shandwick. The Chamber issued a call to action in our business community to be more inclusive in the C-suite and at the board level. Among others, the Fed stepped up, and made its commitment to advancing gender and racial equity, and its board.

James E. Rooney:

Can you tell us about the Boston Fed's emphasis on equity and inclusion?

Fed Unfiltered, Transcript

9/26/22 – Susan M. Collins, Interview: Greater Boston Chamber of Commerce

Susan M. Collins:

First of all, I just wanted to thank the Chamber importantly for its commitment in this area, for challenging the business community to really work together to accomplish those important diversity goals, and also for recognizing the Boston Fed for the increase in diversity of its board, so much appreciated. One of the things that drew me to the Boston Fed was the clear commitment to the value of diversity, equity, and inclusion being really infused throughout the work that we do. I think it's critically important that we bring multiple perspectives, experiences, approaches when we are trying to understand the economy, and make it work for all.

Susan M. Collins:

I don't see how you do that effectively without having a range of voices at the table. That involves both creating an environment in which people are included, and there are those ranges of perspectives, and building from them. That is really a commitment that I share with the leadership of the bank. There's more to do. There's a lot more in that space. I think it really matters, and I don't see any way that we will really accomplish a vibrant, inclusive economy that works for all unless we continue to embrace and build on those values, and we learn what works, what's not working, and we find ways to fix them.

Susan M. Collins:

Again, I think that this is a collaborative endeavor, and so I was really pleased to learn about the Chamber's work in this space. Thank you.

James E. Rooney:

In the spirit of that collaboration, the Chamber, the Boston Fed, and some other partners, Boston Foundation, Barr Foundation, Eastern Bank Foundation are collaborating on tackling the wealth gap. As you know, in 2015, the Boston Fed released a landmark report, and we're collaborating to update the data, going a little deeper, a little broader in terms of the degree of analysis. But I want to get to the question of how would you envision... Once this work is all done about the wealth gap in our region, how would you envision the Boston Fed using this updated data and its work to support a strong economy?

Susan M. Collins:

First of all, sincere thanks both to the Chamber and also to the other partners who are working with us on this work. As you mentioned, that's the Boston Foundation, the Barr Foundation, and the Eastern Bank Foundation. Thank you very much to all of you. Delighted to be partnering with you. The Boston Fed actually has a longstanding interest and focus on research in understanding disparities, so gaps related to employment, gaps related to wealth, and so this is actually building on work that has been underway at the Boston Fed for a long time.

Susan M. Collins:

As you mentioned, the wealth gap is significant and is really... Wealth is one of the ways that we provide opportunity for engagement and for mobility. So, this work really matters. I'm very excited about the initiative. Of course, it's just early days to build on the 2015 study, and really enhance that work, and give us a better understanding of what the dimensions of the wealth gap are, and some of the aspects of it. I think that's really important because it will help to inform both our understanding, which you need in order to be able to find ways to address those disparities, and to help build a vibrant, more inclusive environment for people across our community.

Fed Unfiltered, Transcript

9/26/22 – Susan M. Collins, Interview: Greater Boston Chamber of Commerce

Susan M. Collins:

I think that that information, which of course will be shared widely, I suspect it will get as much attention as the 2015 study did, and will really help to put organizations from the Chamber to the foundations that I mentioned, to nonprofits, to local governments in a much better place to find approaches to work together with local communities and others to really address those gaps. So, again, it's work that I'm excited about. It's exactly the hallmark of doing research to inform how we try to improve the way our economy works.

James E. Rooney:

Dr. Collins, I've enjoyed this conversation. We're at time, but one closing question. In moments in our career, we're presented with platforms and opportunities that you have here at the Boston Fed. In the brief time I've known you, I can tell you're an impactful leader and will shape the direction of the Fed. Talk about your aspirations as it relates to the local economy, individuals, businesses, communities, and the region in terms of how you see the Boston Fed impacting their quality of life.

Susan M. Collins:

I'm absolutely delighted to do that, because I see so much opportunity for us to make a difference. The tagline of the Boston Fed is public policy that makes a difference. That is something that the entire team is really passionate about and dedicated to the public mission. So, in all of the work we do, from the research to the work on our payments infrastructure, which I talked about, to the work on our community economic development, to the work related to banks and banking supervision, to all of the people who work throughout our organization, helping cash circulate around New England.

Susan M. Collins:

I mean, there are so many dimensions of the work that we do, and the dedicated experts who are really engaged in doing that, as I said, is inspiring. They do make a difference for people's everyday lives. There are some things that people see, and there's a lot... When I said under the hood, there's a lot that people perhaps take for granted as they should, because we want that infrastructure to work well. We want it to work smoothly, and we want to be thinking ahead about how we can help the economy to work better. So yes, it is something I'm quite passionate about, and that passion is shared by so many throughout the Boston Fed, and I would say the Federal Reserve System.

Susan M. Collins:

That's really one of my biggest takeaways since being here the past couple of months, is not just the breadth of what we do, but really the expertise and dedication of the people who are here doing it. I find it inspiring, and I look forward to many more collaborations. Delighted to have this conversation with you, Jim. Thank you so much, and really look forward to meeting more people throughout the region, and to working together.

James E. Rooney:

Thank you, Dr. Susan Collins.