Mike:

I'd like to start with the data we just got, and data we saw earlier this week, and the existing home sales are falling. Finally, prices fell for existing home sales, and for the median price, but we saw retail sales come in weak, we saw the ISMs come in weak. Is the economy unfolding as you thought it would?

Esther George:

Well, welcome, Mike, to Kansas City. Yes, I think the economy is responding to some of the forecasts, and some of the work that the Federal Reserve is doing to try to bring better balance between supply and demand. And of course, as rates have gone up, it always hits most directly, I think, real estate markets, and in particular we've seen that in housing, where mortgage rates have doubled. So these trends I think are to be expected in that sector in particular.

Mike:

Well, a lot of your colleagues have said they're paying more attention to current rate measures than to the data that comes out in the CPI and PCE price measures, because it's lagged. Why don't you just ignore the idea of the core rate, because everybody comes out and says, "Well, inflation's too high. You look at the core rate," but you know that's influenced by housing, and if you take that out, it seems inflation's coming down faster than you thought.

Esther George:

I think it's encouraging to see because we've seen this in the goods sector of the economy, that inflation has been coming down. I think when we look at the housing component of that, we can see toward this year that that should be, again, coming off some of its highs. I think right now for me, the focus has really been on the services sector, and the inflation pressures that we continue to see there. So the direction, I think, is a good one. Inflation is still well above the Fed's target, and so to be true to that price stability mandate, it looks like we'll have to be a little more patient to see if we're on the right trend, and going to be there more convincingly to that 2% target.

Mike:

Well, what would it take to convince you?

Esther George:

So I think again, looking to the component of the market right now where we continue to see a lot of pressure, labor markets are very tight. I hear that when I go around the region talking to our contacts there. So I think the pressures we see in the services sector look likely to continue. We know that spending is continuing, people are still traveling a lot, and taking advantage of that. So I think that would be a component where I'd want to see some progress, before having more confidence that we're seeing inflation come down.

Mike:

The Fed was slow to see inflation rising as fast as it did. Could you be too slow to see inflation falling? Do you think it could fall faster than you anticipate?

Esther George:

It's one of the things we have to be very mindful of. So there are lags with this policy instrument. It transmits pretty quickly to financial conditions, and of course we've seen that, but we also know that there's lags. So it's in the pipeline coming. It's one of the reasons that last month I supported that downshift to a 50 basis point increase, because I think it will be important to begin to watch very carefully what signs are we seeing in the data, but also listening to our contacts in the region, and understanding are we beginning to see the kind of progress we need to see.

Mike:

Well, you had a reputation as an uber hawk, somebody who was always very on top of inflation, and yet you were the first one to warn about the lags, and the fact that the Fed had to be careful. Was that because of something you were hearing from your constituents out here?

Esther George:

Well, in this most current tightening cycle, I think we were beginning to approach this at the same time that we were taking some dramatic moves to reduce the balance sheet. And so you want to make sure that as you start off on that path of tightening, that you're communicating well, and that you are not going to be more disruptive with that. I think we're in a good place today, again, being very clear about the commitment to getting back to 2%. Some of this aggressive tightening, but we are reaching a point I think where it will be important to start looking around corners, listening more carefully for where some of those shifts are going to take place.

Mike:

Have you been surprised by the strength of the labor market and the fact that you've raised rates 450 basis points, and the unemployment rate's gone down?

Esther George:

So this is a very tight labor market, and I think unusually so in this sense. We've seen three and a half percent unemployment before, but when we look at the people that are engaging in that workforce, we are still down in terms of participation compared to where we were in 2019. We see a number of job openings for every available worker. And so in that sense, all the indicators show how tight the labor market is. And again, when I go out and talk to people, it's their number one concern, the ability to find people to come to work. So I think on the supply side of the economy, we're seeing some binding constraints there that are making it more complicated, if you will, to see inflation come down in a very convincing manner.

Mike:

Raise unemployment by a full percentage point, and it's about a million and a half people who lose their jobs. Do you think there's a path to avoid that now? Do you think that maybe this is a different enough dynamic that unemployment doesn't have to rise significantly?

Esther George:

I think when you look so far, so spending has held up, what I'd really be looking for is to see are some of those job openings going to come down? Well, we see some of those vacancies removed as we see this imbalance begin to be addressed. So I think this scenario of, can there be a soft landing, is one we would all want to see, and there are some possibilities for that. There's still a lot of money sitting in the checking accounts of households. They may hang onto that. That will make the job easier. To the extent that moves out, that may create more persistent need to tighten, but I think you have to wait and see how that unfolds.

Mike:

Why do you think Wall Street doesn't believe you when you say you're going to hold rates for a long period, and you're going to do whatever's necessary?

Esther George:

Well, I don't know that I'm the right person to speak on behalf of Wall Street. I will tell you, we can have different horizons and different lenses through which we look at this issue. I hear a lot about recession probabilities, a lot of focus on what's going to be that peak rate. I think for me and my colleagues, the focus is really on getting back to price stability, and that is really a very singular focus right now. And thinking about what it takes to have that policy be sufficiently restrictive, not overly restrictive, to get to that point of a 2% long run inflation goal.

Mike:

Well, let's stipulate you do that. What do we see in the economy once this cycle is over? Do we go back to the new normal of low rates and low inflation? Do we go to an old normal? Do we go to a new new normal? What kind of economy do you expect?

Esther George:

I think it'll be different. I don't have that crystal ball to really see what will it be, but one of the things I think has been extraordinary to watch during this time, you had a lot of demand come in. So the support from fiscal stimulus, from monetary policy produced a lot of demand, and yet we are looking at still pretty low growth, and we're looking at binding constraints on supply, and in particular looking at the labor market. And I think there, one of the things that will be interesting to watch unfold, I hope research continues to look at this, is we were focused for the last two decades really on, is it a demand deficiency in our economy? I think this time we've seen that there are some constraints on the supply side, and what structural, the nature of those might be, I think is going to be worth keeping an eye on. And I think longer term, we'll have implications for monetary policy's role.

Mike:

How has the structure of your district's economy changed in your time at the Fed, and how does that affect monetary policy?

Esther George:

Well, so many things have changed over my time at the Fed. Still, this part of the country heavily focused on ag and energy, the ag sector you've seen a lot of consolidation. Farms are bigger, the way they go about doing their work is different. Technology has played a different role. We see transportation and logistics in this part of the country, very important factors in how we understand what's going on in the region. So I suspect many of those trends are going to continue. And as those structures in the economy change, of course the Federal Reserve, as it carries out its mission, has to be mindful of that. And we're well positioned to do that, both by boots on the ground as we talk with people, as well as the team of people that do our research, and think about what's going on.

Mike:

When you look at the world of politics, you see complaints from places in the South and the Midwest that policymaking is decided on the coasts. And I'm wondering if there's any feeling that the Kansas City District doesn't get represented, not by you, not well, but doesn't... The feelings of people here aren't as reflected in monetary policy, on Wall Street, in economic policy, as other parts of the country.

Esther George:

So it is true. You have an economy that has different aspects to it across the country, the coast where urban areas, versus rural. One of the things that I think is so important about the design of the Federal Reserve is that it does give line of sight to the policy deliberations for people in the 10th Federal Reserve District. So you can go from Kansas all the way to the Rocky Mountain West and engage with people who understand their voice is heard. And those perspectives do go back to the FOMC when we talk about the nature of policy. So we don't have the kind of surgical instruments that let us affect those. But I think being very open to understand that the different regions experience the economy differently, people experience the economy differently, is important for people to have trust in the work that the Federal Reserve is doing. And I think that design is so important to how that unfolds.

Mike:

You hear a lot from people on Wall Street, "The Fed always gets things wrong." You've been with the Fed for a very long time, but even prior to becoming president of the Kansas City Fed, what do you think the biggest mistake in policy that the Fed has made over those decades that you've been here?

Esther George:

Well, I'm sure people could point to a number of things. I think for me, Mike, when I look at the long run focus of this institution, our mandate is one of long run decision making, of deliberation around that, of ensuring stability in the economy. And I think those are hard, many times, as the economy is shifting, as you see different business cycles come through, to get timed exactly right. One of the things I think, though, that the Federal Reserve is very committed to, is learning from those experiences and learning what happened in that. We've done that, for example, from the 2008 and '09 period, when financial stability became such an important aspect of how the Federal Reserve would be able to achieve its mandates. And you see today a lot more attention on thinking about what role does financial stability play in terms of our ability to conduct the kind of monetary policy we need to. So I think those kinds of attentions to past episodes are important.

Mike:

One big issue in economics has been the treatment of women, and your bank is one of the best, in terms of diversity, in the Federal Reserve system. Is that a conscious effort? Is that because you're a woman, do you think?

Esther George:

I think it's a conscious effort. It's a conscious effort because, again, my own experiences are the breadth of diversity that you bring to problem solving is so important. And that happens around the FOMC table, it happens in conferences, it happens here when we hire people to come to work and carry out the mission of the Fed. And I think the broader your lens, the more you extend the opportunity for that talent to come in, whether it's at the Jackson Hall Symposium, whether it's at the FOMC table, it begins to widen the perspectives that come to bear on some very important policy issues. And I've always thought that was important, and I think it will continue to be important for this institution.

Mike:

You mentioned the Jackson Hall Conference. This is Davos week and the Davos conference has changed tremendously over the years as TV has come in, as it's become a bigger and bigger thing. You let TV come to the Jackson Hall conference. Are you worried that it takes over? I mean, a lot of people who are hoping to be invited want to know what the future of the conference is going to be like?

Esther George:

Well, I think you know, Mike, we have been very transparent about what goes on at Jackson Hole. That's been a commitment from the start. This is a conference that is focused on central bank issues where we bring academics, we bring policy makers from around the world, to talk about those issues. So a commitment to being transparent has always been there. That's served us well. It informs the public about what goes on at the conference. During the pandemic, of course, when we couldn't gather in person, we began to find other ways to do it, as many organizations did, and created that opportunity to do that. So we'll keep that commitment to transparency, I suspect, for Jackson Halls to come.