Steve:

Hey Joe. Thank you very much. I am here with Esther George, the Kansas City Fed President, leaving after 40 years at the Kansas City Fed.

Esther George:

That's right, Steve, welcome.

Steve:

Well, and I think you and I, we figured have been talking for at least a decade of that, so just a quarter of it. I want to just make sure viewers see what our Rick Santelli was talking about. Guys, if you have that Fed red outlook chart, Rick is right. When the price falls, the yield rises and we're back up over 5% now for that peak funds rate. Esther, you've been watching markets versus the Fed for many, many years. How much of a differential do you see? How much of concern is there that you have that the market is pricing in these cuts after hitting that peak rate, whereas you apparently are not pricing that in?

Esther George:

Right. So I think this is a very different time. If you think about where we've been over the last two decades, we haven't had high inflation. We've had low rates. We're now moving into a very different time and I think for myself and for my colleagues, we understand that high inflation is going to require our action. So we have been moving our forecast up to higher levels. You saw that in the most recent dot plot that came out in December. And I think holding that until we get confidence that inflation is actually coming down is really the message we're trying to put out there.

Steve:

I don't really have to ask you this question because I go to 17 out of 19 chance of being. Right. You're over 5% when it comes to your outlook for the funds rate in 2020.

Esther George:

I have raised my forecast over 5.00%.

Steve:

Can you tell us where you are? I don't remember if you're one of the folks that tell us that.

Esther George:

Well, I think I'll be over 5% and I see staying there for some time, again until we get the signals that inflation is really convincingly starting to fall back toward our 2% goal.

Steve:

Give us an idea of what that could look like to you. When would you start to feel like, what would you need to see in order for to be comfortable that maybe you could bring things back down from the restrictive levels?

Esther George:

Well, we already know that we're having an effect on demand and where we really see the persistence in that inflation seems to be in the non housing part of the services side of the economy. So I think that's going to be where I'll be watching for the real clues to see whether we are getting traction with our policy in that area. And then again, depending on the broader dynamics, as you see inflation coming down, we'll be the signal. It's hard to know what that timing's going to be. So in my own forecast, I hold that rate high until we see some action on that part and then I'd be willing to move it.

Steve:

Is that well into 2024?

Esther George:

It is for me.

Steve:

Wow. When you think about the idea of keeping rates that high for that long, you've said in the past you don't see it possible to avoid a recession here?

Esther George:

Well, I'm not forecasting a recession, but I'm quite realistic that when you see below trend growth and the idea that our instrument is going to work on demand bringing that down, it doesn't leave a lot of margin there. So any shock could come, any risk to the outlook could send the economy in that direction. So not my forecast, but I do understand that bringing demand down creates that sort of possibility.

Steve:

So it's important for me to kind of ask you specifically about what you just said. You don't think the shock is currently in place that would create the recession, but you think what's happened right now is the economy is vulnerable to another shock that would create a recession?

Esther George:

I think the economy is vulnerable when you begin to be in a rising rate environment and we see a global outlook that poses certain risk to the US as we look at that. So I think, again, I understand in a rising rate environment why people are very attuned to this issue of demand coming down. But we continue to see a very tight labor market. We continue to see persistence around inflation that I think is going to require our attention.