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# *"Remarks on the Outlook, Monetary Policy, and Supporting a Vibrant Economy"*

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*The views expressed today are my own, not necessarily those of my colleagues on the Federal Reserve Board of Governors or the Federal Open Market Committee.*

## Key Takeaways

1. **Financial stability:** The banking system is strong and resilient, with well-capitalized institutions and ample liquidity. Recent difficulties, and the decisive actions taken in response, demonstrate commitment to use all our tools to ensure the financial system remains safe and sound, and to take action as needed. The lessons learned from the review underway will be welcome, and instructive.

2. **Monetary policy and the macroeconomic outlook:** Recent data show that inflation is still too high, continuing to take a toll on households and firms. I anticipate that some additional policy tightening will be needed as we follow through on our commitment to price stability. However, while recognizing the risks and uncertainties to the outlook, I remain optimistic there is a path to bringing inflation down without a significant downturn, because of the resilience I see in the economy.

3. **Financial infrastructure and payments services:** The Fed provides essential financial infrastructure the economy depends on – and innovates to meet evolving needs and preferences. In today's world, people want quick and easy ways to make payments instantly, with immediate access to those funds. To help financial institutions offer instant payment services to their customers around the clock, we will launch the FedNow℠ Service in July.

4. **Community economic development and opportunity:** While the Fed's activities are broad, they all relate to supporting a vibrant and inclusive economy, consistent with our mandates – stable prices and maximum employment. That's why, for example, we have for decades studied the gaps and disparities behind the aggregates. It is also why the Boston Fed is helping spark collaboration among the private, public, nonprofit, and philanthropic sectors, to find local solutions to complex economic problems in urban and rural areas.

Good afternoon. It is truly a pleasure to be with you today. I thank NABE for the invitation, and Elaine Buckberg for moderating the discussion.

My thanks to all of you, for being here, and for the work you do – using the tools and insights from economics to support your organizations, and our economy.

By way of introduction, I am honored to serve as an economic policymaker at the Federal Reserve. It is a privilege, a responsibility, and an opportunity – and I am committed to an inclusive approach to service in the public interest.

Before turning to questions, I will share some perspectives from my first nine months as a Fed president and Federal Open Market Committee (FOMC) participant. I'll cover some obvious topics (financial stability, monetary policy, and the macroeconomy). I'll also touch very briefly on some things about the Fed that get less attention (including payments infrastructure and supporting economic resurgence). When you think about the economy – as those in this room do, all the time – recognizing the breadth of the Fed's work is important, because it all connects to our mandate and mission, and to our overarching goal of a vibrant, inclusive economy with opportunities for all.

First, I'll give my standard disclaimer: These perspectives are my own. I am not speaking for any other Federal Reserve policymakers.

**Monetary Policy, and the Macroeconomic Outlook**

Inflation remains too high, and recent indicators reinforce my view that there is more work to do, to bring inflation down to the 2 percent target associated with price stability. I'll say more about *why* this is so important, in a moment.

Our banking system is strong and resilient, with well-capitalized institutions and ample liquidity. The banking industry plays an important role in the economy – banks of all sizes are important for meeting saving and credit needs across communities. However, recent bank failures underscore how difficulties in just a few institutions have the potential to undermine confidence in the entire banking system.

The Federal Reserve, in concert with the Treasury and FDIC, took decisive actions to strengthen the public's confidence in the U.S. banking system and to protect the U.S. economy. I note that while these actions assisted depositors of the failed banks, shareholders and certain unsecured debt holders were not protected, and the banks' senior management were removed. Vice Chair Barr has a comprehensive review underway to determine what went wrong and whether changes are needed. We will take what is learned to heart and strengthen practices accordingly – consistent with our mission to ensure a safe, sound, and stable banking system supporting a healthy economy for all.[1]

The Federal Reserve continues to monitor financial conditions closely, and is prepared to use all tools at its disposal in keeping the banking system safe and sound.

I will now turn to monetary policy, mindful of course that challenges to financial stability – and credit conditions generally – have implications for the macroeconomy and by extension, for policy.

In March of last year, the Federal Open Market Committee (FOMC) began raising interest rates to bring inflation down. But despite progress, inflation remains too high, and there is more work to do to restore price stability.

*Why* is the inflation fight so important? The starting place is the Fed's dual mandate from Congress, for price stability and maximum employment – representing strong and stable economic conditions that benefit everyone.

High inflation creates hardship for all, particularly those at the lower end of the income distribution who can least afford price increases – especially for essentials such

[1] See the Joint Statement describing *"actions enabling the FDIC to complete its resolution of Silicon Valley Bank…in a manner that fully protects all depositors," emphasizing "No losses associated with the resolution of Silicon Valley Bank will be borne by the taxpayer", and continuing "We are also announcing a similar systemic risk exception for Signature Bank … which was closed today by its state chartering authority. All depositors of this institution will be made whole. As with the resolution of Silicon Valley Bank, no losses will be borne by the taxpayer. Shareholders and certain unsecured debtholders will not be protected. Senior management has also been removed. Any losses to the Deposit Insurance Fund to support uninsured depositors will be recovered by a special assessment on banks, as required by law. Finally, the Federal Reserve Board on Sunday announced it will make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors."* (https://www.federalreserve.gov/newsevents/pressreleases/monetary20230312b.htm). Also note the announcements that Vice Chair for Supervision Michael Barr is leading a review of the supervision and regulation of Silicon Valley Bank, in light of its failure (https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230313a.htm), and of coordinated central bank action to enhance the provision of U.S. dollar liquidity (https://www.federalreserve.gov/newsevents/pressreleases/monetary20230319a.htm).

as food, housing, and transportation. Inflation also complicates investment and planning decisions for firms throughout the economy.

I lead the Fed's First District, which covers most of New England, and as I meet with constituents, many highlight the challenges they face from inflation. In Vermont earlier this month, I heard from small business owners ending projects due to cost increases, parents having to take on second jobs given rising prices on necessities, and people unable to accept attractive jobs because living costs are rising too fast where the job is located.

Importantly, the two dimensions of the Fed's mandate – price stability and maximum employment – are intertwined. Low, predictable inflation is an important precondition for maximum employment that is sustainable over time. Price stability is essential for a well-functioning economy and labor market.

Inflation reflects a gap between demand and supply, resulting in pressures that fuel wage and price increases. In raising interest rates, the Fed intends to slow demand, cool a still-hot labor market, and bring demand and supply back into sustainable alignment.

Since March, the FOMC raised rates from near zero to the range of 4.75 to 5 percent. After initial, expeditious moves, recent increments have been small and deliberate – which in my view is appropriate as we approach a level that is sufficiently restrictive.

The recent data show signs of more underlying strength in the economy than many anticipated. The unemployment rate remains at historically low levels, job growth remains robust, and spending indicators through February were stronger than expected. This strength might reflect the fact that policy did not enter fully restrictive territory until the second half of 2022, and it may be too soon to see its full effects on real activity.

But special factors may also have limited the impact of policy actions thus far, relative to historic norms. On the household side, a sizable amount of "excess" savings accumulated during the pandemic remains – although this is less evident at the lower end of the income distribution, where some signs of stress are emerging. On the firm side, balance sheets also remain quite strong overall, limiting the need for external finance.

Sustained household and business spending, and limited pickup in labor supply, help explain why the labor market remains robust. But there are some emerging signs of slowing labor demand. In particular, a large portion of the recent strength in payrolls comes from sectors that were hit especially hard early in the pandemic – such as leisure and accommodation, and health care – and faced significant hiring challenges in the recovery. As this "catching up" process ends, I expect more moderation in hiring, which should help to relieve wage pressures.[2] Here, it is important to note that workers do not benefit from *nominal* wage gains that are eroded by too-high inflation – what matters for workers are gains in *real* wages.

While we may be seeing some initial signs of wage moderation, more will be needed for a sustained improvement in price inflation. In determining whether inflation is moving toward target in a reasonable amount of time, it is informative to look separately at three key components.

- First, core *goods* price inflation has slowed, but a full passthrough of supply chain improvements and lower input costs to goods prices will take more time.
- Second, *shelter* inflation remains quite high. Slowing growth in new rents (with actual declines in some areas for rents and house prices) should feed through into lower shelter inflation in the coming quarters.
- But, third, *services* inflation excluding shelter, which tends to be closely tied to labor costs, remains particularly elevated and will require wage pressures to ease more.

[2] The recent slowdown in job quits is another potential sign of slowing labor demand. In addition, cross-state data suggest that wage inflation tends to be more strongly correlated with quits than vacancies, implying that the slowdown in quits may help to ease wage pressures despite vacancies remaining elevated. Wage inflation, however, also continues to be highly correlated with unemployment, suggesting that at least some rise in unemployment rate will be needed to bring about a more significant decline in wage growth.

In all, the challenge ahead lies in determining the level and path of the federal funds rate to bring inflation back to target in a reasonable amount of time, without undue labor market disruptions.

As I noted earlier, recent financial sector stress has added to this challenge by increasing the uncertainty around appropriate monetary policy. While the banking system remains strong and resilient, recent developments will likely lead banks to take a somewhat more conservative outlook and tighten lending standards, thus contributing to slowing the economy and reducing inflationary pressures. These developments may partially offset the need for additional rate increases.

While recognizing the heightened uncertainty, I believe staying the course with a one-quarter-percent increase in the policy rate at last week's FOMC meeting was appropriate. Similarly, given current information, I see the median federal funds rate path for 2023 in last week's *Summary of Economic Projections* from Fed policymakers (the SEP)[3] as reasonably balancing the risk of monetary policy not being restrictive enough to bring inflation down, and the risk that activity slows by more than needed to address elevated price pressures.

Similar to the SEP median, I currently anticipate some modest additional policy tightening, and then holding through the end of this year. Of course, I'll be carefully watching a range of indicators including data on inflation, spending, labor markets, and financial conditions.

Overall, I continue to be what I call a "realistic optimist." I am well aware of the many risks and uncertainties facing our economy – including the risk of a self-fulfilling loss in business and consumer confidence. However, I've also mentioned reasons to be optimistic the economy may prove more resilient to tight financial conditions than in the past – including business and household fundamentals that remain relatively strong. So, I am still optimistic there is a path to bringing down inflation without a significant economic downturn.

[3] https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20230322.pdf

**A Range of Activities in Support of a Vibrant Economy**

As I mentioned at the outset, I want to touch briefly on some things the Fed does, that get less attention. In my view, understanding the breadth of the Fed's work is important because I see the Fed's mission as fostering a vibrant, resilient, inclusive economy; and we do that in a wider range of ways than most people realize – from monetary policy, to economic research, financial stability efforts, community development activities, and initiatives related to payments, technology, and finance. I will be happy to elaborate during the discussion, but for now I'll just mention two initiatives that show the breadth and depth of the Boston Fed's commitment to a strong, inclusive economy with opportunities for all.

First, the infrastructure for making and receiving payments is a foundation of everyone's economic lives and our financial system. In today's world, people increasingly want quick and easy ways to make payments and immediate access to those funds.

On behalf of the Federal Reserve System, the Boston Fed has been leading the build of a new, real-time payments service, referred to as the FedNow℠ Service. Launching in July, the infrastructure will provide access to instant payments for participating financial institutions and their customers.

FedNow will offer real economic benefits to the American public, who will be able to send and receive instant payments safely and efficiently through participating institutions – giving greater flexibility to manage money at any time of the day or night, 365 days a year. We encourage financial institutions across the country join in the service, so their customers can broadly enjoy the benefits of instant payments.[4]

Second, for decades we have studied gaps and disparities in economic outcomes. This relates directly to our mandates from Congress, which include maximum employment. Because unemployment rates that are persistently higher by

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[4] Learn more at FedNow℠ Explorer – Instant Payments Learning & Resources.

race, or by place – as they have been for a long time – reflect underutilization of our country's labor resources, adversely affecting productivity and prosperity.

One effort proving important in this regard is the Boston Fed's Working Places program, which touches 30 urban and rural areas across New England. Research shows that the "secret sauce" in economic resurgence seems to be cross-sector collaborative leadership from local people, working together to identify issues and solutions. The Fed's role is to provide a framework for convening and for increasing collaboration among the private sector, philanthropy, local organizations, state government, and residents. The program supports efforts by local leaders to help their areas address challenges such as workforce development and affordable housing – and the results are promising.[5]

I'll conclude with a final observation. As I travel and hear about peoples' experiences, I'm struck by the opportunities and strengths in our economy, as well as the challenges. Hearing from a wide range of voices rounds out the economic data, deepens our understanding, and helps us all make progress. My Fed colleagues and I will continue to prioritize this type of engagement, which is essential to our work.

With that, I'll be happy to discuss some questions, with Elaine.

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[5] In a January speech, I discussed the Working Places framework and local efforts to find economic resurgence in smaller cities and rural areas facing challenges. https://www.bostonfed.org/news-and-events/speeches/2023/the-national-and-regional-economy-navigating-near-term-changes-and-long-term-challenges.aspx