Carlia:

Steve Liesman joins us this morning with a very special guest. Morning, Steve.

Steve Liesman:

Morning, Carlia. I am joined here at the American Economic Association Annual Conference by Raphael Bostic, the Atlanta Fed President. This is in your district, so you come, and you have a variety of duties here that you perform.

Raphael Bostic:

Yeah. This is a busy conference for me, but it's really good. We haven't done one in person for so many years, so it's nice to see some people.

Steve Liesman:

Let's talk about the jobs number this morning. 223,000. I guess the most important thing is does it change your outlook at all on the economy?

Raphael Bostic:

It doesn't really change my outlook at all. I've been looking for the economy to continually slow from the strong position it was at in the summertime, and this is just the next step in that. The question for me has always been like, how fast is it going to slow? And it's going incrementally as steady. It's not super disruptive, but because of that, it really says to me, we got to stay the course. Inflation is too high. We need to reduce those imbalances so that it moves more rapidly toward our 2% target.

Steve Liesman:

You could look over at the separate household survey on unemployment rate at three and a half percent, and the job market's getting tighter.

Raphael Bostic:

You could make that argument, and I'll just say in Atlanta, it is rock solid. And throughout our district, we're hearing that people are not having a hard time finding jobs, and that employers are still pressing to get more people to come to work for them because demand is still strong. It's stepped back a little bit from where we were in the summertime, but there's still a lot of tightness.

Steve Liesman:

What about the wage numbers? They revised away that massive gain in November, and they had a smaller wage gain in December. Did it make you more confident that wages will not be driving inflation?

Raphael Bostic:

We've heard through the entire episode, through this whole pandemic that wages have not been the driver of inflation. It's really been on the demand side, not being able to meet demand. And when I talk to employers, they tell me we're setting wages give with the expectation of where we think prices will be in the future. So, wages are not driving the dynamic right now, but it is definitely something we got to keep an eye on because historically, that's been an important driver, and I want to make sure we're on top of this so that if things change, we know about it as soon as possible.

Steve Liesman:

What has to happen? Does the unemployment rate have to rise? And how much does it have to rise in order for you to be more comfortable that wages will... The job market will not be the source of inflation?

Raphael Bostic:

Well, I think that unemployment is going to rise a little bit. We have to do our summary of economic projections submissions. In my submission for this year, I have unemployment moving from about 3.7% to 4%. So, a slight increase, but not huge numbers. And I think it's just going to be the byproduct of the economy slowing down. At some point, we'll absorb all of those excess jobs, and the slowdown will take in some of the jobs that are currently out there.

Steve Liesman:

I want to get to your summary of economic projections as well, but does that mean you don't see us having a recession if unemployment only goes to 4%?

Raphael Bostic:

Recession is not my baseline projection. And as we see today, there's still a lot of momentum in the economy. There's a lot of energy that can absorb the more restrictive policy stance that we have. And so, I'm not really expecting there to be a recession. And if there is one, my sources are telling me it will likely be short and shallow.

Steve Liesman:

In the SEP, you also forecast the fed funds rate, and it's probably not a bad bet for me to say, are you one of the folks that are above 5% for 2023?

Raphael Bostic:

I am.

Steve Liesman:

17 of 19. So, it was not a bad guess on my part.

Raphael Bostic:

Yeah. You do good math there.

Steve Liesman:

Good math.

Raphael Bostic:

That's very good. My projection has us somewhere between five and five and a quarter, in that range. That's the range that I think we need to move to. If the economy proceeds as I expect, which is continual, gradual slowdown like we've just seen in the numbers today. And then, what I think is the most important actually, is just to hold there, and stay there, and let that policy stance really grip the economy, and just make sure that the momentum is fully arrested so that we get to a place where demand and supply start to come more into balance, and we start to see those pressures on inflation really come down.

Steve Liesman:

Do you stay there through 2023 and into 2024?

Raphael Bostic:

Yes. Yes. So, that's exactly right. I have, once we get to a number, I want, if the economy continues to proceed as we expect, just to stay there and hold it. And for me, my projection I have is holding it well into 2024 because I think that we should just wait and see. And I don't think there's a lot of urgency. There will not be a lot of urgency once we get to that level to step back.

Steve Liesman:

Again, doing some math on the fly here, if you're at 4.38 now, and you want to get to five, five and a quarter, you have about another 75 basis points. What kind of increments do you use? Can you see going 25 basis points at the next meeting or is it better to go 50?

Raphael Bostic:

Well, I think the data will guide us. The thing that I think is the most important is that we're stepping back from that 75 basis point incremental jump. I think that's fully appropriate as we get more into the restrictive stance. Today, I'd be comfortable with either a 50 or a 25. And if I start to hear signs that the labor market is starting to ease a bit in terms of this tightness, then I might lean more in the 25 basis point position. The other thing I would say is I heard a lot from businesses toward the end of last year that the results from the holiday season were going to be an important marker as to where they think the economy is, how strong they think it is, and how they're going to approach it. We haven't gotten all those numbers yet, but I'm expecting that as we see more there, we'll get a clearer sense of how the economy is, and that will help me.