Fed Unfiltered, Transcript
9/28/22 – Mary Daly, Speech/Interview: The Singularity of the Dual Mandate, at Boise State University

Speaker 1:

Good afternoon, everybody. Welcome to Boise State University. I am so pleased to welcome you to this incredibly dynamic, exciting institution. This year, Boise State broke a research record, a philanthropy record and a student graduation record. Which means that we're churning out amazing students who have learned to think in critical ways across their fields of study, and to go on and be leaders in their fields. We're thrilled about the work that they're doing. We are serving and positively impacting our state and our region with billions of dollars of impact from our students and from the research engine the university is. We're proud that we came up in Idaho from a community college. We're proud that we grew from humble roots to a university that is blazing trails, and is nationally recognized as one of the most innovative in the nation. That makes President Daly's story resonate profoundly with the identity of Boise State University, so I want to tell you just a little bit about her.

President Daly doesn't have the typical trajectory of an international financial leader. Because of earthquakes in her own life, President Daly dropped out of high school and worked at a donut shop and Target before she had the encouragement to go on and complete her GED, then her bachelor's degree, her master's and her PhD, all at public institutions just like Boise State. She's not an academic elite disconnected from the reality of people's personal hardships. She's as smart as a whip economist, keenly aware of the impact of economic policy on real people in the real conditions of day-to-day life, and she is now leading one of the most important financial organizations in the world. And with that background that makes her an exceptional, extraordinary, and impactful leader, I am so excited for you to hear from her today. On October 1st, 2018, Daly became the 13th president and chief executive officer of the Federal Reserve Bank of San Francisco. I am so pleased to welcome her to the podium to speak to you today. Will you please join me in welcoming her?

Mary Daly:

Well, thank you so much for coming. And I just have to [inaudible 00:03:08] into the computer. Great security. Well, the first thing I want to say is, thank you so much for having me here. It's truly great to be back in Boise, Idaho. I haven't been to Boise, I haven't been to Idaho since 2019. We had that pandemic and it got in the way of travel, but I'm delighted to be back here today. And I'm especially delighted to be on the campus of Boise State. This is a sticker I purchased yesterday at the bookstore, and I'll be taking it home with me as a memento. But the thing I want to say is, I just had an opportunity in the reception to meet so many of you, but to spend some really good time with the students.

And here's what I have for everybody who's not a student here, you have such a bright future. I just met your future and they're bright and they're wonderful, and they're committed, so we'll continue to invest in them collectively. And just thank you all so much for having me. Now, I look forward to our discussion about the economy, but before I start our Q&A I do want to give a few remarks. I'd like to start by talking briefly about the Federal Reserves congressionally mandated goals which together form what we call the Dual Mandate. Now, one part of that mandate is for employment, and the other part of that mandate is price stability. These goals are often characterized as trade offs. More of one means less of the other, but for most people, jobs and prices are deeply intertwined, and I know this from being a policy maker for many years, but I also know it from experience.

I grew up in Ballwin, Missouri during the great inflation of the 1970s, and rapidly rising prices made it hard for working families like mine to afford the things we needed. Eventually, after a long time, the Federal Reserve raised interest rates and inflation came down, but the abruptness and magnitude of the response caused two painful recessions. Unemployment soared and jobs became very tough to find, and one impossible situation gave way to another. Now, I didn't know it then, but this experience would teach me an enduring lesson, one that I would carry with me over the course of my career as a policy maker.

The lesson is that economic security depends both on jobs and stable prices, and together these two pillars form the foundation on which everything else is built. And if you see it in this light, the Federal Reserve actually has a singular purpose, to keep the economy on a sustainable path by delivering low stable prices and durable labor market strength. So today I'm going to discuss this singular purpose, and how stability and full employment work together to support it. And if you haven't been to a Federal Reserve president speaker event or any Fed official, you may not know, but we're all asked to give a disclaimer which I will do now, which is to remind you that the remarks I make today do not reflect necessarily those of my colleagues but are mine and mine alone.

So if you travel anywhere in the United States right now, you'll hear two things about the economy, and I travel a lot and I hear these things regularly. The first is that the labor market is strong, and that's true everywhere. And the second is that inflation is high, and that's also true everywhere, and you can see this in the data. Virtually anyone who wants a job can find one. Unemployment is extremely low and has been for some time. Job growth nationally continues to run well above 300,000 jobs per month which is about 200,000 jobs per month more than we need to keep pace with new entrants to the labor market including new graduating cohorts. So all of this, if you put it together, adds up to about twice as many vacant positions nationwide as there are people wanting to fill them, and as any business owner will tell you, this puts considerable pressure on wages and salaries.

So then you might think it's a great time to be a worker, right? Well, not so much. Inflation is high. It's running well over the Fed's 2% target, and has been doing so for over a year. And the inflation can be traced back to a number of factors, but it boils down quite simply to a large and persistent gap between demand and supply. Demand has been supported by a whole host of factors including pandemic related monetary and fiscal support and relief, robust household savings, and a strong labor market that's built up over the past year and a half. And at the same time, the demand is really strong. Domestic and global supply have been severely constrained, hit by a series of negative shocks including the pandemic, the war in Ukraine and now severe labor shortages. When you have persistent high inflation across a broad range of goods and services, it erodes purchasing power even when wages and salaries are rising, and this erosion is insidious. It's a gradual but persistent chipping away of living standards, and I want to show you a picture that makes this clear.

Price inflation measured by the consumer price index or CPI has been rising far faster than average hourly earnings. Now, if you look at this picture, average hourly earnings is in red and CPI is in blue, and you can see that price inflation, CPI is outstripping average hourly earnings by just seeing how quickly that blue line is rising relative to the red line. Indeed, if I do the calculation where I say what is average real earnings which takes account of inflation, we find that they have declined by 9% over the past two years. And this means that the average worker in the US economy has been losing rather than gaining ground, all while the labor market remains historically strong. And the story is even sadly starker when we look at prices for basic necessities like food and energy. These prices have been climbing about twice as fast as overall prices and around three times as fast as average hourly earnings, and you can see that by comparing the red line to the green line, and you can see that green line's just skyrocketing.

And the toll of this type of necessity's inflation falls on everyone, but it does not fall uniformly. It lands hardest on those with low and moderate incomes who spend a far larger fraction of their monthly budget on basic needs. So this corroding of real wages is painful, but it's so much more than that. It also undermines the basic American promise which says that if you work hard, you can get ahead. Inflation traps people in an endless loop of running fast and falling behind unrelated to their effort or their input, and eventually this constant sense of falling behind starts to affect decision making.

As people struggle to keep up with rising prices, earning money becomes the central factor in determining which jobs they choose. Now, in some ways you might say, "Well, this makes sense, Mary. This is fine. We work so we can buy things to support ourselves, take care of our families, and give back to our communities." But I will say that when wages dominate all other considerations like the type of job we want to do or the chance for future mobility, they become a wedge putting space between what people need today, have to have today and what they want for their future.

And workers everywhere are facing these choices right now. I recently heard a stark example of this at a gathering of local business leaders in the 12th district. One of the leaders was from a large restaurant group with locations in multiple cities, and the firm offered competitive salaries, health benefits and lots of opportunities for professional growth. You could move from restaurant to restaurant, you could move up the restaurant. They had a big buying conglomerate, it brought all these things together. But longtime employees who had been advancing through the ranks and building careers with the organization were suddenly leaving, and when the owner asked them why, he learned that they were no longer to able to afford rent near the city that they were working in, and they had to move much, much farther away. And then gas prices started to rise and commuting such a far distance became completely unsustainable.

So many of those workers left to take lower paying fast food jobs nearer to where they lived, and these jobs had fewer benefits and little opportunity for upward mobility. But as one gentleman, an employee put it, what choice did they have? They had to manage their short term budget pressures even when it meant giving up jobs with brighter long term prospects. And the effect of these choices, and they're painful for the workers, but when you multiply them across large numbers of workers, these choices also have an impact on firms. And businesses are experiencing considerable churn in their employee base, often losing workers as fast as they can train them, and their response is predictable. They raise wages as much as possible to try and retain staff. They divide jobs into simpler tasks that require less training, and then they accelerate the search for ways to automate or outsource in order to reduce future worker demand, and in the meantime, they produce less or expand more slowly.

And these distortions are problematic, but unfortunately they do not stop there. Inflation also affects longer term decision making in a way that lingers well after it's dissipated. And one of the clearest examples of this long term impact can be seen in trends in post-secondary schooling. Enrollments right now in the United States, in two and four year colleges, certification programs and technical training are declining, and this is happening for many reasons, but two key factors are affordability and opportunity cost. Post-secondary education is already expensive, but it is even more costly when people have to give up earnings and still pay more for gas, food and rent. And when firms are avidly bidding, competing up wages to get workers, the equation just doesn't add up, and so many young people are taking jobs and delaying or opting out of school. And here again, these individual choices that young people are making, they bubble up to firms.

The strategic decisions of firms about where to locate, where to expand and how to invest are all shaped by the projected availability of workers, especially ones with post-secondary school or skills, and so as they plan for their future declining school, enrollments will factor into these decisions and change the landscape of what they do. And here I want to say that in other words, when you think about the cost of inflation, it isn't just painful although that it is, but it's also disruptive. It seeps into everything. It seeps into investment decisions, whether they're by firms or individuals. It seeps into productions, and it seeps into growth. And over time it accumulates into a mountain of misallocations and lost opportunities, and all of that adds up eventually to a smaller economic pie for everyone, and this is why price stability is so crucial. It allows households and businesses to make decisions based on their preferences, ideas, drive and talent, and it lays the foundation for sustainable growth and durable expansion not only now, but in the future.

In this way, I think of price stability as an asset that pays dividends year in and year out, and protecting price stability supports everyone. Now, when you've been far away from something for a long time, it can be sometimes hard to see your way back or at least it can seem that way. And this is the concern that many, many people in the United States, and I'm sure here in Idaho and Boise have about inflation. People worry that inflation has been high for over a year and something has been lost, and the only way we can regain our inflation anchor, our target inflation, our low inflation environment, is to induce a painful recession like the type we saw in the 1980s, but I would not offer that the circumstances today are different than they were back then. Back in the 1980s, policy makers had two problems. One, was that inflation was high and it was rising, and the other is that inflation had been elevated for more than a decade, not for a year and a half, for a decade.

And that being true, that decade of high inflation had seeped into the psychology of American consumers and businesses. Everyone at that time expected high inflation to continue. As inflation went up each month, longer term inflation expectations went up with it, and that became a vicious cycle. And so the Fed had no choice at that time, but to rip the bandaid off as some would call it, and dramatically slow the economy in order to reset inflation psychology. Today, we are in a better place. It is true, and of course, inflation has been high for too long. It's running above our target for more than a year, but inflation expectations, the idea that it's inflation psychology, especially if you look five years out, have remained relatively stable, and in Fed speak or Fed terms, we call this well anchored. They've been well anchored around the Fed's 2% inflation goal, and this means that so far, inflation psychology, that thing that can be so damaging if it's lost has actually not been lost.

The public continues to believe that the Fed has the tools and, perhaps, most importantly, the resolution, the resolute nature to restore price stability. But as a Fed official, I know that we could not take this for granted. The longer inflation remains high, the more likely it can be become that it changes people's minds and it undermines confidence, and that is a problem that we absolutely must avoid. So the question then for policy makers, and I'm sure many of you have it, is how? Well, navigating the economy toward a more sustainable path necessitates higher interest rates in a down shift in the pace of economic activity and the labor market, but for now, inducing a deep recession, the kind we had back in the 1980s or some would even think of the great recession, that is not warranted, nor is it necessary to achieve our goals, and this is really critical. It's crucial because decades of research show the heavy toll the deep recessions take on people and families, and a whole generations of workers feel lasting effects.

The impact is really striking, so I'd like to show you another chart. This chart shows that people who enter the labor market during a recession come in on lower rungs of the career ladder and earn wages well below their peers who enter during expansions. This is basically showing you the penalty. The penalty is lasting and it's large, and it happens for both wages and for income. And everyone is affected, college graduates, non-college graduates, all genders, all races, it doesn't matter, the entire cohort suffers. Those historically less advantaged in our economy including those with less than a high school education and people of color are especially hard hit, and these effects are not short-lived. You can see 10 years out in careers, there's still a substantial penalty for graduating into a severe recession, and the other thing we know about it is that the more severe the downturn, the greater the potential for harm. Avoiding this kind of a harsh recession will not be easy, but we must try, and we've done it before.

The expansion that started in the 1990s is a notable example. After the Fed tightened policy to keep prices stable, price stability, growth slowed in the economy, but no recession ensued, and a decade of strong growth followed. No doubt, the job will be harder this time. We are facing as a nation a myriad of risks, ongoing battles with COVID globally. The global economy still suffers from that. The war in Ukraine, and impending recession in Europe, all while central banks across the globe are tightening monetary policy to combat high inflation are high in rising prices. These risks combined with stubbornly persistent supply chain issues that just haven't resolved, ongoing strength in the labor market and robust consumer spending narrow the path for a smooth landing of the economy to a sustainable path, but they do not close it. So resolute to our goals, the Fed has raised the benchmark interest rate rapidly this year and projects additional increases will be needed, and these are necessary and appropriate adjustments taken to put the economy back on a solid footing.

It is good news that we are already starting to see some of the effects. Housing markets are cooling. I heard this, I've been in Boise since yesterday morning, and I hear again and again that the housing market here is calming off some of the painful highs that it had just earlier in the year, so that's something that's happening not just here, but nationwide. The labor market is easing slightly. We're coming down a little bit in the number of vacancies that are out there and the number of jobs that are outstripping the number of workers, and projections of future growth are softening. Of course, it will take some time before the full impact of our policies are felt. So as an institution, as a Fed, we will need to remain attentive to the incoming data and recognize the signs that enough has been done with policy or that more is needed.

And history tells us that the cost of heirs are high, too little policy adjustment could allow inflation expectations to drift requiring even more difficult policy actions in the future, and too much policy tightening could end in over tightening and an unnecessary and painful downturn. Successful policy will require a vigorous analysis extreme and regular data dependence, and most of all, a resolute commitment to delivering on both goals of our mandate. Now, I'll close by saying that the enduring lesson in my childhood is that people need both jobs and stable prices, and that is why the Dual Mandate is not a choice between two desirable things. It is a balance meant to deliver on a singular goal, a sustainable and expanding economy that works for everyone. That is the foundation of economic security, and that is what the Federal Reserve is working to achieve. Thank you very much. Do you need this?

Skip Oppenheimer:

One [inaudible 00:25:24], one of those is for you.

Mary Daly:

Okay. One of them is for me. I just follow where I'm supposed to go.

Skip Oppenheimer:

I'll be more important if you have one that I have. [inaudible 00:25:48]working? [inaudible 00:25:58] technologically advanced. Can you hear me?

Mary Daly:

Yeah, I need help too.

Skip Oppenheimer:

You're good.

Mary Daly:

I'm good? Okay, good. Thank you.

Skip Oppenheimer:

Can you hear me okay? No? Well, welcome everybody. And I don't want to take any more time because I know we've got a hard stop with Mary having some interviews with the media at 3:30. So first of all, my name's Skip Oppenheimer. I look around the room and I know many of the people here. I've got the privilege really and the honor of serving on the Home Office Board for the San Francisco Fed, and it's been a wonderful experience. We have a variety of others here who have served at the Salt Lake City branch and in many different positions of leadership.

Also, Gary Michael is here who is a former chair of the Home Office Board, and I've been on the Home Office Board for, I think, about three years and I was on the Salt Lake City Board before that, and I'll tell you, it's been a great privilege. What we'd like to do is invite everybody who'd like to ask questions. We've got some mics on both sides of the auditorium, so just please come up and have your questions ready, and we'll just alternate back and forth, but don't be bashful, please come up and ask anything. I know that's what Mary likes the best, are just the questions from the audience.

Mary Daly:

That's true.

Skip Oppenheimer:

So please feel free to come up. While we're waiting for that, I might just make two real quick comments. One, people I think when they think of the Fed, it is a little bit of a black hole. I mean, what do these folks really do? Everybody knows something that relates to the interest rate functions, but there's a lot more. One of the things I want to mention is how much we appreciate, Mary, your being here and just her whole proactive approach to getting out, and you can tell from the remarks you just heard getting out into this district, connecting with people.

I kept having to interrupt her when she was talking to all of you students because that's the people she likes talking to the very most, although she likes talking to everybody. But I just want to say how, because it puts a personal face and a humanizing element to what the Fed does which is really important. And number two, people have said, "Well, what did you find when you went on the Fed Board that you liked or didn't?" And I would just make one quick comment, and I don't think this was a surprise particularly, but I think it's important for all of us to know the people who work at the Fed are truly, and we've all, as I look around the room, been on a lot of different boards and been lucky to be involved with a lot of different organizations.

I would put the people who work at the Fed, at least based on my experience, at the very top of the list. Their dedication to the work, obviously this is important, it affects all of us, but how seriously they take their work and the impact it makes is truly, and it's not an overstatement, inspiring. I mean, if you leave and go to Goldman Sachs on a gazillion dollars, but most people really do dedicate their career to that institution and serve us extremely well. And I mean, I say that, Mary, when you're not here, and I know that others that I'm looking at around the room who have served on the various Fed boards feel the same way. So I think it's a good thing for us all to be grateful for. Frankly, it's a great group of people doing some really important work. So with that, I see Park Price going to the mic.

Mary Daly:

You can always rely on Park.

Skip Oppenheimer:

Yeah. Park's, by the way, been involved with the Fed for many years. He served on the Salt Lake City Board, and he's been involved for a lot of years, he's been a leader. Park?

Park Price:

Well, Mary, as usual you did a great job. I appreciate your remarks. It's great to see you. What year are you looking for as a signal that it's overdone now? So the tightening is, we maybe have moved past this, and how would you communicate that or what actions would you take?

Mary Daly:

Yeah, a great question. So we think a lot about how do we know if we need to do more versus we are doing enough, and right now... So let me break it into two things. So if you look so far what we've done, you start at the beginning of the year back in January and interest rates were at the zero lower bound, interest rates were at zero, and so obviously that's not what the economy needs because that's putting a lot more accommodation or stimulus into economy that's already demonstrated that it can function well on its own. So we started this process of removing accommodation and getting the interest rate up to just where it's neutral, so that process has now been completed. That's what we think should put the neutral rate at around 3%, then we've gotten ourselves to that point where it's now even slightly restrictive.

But what we do know now is that while we were moving those things up, the economy continued to grow, the unemployment rate continued to go down, job growth continued to go forward, inflation continued to print too high. And so it is now the projection of the committee, and you saw if you are a Fed follower, you watch these things, you saw this on our latest release, we called it the Summary of Economic Projections. And the chair when he gave his press conference signal, we expect more increases, and I said this in the speech as well. We expect to raise the rate further in coming meetings and in the course of early next year as well because the economy needs more bridling in order to bring demand back in line with supply. So then the question naturally is looking ahead, how much more bridling and where do you stop?

And there I would say that what is clear is what the myriad of risks we face out there along with high inflation, we have to be, and that's why I said extreme data dependence. The Fed is always data dependent, but we have to be so data dependent that we're looking at what's coming in between now and the next meeting, and we're saying, "Okay, what are the signs that the tightening that we've put into the system already is already working its way through? What are the signs that it needs to be tighter or else we'll get a hold on this inflation expectations in a way that we don't want?" And that's a balancing act, and so rather than give you a terminal answer on the raid, I'm going to give you how I think about it, what I'm looking for.

And one of the reasons I travel around the district, the nine Western states in the United States, one of the reasons I travel along with my team all over the district is to ensure that I hear from each of you or all of you, what's happening in your communities, what's happening in your economies. And it's also to recognize that the data that prints that we collect, we have data announced almost every day in the media. You'll say, "Okay, this number moved, that number moves." You look on a Bloomberg Terminal, it's always moving, but those are often backward looking data, and we need to look forward, and the way we look forward is we talk to businesses, community leaders, workers, young people. We ask questions like, "Are you asking for a wage increase this year, and what are you asking for if you're a worker?"

We ask firms, "Are you finding it a little easier, harder to hire workers than you did just a few weeks or months ago or last year? What are you seeing out there? What do your order books look like? Are you buying things? Are the prices of your inputs coming down?" Those are the things, and everybody that give us the idea, "That's what I'm looking for. I'm looking for some real slowing in those things." And I'm hearing some bright spots or green shoots, however people would like to call them. So here's what I'm hearing, firms are reducing the number of posted vacancies that they had. So this means you have a lot of vacancies out there in the world and you say, "I don't think I need quite as many as that," but you have never hired these people. Sometimes you haven't even started searching for them, you've just posted the job. So those are coming back down to levels that the firms think are more likely to be what they need in the slowing economy. The other thing I'm hearing is that hiring is starting to slow a little bit.

Again, that's not layoffs, that's just hiring at a less rapid pace than you were. And another thing that I'm hearing is that workers are more interested in staying than they used to be. And I'm hearing this a lot from tech firms, but also from retail outlets that there's just not that churn, that idea that, "I'm going to stay for a couple of weeks and I'm going to leave." And those are early signs, they're not at all a victory, but they're early signs that the labor market is easing. We see in the housing market as I mentioned, housing price is not growing as rapidly. Boise was unfortunately an iconic example of rapidly growing housing prices that priced so many people, first time home buyers right out of the market as coastal buyers moved in and paid cash for homes.

We're seeing that ease off. That's a good thing, but that doesn't mean the job is done, so that's why you see when you look at our communications, we're looking for those signs, but we're also recognizing we need to see progress on inflation. We need to see those come down for the reasons I have that I pictured, it is just not a sustainable situation to have people earn a better wage each and every year, and have that all eroded so that they're losing ground, and so that's the commitment we make. So we'll be looking for both signs that we've done enough, signs that more is needed, and those signs are going to come just as much from the published data as they do, and I'd say even more from talking to all the people in the economy.

Skip Oppenheimer:

Great, thank you. There's a question over here on the right.

Speaker 6:

The Fed has received a lot of criticism for waiting so long to hike after inflation started creeping up in 2001. It wasn't until March 22, I believe, until the rate hike started. So I just wonder from the perspective of the Fed, what were the primary reasons for the delay? And with the benefit of hindsight, do you think we would be further along in this process if the Fed hadn't waited so long?

Mary Daly:

So that's a terrific question, and you're absolutely right. There have been people who have said that we started too late. So let me just go through what the thing was, and then you can walk away with a judgment for yourself about whether we started too late or just right. History will ultimately be the judge, but I want to talk about what we thought through this, and I'm going to speak here for myself how I thought through this. So back in March of 2021, we started to see inflation rise a little bit. It was not printing at 8%, but it was starting to rise a little bit. The unemployment rate, I can't remember the exact number or the exact month, but early in 2021, the unemployment rate was 6% or over 6%, so that is well above what we think of as full employment, unemployment rates.

So those are still countless numbers of people out of jobs, who for no fault of their own got displaced in the pandemic, and had yet to be reabsorbed into jobs that could support their families and their communities, so that was something that we were focused on. And then inflation is coming up, but it's about 50% of the excess inflation we see is demand driven and the other 50% is supply driven, and by supply driven I mean, there's just so many supply chain disruptions whether it's in things that you're trying to buy goods or it's in energy and food because of the war in Ukraine along with just the COVID disruptions. These things are real, and so we were working hard to understand, when would that supply chain ease? And the biggest thing that I personally missed back then was that I thought we could get the pandemic behind us more quickly.

I thought that with the movement of vaccinations, that the availability of vaccinations not only domestically but globally, we would have greater access and greater take up in vaccinations, and COVID wouldn't be persistent all the way into 2022 like it is. I mean, we've managed to wrangle it down much more effectively than some other countries, but China's still in lockdowns in some parts. This is extraordinarily harmful to supply chains because China produces a lot of things, so I thought we would get that under control more quickly. Then when it became clear that, that wasn't happening and that the labor market was really grew, it got very strong over the summer of 21, and unemployment started to fall rapidly, it was clear around the fall of 2021 that we were going to have to move to fight inflation, and the labor market, the economy was quite sustainably strong enough to do that.

And so then we started to pivot, I don't know how many people followed the Fed, but we did what people term the pivot. And the pivot was, we've moved from a posture of, we need to make sure this bridge is long enough so that people don't get left behind through no fault of their own when the pandemic hit, to we really need to tighten policy, take the accommodation out and let the economy function on its own. But we have this program of asset purchases that we needed to unwind the purchases of those before we started the interest rate going up. So in around the Thanksgiving period, I remember being out in an interview saying, we're going to need to taper that asset purchase program faster, and other colleagues of mine were saying the same thing, the same views, and we did exactly that. We started tapering asset purchases faster.

We got out of asset purchases by early in 22, and then we started the course of interest rate increases in March of 22. Now, the thing that has made a huge difference in how quickly we've been able to adjust interest rates is that in March of 22, before we started raising the rate and before the summary of economic projections came out, mortgage interest rates were around 3%. And now, they're well above that. I think the day of the latest print I saw, it changes fast right now, but it was 6.7%. That is an extraordinarily rapid change when we have not moved the federal funds rate, our instrument up that much. So how are we getting financial conditions to respond so quickly when we've only raised the federal funds rate, our tool more gradually, even though we're going at 75 basis point increments, we are still not to the level where the mortgage rate would print at six, 7%.

Why did that happen so quickly? It's because we have another tool that we've used I think very effectively, and that is forward guidance. We have told Americans, and that is households, businesses, market participants, we have told people what we expect to do and the pace we expect to do it at. And I don't know if you remembered, but your policy said expeditiously, we're going to move the interest rate up, and so we've done that. And that's helped bridle back the economy much more effectively and speedily than we would've done in previous periods where we didn't have the forward guidance dual, and we were moving up more gradually. So then you ask the question, if you had it to do over, what do you regret? So here's something that, the way I look at things is this, instead of working to think about what I regret, I work to think what do I need to learn? That was a lesson. How do I learn it? How do I bring that forward?

So here's my lesson that I'm taking from that period. We are in a period where we've had to use both our asset purchases and our funds rate. The funds rate is a very nimble tool. We can say we're raising, it moves, we do it, it's quick. It can go from zero to a tight path really quickly. The balance sheet is like a tanker ship, so think of the funds rate like a speedboat, the balance sheet, our balance sheet and our purchases. It's like a tanker ship. And we have got to think of ways to be more effective at allowing that tanker ship to turn more speedily or allowing it to be turning directionally while we're raising the funds rate because that ordering, that sequencing where we had to finish that before we could start the other thing that cost us a couple of months probably.

But again, we're talking about a couple of months, and I'll end on this note because I think it is useful. It is not an apology or a defense or any of those things about why it's different this time, it's simply a fact. In the decade where we got really behind on inflation, the 1980s, the one that I lived through, and then we had to correct as an institution, that was inflation that persisted for 10 years. Our inflation has been high for a little over a year, and we are actively moving it back down. So the challenge won't be as hard even though it won't be free.

Skip Oppenheimer:

Thank you, Mary. I think that went fast, but I think we have time maybe for one more question.

Mary Daly:

I wanted to give a complete answer that was perfect.

Skip Oppenheimer:

No, I appreciate it.

Mary Daly:

We can do one more question.

Natalie Fleming:

Okay, sorry. My name's Natalie Fleming. I'm a student here at Boise State University. Single mom, for kids. And right now there's a lot of hopelessness that a lot of people feel in our communities as far as the housing economy, and I asked you this earlier, so this is an opportunity to share your answer with the class, is that we've seen that the Federal Reserve has been purchasing 2.7 trillion in the housing in mortgage securities. And it feels like we're competing against the treasury versus a massive international equity firms buying up huge swaths of homes and putting them in perpetual rentals. Now, as far as the employment versus inflation, families that own their homes outright are financially stable, financially secure, more resilient against these fluctuations in the economy. And sometimes it feels like we exist to serve the economy, rather the economy existing to serve us.

And so I'd like you to share your thoughts on the matter, if the Federal Reserve has purchased $2.7 trillion in homes, does that put the Reserve in a greater position to play a part in helping families to have full ownership instead of being in perpetual rentals which hurts the taxpayers because the longer you're in a rental, the more likely the government ends up providing the constant rental income that goes to the mess of international equity firms. So what are your thoughts on this big, huge mess? But there is a tremendous amount of helplessness in families. I've seen amazing families who worked hard who are now homeless.

Mary Daly:

So thank you for the question. There was a lot in that question that is important to touch upon. So let me start with one fact that I think is really important for everybody to know. So the Federal Reserve in our purchase of securities which are treasuries and mortgage back securities does not purchase any homes. We don't have anything to do with properties. We are not actively in the marketplace. That's not the role we have. The thing that is important to know is the Fed has lending power but not spending power. So in 1913, the authority given was, ensure that you're the lender of last resort, ensure that the interest rates are where they need to be for sustainable growth of the economy, and later the legislation evolved, fulfilling the dual mandate. So we're not in the marketplace, and so we don't really have any direct control over the marketplace of supply of homes and demand for homes.

What we have is an interest rate that when we move it up, it makes all interest rates rise. That's how the economy work. It transmits through all interest rates. It transmits through car loans, credit card loans, credit card debt, mortgage interest rates, small business, large business, all those rates, and you're seeing that now. What that will do is it will slow housing demand and that will slow the growth in home prices. Now, here is something that often gets lost. Rental prices go or elected officials, that's the task that they have. They have spending power. The Federal Reserve has lending power, they have spending power. We work for Congress and the people. So the challenge of course, is that the supply of homes is not as big as the demand for homes, and where you especially see this is in starter homes, the first buyer. That is just a supply that is woefully behind the new family starting, the people trying to initiate a home purchase.

And that is something that was true before the pandemic, and it has been made much worse by the tilt towards higher end, bigger spaces that was propelled in part by the fact that people were teleworking, and they wanted to have a bigger space to live in. So the answer to all of this will be, first, the Federal Reserve's role is we have to get inflation down. We have to make that a sustainable piece of the economic puzzle. But then we have to work as a society, and that's private sector, that's public sector, that's people working together to ensure that people can have shelter. Shelter is important.

One of my community leaders in the district said that, a car is the new affordable housing. Now, when you think of that, that means people are living in their vehicles, and obviously that's a problem that as citizens of the country, we don't want to see. So I don't have answers for that. The Federal Reserve doesn't have the tools to do those things directly, but we absolutely study them. We absolutely look at the effect on the economy, and I have great confidence in our elected officials and in the programs that they're doing with private sector people. We can solve this problem, we just have to focus on it. I mean, we came through a pandemic. Surely, we can solve a supply and demand problem.

Skip Oppenheimer:

Well, thank you all so much for being here. And Mary, a special thanks to you for being here, and just the thoughtfulness and the insights that you provided us today, much appreciated. Just give her a round of applause.

Mary Daly:

Thank you so much everyone. It's really been just a tremendous pleasure. I hope you enjoyed.