Susan M. Collins:

So with that, again, I'm delighted to be here and I look forward to a conversation with Elaine.

Speaker 2:

President Collins. Susan, thank you so much for being here and your wide-ranging remarks on everything important, frankly from inflation to the banking system, to economic geography and bringing up some left behind places. And I'm hoping that we can get to many of those. But let me just start by saying that you've been now president of the Boston Fed for about nine months, and so tell us a little bit about your experience thus far. What has been a particular challenge, not that it's not a very challenging environment for the Fed, and what has been something you've particularly valued or found satisfaction in?

Susan M. Collins:

Yeah, thank you. So first of all, delighted to have a conversation with you about a lot of interesting and important topics. As I said in my remarks, I really do see the role as an honor and a privilege and a key. There are lots of things that are very satisfying, but as I mentioned, and the reason that I prioritized including a discussion of the breadth of what we do is that I find it, I would say incredibly satisfying to recognize the many ways that broader mission can be advanced. And so engaging with constituents across the first district of New England and working on initiatives that I think really can make a difference in people's lives, I find incredibly rewarding. And as you say, it is a challenging time. The nine months has gone really quickly, no shortage of things to work on and to think about and to learn about.

I think we that we always have more to learn and ways to really improve what we do. And I think collaboration is important to that. So it is a challenging time. There's a lot that's unusual about the current context, just like there was a lot that was unusual about the pandemic recession, very different from prior context. And so learning in real time and figuring out what is the best way to balance all of those different considerations is certainly challenging. It's important work and I'm glad that I have a strong set of colleagues, often with different views, around the FOMC table to be able to help make those decisions.

Speaker 2:

It's fascinating to hear you say that because I feel like within the district, community development is I think often is what residents and businesses in a district see from a Fed, but the economics and finance community looks at interest rates and monetary policy and doesn't tend to focus on the important community development role of the banks. So you're enjoying that. So what is the number one question I think on this audience's mind is about the inflation outlook. So can you tell us a little bit about your inflation outlook and what do you see as the biggest risks to your outlook? Because we all have our most likely scenario, but I think understanding the risks is so important.

Susan M. Collins:

Yeah, absolutely. So let me start by just very quickly saying what is in the SEP, the Summary of Economic Projections, it just came out last week and the median does give a sense of what the overall committee thinks, and in my view is quite similar to my outlook. And that has the inflation coming down by the end of the year to something in the range of 3.6%, perhaps by the end of 2024 by two and a half, 2.6%, somewhere in there and then close to the 2% target by 2025. I do think that that is a reasonable kind of baseline, but as you say, there are a lot of risks and uncertainties around that. And if anything, they have

increased recently with some of the banking stresses that I talked about in my remarks. So not necessarily in order, but some of the risks that I think are worth focusing on.

And I will say, and certainly others look at a wide range of different types of data, both quantitative and also qualitative. The conversations in the district asking people what they're seeing right now, the data often are looking at what happened last month or what happened in the past, trying to understand what turning points might look like and what's happening right now is important. So some of the other risks, for a long time we've had concerns about what was going to happen with inflation expectations. If inflation expectations do become unanchored, that certainly makes it more difficult because it influences wage decisions and all kinds of other things. My read of the data, I feel relatively comfortable there that they seem quite consistent with us bringing inflation down. There are a number of global factors that are also important. We're worried for a while about all of the supply conditions.

They've come down substantially, but in some areas there still are some supply constraints that are important and we global demands and the energy situation and so there are a lot of risks that are associated there as well. And then I'll just end by noting the labor market. I think many of us had expected that labor markets would be a bit less hot, that they would've cooled a bit at this point, and we're still seeing quite a bit of strength and those wage pressures are key to an important part of the persistent inflation, as I mentioned in my remarks.

Speaker 2:

I know [inaudible 00:06:23] touched on one of the audience questions, which was about, well, if we look at measured inflation, it's inherently backward looking, so what are leading indicators you look at? And I think, well not quite stated that way, I think especially with regard to the path of future inflation.

Susan M. Collins:

Yeah, again, I think there are a range of different indicators. One thing I'll say which is not directly related to that, but I mean typically I think we've thought of some of the key labor market indicators like hiring as being a coincident indicator recently. I actually think that's been a more lagging indicator because as I mentioned, there are some key sectors that really struggled and hiring has been a challenge because of labor supply and other reasons over time. And so we're actually aware that some things that might have been leading or lagging, we may need to interpret them a bit differently.

So looking more holistically at a wider range of labor market indicators, looking as I said, unpacking inflation and looking at the components in a more granular way. And I will say also really trying to factor in some of the qualitative information that all of us learn from speaking with various constituents around our district. I would say all of it and things that historically have been leading are lagging, we may not want to think about that way. So we're trying to think holistically about what the picture is that's being painted by all of the data we're receiving.

Speaker 2:

Great, thank you. And yeah, that's another thing that I feel like many audiences don't focus on enough is the amount of outreach that the banks do to understand what's going on across any needs in the district and really understand that. So I'd like to turn to financial and banking stress. And you did mention that you see the banking system as strong and well capitalized and resilient. How do Silicon Valley Bank's failure and the market fall out from that affect your economic outlook in your thinking about the correct policy stance?

Susan M. Collins:

So certainly the stresses that we saw earlier this month in the banking system have been really focused attention in an appropriate way. And while certainly that industry was being carefully monitored, I would say that my own attention has increased in terms of the range of things that I look at and an understanding of the importance of making sure that I also talk about that. I think it's important to recognize. As I mentioned, all size banks, their strength is critical for a vibrant economy in the range of different types of communities, small, rural as well as large urban settings.

One of the consequences is just I would say an appropriate heightened attention. Again, not that there wasn't active monitoring and engagement in the banking system, I certainly don't want to suggest that. I would also just reiterate, as I mentioned very briefly in my remarks, that the things that we have seen are likely to make at least some banks a bit more conservative in terms of how they make their decisions and as they increase their own liquidity that can cause a curtailing of credit to some degree and is likely to impact the financial conditions.

If you had gone back to early March or as I was looking at the data that was coming in, that was showing somewhat disappointing inflation indicators, that was showing real activity stronger than I was anticipating, I was planning to increase my submission to the SEP in terms of how much we would need to increase the federal funds rate to be sufficiently tight. And the context in the banking system has offset some of that. And so the SEP submission, my own view of what is an appropriate balance is very similar to where I was in December, despite that somewhat disappointing news in terms of inflation specifically. And so in addition to I would say even expanding and heightening our attention, it also has had an impact in terms of at least what I think is sufficiently tight for us to be successful in restoring price stability.

Speaker 2:

Great. And you've talked about the banking system being resilient and strong and well capitalized, but the banking stress has also caused stress in financial markets, wider spreads, less issuance. So how do you currently assess broader financial stability in weight in your thinking about monetary policy?

Susan M. Collins:

So of course financial stability is incredibly important. I think that the decisive actions that the Fed took in concert with the Treasury, with the FDIC have been very important. And it will be I think important for us to continue reiterating that we will take the action needed to ensure that there is adequate liquidity in the system. And so it certainly does influence the thinking in important ways as it should. And certainly if there was additional stress that had macroeconomic implications that would influence the thinking about policy. And so the holistic assessment of data before we make decisions, very much factors in those considerations.

Speaker 2:

Thank you. And I want to take a question from the audience related to banking and to what extent are you concerned about commercial real estate and could losses in commercial real estate further destabilize small and mid-size banks?

Susan M. Collins:

I think it's a very important question. Certainly there are changes in how commercial real estate has evolved post, I won't say post pandemic, it's moved into a different phase. I think of it as endemic, but

so certainly there are important reasons to be very focused on what's happening with commercial real estate. I will say that there was a heightened attention, even pre pandemic some years ago, recognizing that not surprisingly, a number of small and medium banks do have a larger percentage of commercial real estate on their books. That's part of their role in helping to be a vibrant support for savings and credit within their communities. And so that had led the Fed to have some additional kind of scrutiny and focus in that area. I think that's appropriate and there may be good reasons to revisit and to take a look at that. And so again, it is something that there is appropriately attention to and we'll continue to monitor.

Speaker 2:

Okay, and this is from the audience, but the duration and asset liability mismatch of SVB and other banks was some would perceive as not having had adequate supervisory focus, again, based on audience's question. And is the Fed at this point considering integrating additional capital markets based risk measures into its supervision?

Susan M. Collins:

What I'll say about that is that there is a full review of what happened with the Silicon Valley bank that's underway. It's being led by Vice Chair Barr, and I think it's essential that that be an unfettered review and that be comprehensive. The results will be public and the commitment was to make them public by May 1st. And I think before we actually see what the details are in that review, it's really premature to say what might be appropriate things to consider, both on the supervision side and also on the regulation side. It will look through both sides of that and it's very important and I really welcome having that review underway.

Speaker 2:

So would it be fair to say that the review is not only what happened, but what are the lessons and how should we incorporate this into our supervisory framework?

Susan M. Collins:

Absolutely. That is certainly the goal to draw lessons. And again, I welcome that and I think it's really important.

Speaker 2:

So let's turn to the fundamental tension that often has to exist between the Fed's dual mandates of price stability and maximum employment. And when one is off, there's the potential for pressure on the other. And you echoed Chair Powell's frequent refrain that without price stability, we don't have an economy that works for anyone. And at the same time, while inflation has its cost and you highlighted how it falls more heavily on more budget constrained households, unemployment has costs too. And I think over time we've become more focused on not just that someone lost a job and lost income, but their incomes don't necessarily recover to the level they were at prior to a spell of unemployment. And there are mental and physical health issues. So those are both really big problems that hit households. How do you weigh those tensions and think about that?

Susan M. Collins:

Yeah, this is a really important issue and a really important question. I will say that on the unemployment side, the personal impact of unemployment, and we actually also know that when unemployment rises, it tends to fall disproportionately on people of color, on people with less education. So it's borne disproportionately by some groups and it's not just the individual impact, it's family impact and also an impact on communities. And so I take really seriously a focus on what maximum employment means and slowing an economy which I do expect will lead to some increase in unemployment. And I do think that without some increase in unemployment, it's going to be very difficult to bring wage inflation down in a way that's consistent with restoring price stability. So I think it's important to be clear about that, to recognize that and to do what we can not to have an undue disruption in labor markets.

At the same time, as you mentioned, the extensive impact of inflation throughout our economy when it's too high, I think actually first of all, the breadth of that is substantial and the implications over time if it's not brought down are really substantial. And so I do think the why is very important, which is one reason I started there in terms of why bringing inflation down is key, even though it is likely to mean, or I think it's very difficult to accomplish that without some increase in unemployment. So I take those things seriously. It's also why I mention whenever I speak about this that I really do see a pathway for bringing inflation down that doesn't require a substantial downturn, some increase in unemployment, which is at historically low levels right now, I do think is going to be part of the path, but I don't think we need a significant downturn.

And that's one of the reasons I worry about a self-fulfilling spiral that could actually make that more likely. And one of the reasons I'm so focused on the wide range of kinds of information, trying to make sure we don't miss the timing of when there are those inflection points, that that's very difficult to do, and it's really important because those are the context in which you might go too far in terms of the policy tightening.

Speaker 2:

So this is the top question from the audience at the moment. Interest rates are sort of a blunt instrument for assessing inflation and unemployment. This is the questioners phrasing, should the Fed be given additional powers to affect the economy?

Susan M. Collins:

It is true that raising the inflation is a relatively blunt instrument. It is not a kind of focused targeted instrument in the way that Congress can mandate. I think that the mandate is quite appropriate to have this broad set of goals. And I think that the tools are the appropriate ones for a central bank. I think some of the additional kinds of tools that I've heard, at least some consider really are appropriately left to Congress or perhaps to the administration and ideally they work in concert in terms of trying to address different factors. I do believe that the toolkit that the Federal Reserve has will be successful in bringing inflation back down and restoring price stability.

Speaker 2:

Great. And this is probably from a market-based economist, but market-based expectations are saying that the Fed will cut interest rates by a hundred basis points by the end of the year, despite the Fed sending completely different signals, including through the SEP. So does this raise concerns for you

about market confidence in the Fed? And is there anything the Fed should be doing to adjust market expectations?

Susan M. Collins:

Let me say a couple of things about that. There have been a number of, and I've certainly followed Central Bank policy and markets for a while, maybe not quite as intently and closely as I have for the past nine months. But during that period, there have been a number of times in which markets, and for example, the SEP or the way that I or some other colleagues have talked about our outlook for the path have diverged. And I think that there are always a range of views out there. I welcome having a range of views. I think that the breadth of discussion is important and sometimes that can be underpinned by having different groups within the economy actually seeing things differently and looking at things differently. My current baseline, and again, I've mentioned that there are a number of risks, and so certainly things could evolve in a different way from what is my baseline.

But I do think that unless we hold rates at a sufficiently tight level for some time, which I believe is likely to be through the end of 2023 before we start to bring them down, I think that that's what we're going to need to do in order to be successful with the fight against inflation. We do know that the lags are substantial, yes, in terms of the effects of tightening interest rates of tightening financial conditions working their way through the system in particular, labor markets are one of the parts of the system that tend to be affected with a longer lag.

So yes, it's true that we started raising rates back in March and that seems like, wow, that's a year ago. There are some estimates that say that you know should see after a year those effects, but it really wasn't until much later in the year that rates got to a level that was in restrictive territory and actually started to pull things back. Mortgage rates rose pretty quickly. And so you could see the effects in housing markets earlier, but I think some of the other effects really do take longer. And one of the lessons from history that I think is important is policy that doesn't stay the course is more likely to not get inflation under control than requiring the Central Bank to do even more and have a more significant disruption to labor markets in order to be successful. And I don't think that is the path that we want to go down.

Speaker 2:

So you turn to the question of lags, and one of the hard things for the Fed is deciding when you've gone far enough, even if you aren't seeing those results. And I think the classic lessons had been up to 18 months, but there was an interesting paper out of the Kansas City Fed recently, and it's one paper from one author at the Kansas City Fed suggesting the lags are now about 12 months. What is your thinking about lags and how you incorporate that in your framework?

Susan M. Collins:

So I have seen that paper. As you mentioned, there's a large literature and there has been for some time actually within the range of estimates that is in the literature that is in the range. It's maybe on the somewhat shorter side, but as I've said, there's some things that we're not really seeing yet. And so I think time will tell in terms of how long it actually takes. It's hard in real time to make a assessment of whether the lags have gotten shorter or not. I'm sure there'll be many, many studies that many of my economists friends and others perhaps some in this room will be doing after the fact.

So it's possible that some channels have speeded up. I do think that that reflects credibility, which is a good thing. And often the rates increase before we actually increase rates. And I think that is reflective

of credibility as well. But what we're seeing, for example, in labor markets to me is suggestive that the lags remain important and that we're going to need to stay the course recognizing that that means stay restrictive for some time.

Speaker 2:

And we have a similar question from the audience about credit tightening. And since it takes time for credit tightening and reflect response to recent events to happen and then to feed in the data, how does that impact your thinking about whether there should be great hikes at the next meeting or whether to wait longer? How are you going to work through that?

Susan M. Collins:

Yeah, so my approach is to review the full compliment of data that's available at the time. And so it's premature for me at this stage to say what I think will be needed at the next meeting because there's new data that will be coming out between now and then that holistic review, which as I've said in addition to the statistical data, includes qualitative information. It also includes reviewing the results of a number of simulation exercises and forecasting exercises. From my perspective, you want to do that looking at lots of different models that makes somewhat different assumptions and factoring all of those kinds of things into place.

We need to make the best decision, I believe at the time, given the information that's available then. And that's holistic. It reflects all of those things that I've talked about in a variety of different ways. So one of the things that it certainly reflects, and I'm just kind of repeating something briefly that I already mentioned, is the recognition that if banks understandably want to adjust liquidity, that that affects financial decisions, financial conditions. So there's a wide range of things in addition to what the Federal Reserve does with the federal funds rate that influence the financial conditions more broadly. And we want to be reviewing all of that and seeing what some of the responses are to it as we're making our decisions.

Speaker 2:

So I want to come back to more granular conditions on the ground as we close in our last few minutes. And with the turmoil of the COVID area, economic geography changed. People moved out of large cities, some of the biggest cities saw out migration, and that helps some smaller towns and cities gain population because more remote work can be done, but we still have these left behind places. And you talked a little about the Boston Fed's Working Places Initiative, which awards grants to successful initiatives to lift opportunity. Can you tell us a little more about the lessons learned from that project so far?

Susan M. Collins:

Sure, I'm happy to do that. Thank you for asking about that. As I mentioned, it is one of the initiatives dear to my heart. I actually gave a speech more focused on this back in January. I do need to say explicitly, the Fed does not give out funds to different areas. The funding for the project comes from state and local governments, from philanthropy, and there are now 30 sites across five states in New England. I will highlight three lessons. One is that really empowering local leaders to identify what they see for their community as being the key issues and what a strategy or set of strategies would be to address those issues really does seem to be effective. And I think what works in one place may not really work in another place or the way that the specific challenges related to housing or related to helping

youth to receive the kind of training that will provide opportunities for them may really be quite different.

And so empowering local leaders is important so that the ideas and strategies come from localities. The other is having multiple people around the table. So one of the lessons is that just having one or two proactive leaders in a community is probably not enough to really drive change that is going to be sustainable and make a difference. And so the idea of having private sector leaders, civic leaders, state and local government and philanthropy and others all at the table crafting through. So what are the real issues that we think could make a difference in our community and what strategies and how are we going to actually follow through and implement them?

The first is keeping it, having that be local. The second is really having it be collaborative across different sectors. And the third is the role that the Fed can play, especially now, I mean we convened and catalyzed a lot of this, but one of the things that we are starting to do and I'm quite excited about, is helping to do the cross-fertilization. So what are the lessons? If you have 30 sites you're learning in one place, how does that translate with similar or different in other places? And so how can we think about doing some more of this work at scale?

Both rural areas are quite different. Small cities are quite different and there really are some that had vibrant manufacturing some years ago, and we know how many of them have been very challenged. There really are some that are seeing a resurgence. And I do think that we can learn from what's worked there and help other communities across our country to really have a resurgence as well.

Speaker 2:

Well, this has been fantastic and I would love to keep going, but we're out of time. So Susan, President Collins, thank you so much for coming to NABE, for spending time, for taking questions from our audience.

Susan M. Collins:

Thank you so much. I really enjoyed it.