

Speaker 1:

Steve Liesman is here right now, and he has our first big guest of the morning. Steve, good morning.

Steve Liesman:

What a morning we have here at [inaudible 00:00:06], and I'm really happy to kick it off with Neel Kashkari, the Minneapolis Federal Reserve President. Neel, thanks for coming in. Thanks for being here.

Neel Kashkari:

Thanks for having me. It's always great to be on set with you.

Steve Liesman:

Yeah, right, and it's always easy when there's an easy place to start, an obvious place to start. Massive job growth, 517,000, 2.7 times the estimate, and you are already situated. This is really my question. You've said you are on the high side of the Federal Reserve estimates out there for the year-end 2023 at 5.4%. My question to you is, after the big jobs number, are you set with where we need to go or do you think we need to go further?

Neel Kashkari:

Obviously, I too was surprised by the big jobs number. It tells me that so far, we're not seeing much of an imprint of our tightening to date on the labor market. There's some evidence that it's having some effect, but it's pretty muted so far. I haven't seen anything yet to lower my rate path, but I'm obviously keeping my eyes open and we'll see how the data comes in, but right now, I'm still at around 5.4%. If I had to pick a number today, I'd be where I was in December.

Steve Liesman:

Are you feeling good about being at that place and thinking we need to put more restraint on the economy, that much restraint, even though your colleagues are a little lower?

Neel Kashkari:

That doesn't make me feel good. I wish we saw more evidence that underlying inflation was trending the way we wanted. We have seen obviously headline is down, core is down, but if you strip it all apart, the services side of the economy is still very robust and wages are still growing at a rate that's in excess of being consistent with our 2% inflation target. We have to bring the labor market into balance. I'm not sure if we've done enough yet. I think 5.4 may be the right number, but we'll have to see.

Speaker 1:

But Neel, I think maybe that's the key is that you were already a little more hawkish on this. This may not have come as a huge surprise to you. Do you think it surprises your colleagues on the FOMC?

Neel Kashkari:

Well, it did surprise me. I certainly was not expecting a 500,000 job print for January, so I think it surprised all of us. Nobody should overreact to one report. Reports sometimes are hot, sometimes they're cold. But the underlying strength of the services sector of the economy is still very robust. That's where I think a lot of us are focusing our attention.

Speaker 4:

I was just going to ask on the jobs front, what does the unemployment figure have to look like, do you think, as it relates to inflation to claim some semblance of success? When you see this huge jobs number, is it possible that jobs could be increasing and the inflation number could actually come down out at the pace you'd like? Is that even plausible? Would physics allow this to happen?

Neel Kashkari:

It's hard to imagine that you're going to see very strong job growth while wage growth is moderating, and that's what I'm looking for. We need to see wage growth at 3% to be consistent with our 2% inflation target and 1% productivity growth. Wage growth has come down somewhat, but depending on your measure, it's still four, four and a half, even five on a 12-month basis. The job market and the services and wages are still very robust.

Steve Liesman:

But inflation has been coming down. That's the thing. It's like you guys are raising rates. Job markets remain strong. But if you look at things like a lot of people are focused on, in fact, one of your colleagues, vice chair Leo Brader, is focused on three-month and six-month annualized inflation rates, and they have been declining. How can you say there's been no progress when in fact those numbers are declining?

Neel Kashkari:

Well, that's good news and it's better than them climbing, but the three-month numbers tend to be quite volatile. We can all pick a number at any given time that tells us the story that makes us feel better or worse about the outlook. We need to be disciplined. The most disciplined way is to pick a number in advance and then stick with it, that that's our focus. We've said 12-month PCE inflation is our ultimate goal. Total inflation, not just core inflation. But then we look at these other measures as giving us an indicator of where inflation is likely headed.

The chairman did a really nice job in the press conference talking about this, that we go from total inflation to core, then take out core goods. You have got core services inflation. You take out housing because we can analyze that. Core services X housing, that's a big part of the economy. We've seen no progress so far, virtually no progress in core services, X housing, and that's very tied to the labor market. We've sliced this all different ways to try to give us information about where inflation is headed. I'm not seeing that we've made enough progress yet to declare victory.