

Speaker 1:

President Bostic, welcome back. Good to see you.

Raphael Bostic:

It's good to be back. How are you doing today?

Speaker 1:

Doing well. Try trying to figure out all these cross currents in the economy. Are you still thinking one and done when it comes to a May interest rate increase?

Raphael Bostic:

One, for sure, that's my baseline for this year. I've been at this point for quite some time. The economy still has a lot of momentum and is performing quite strongly and inflation remains too high. Before I came down to the studio here, I took a look at our underlying inflation dashboard and by pretty much every measure that you look at, current inflation is more than double what our target is. So there's still more work to be done and I'm ready to do it.

Speaker 1:

Yeah, so the question now becomes what happens after May? Are you leaning toward more hikes? Staying put?

Raphael Bostic:

My baseline is to hold. I think that after the next move, if the data come in as I expect, we will be able to hold there for quite some time. Now, I've been saying for a while, I don't think that inflation is going to come down quickly. It's going to take some effort and a resoluteness on our part. So once we get to that point, I don't have us really doing anything but monitoring the economy for the rest of this year and into 2024.

Speaker 1:

What factors would make you consider an interest rate cut? Because the market is now expecting that in the back half of this year.

Raphael Bostic:

Yeah, I know. Part of this is really about the pace of inflations returning back to our 2% target. I don't think that's going to happen as quickly as some of the markets do, and it seems that the question is who's right on this? I think that we've made a lot of movement in the last several months, but now the hard part happens. At the beginning of this year, people were talking about has inflation plateaued at a level, and I think those concerns are still in my mind for sure. And we're just going to have to see the pace that it comes down. I don't see it coming down below maybe three and a half. And three and a half is still well above our 2% target. So, as I said, there's a lot of work to do. We're going to have to just stay on top of it. And this is one instance where I actually hope I'm wrong, but I don't think I am at this point.

Speaker 1:

Well there's also this question, President Bostic, about how much inflation is just here to stick around because of things like nearshoring and security risks and ESG. President Lagarde, of the European Central Bank, this week talking about how the US China trade tensions are ultimately inflationary. Do you agree?

Raphael Bostic:

Well, I think it's still an open question. Folks in my building remind me all the time, there's a difference between a one time shift in a price level and underlying inflation, and so the nearshoring may actually lead to a different price basis, but that's different than saying that we're going to fundamentally see escalation continue at elevated levels moving into the future. We're just going to have to see how these economies play out and I don't think it's a foregone conclusion that inflation has a new baseline or benchmark in terms of the number that we should be using as our target.

Speaker 1:

What about the economy? Because that's the other piece of this. Where are you right now on recession expectations as soon as this year?

Raphael Bostic:

Well, I don't have recession as my baseline outlook. Look, throughout this entire pandemic experience in the last two or three years, the economy has continued to be extremely resilient and it's continued to perform better than pretty much everyone expected. I don't know why. Well, I don't think that we're going to see a whole lot different in that regard, which is another reason why I'm really comfortable holding at our restrictive level for quite some time as that energy of the economy really starts to be wrung out and we get more into balance. Part of the challenge we have right now is that we have an economy that aggregate demand is extremely strong and we're going to have to see some weakening, but we just have not seen weakening happen at very large increments.

Speaker 1:

Yes.

Raphael Bostic:

And I'm hopeful that that will continue as we go through the year, so we have an orderly return to balance and back to our 2% target.

Speaker 1:

But I don't have to tell you the long and variable lags of monetary policy. So you think the economy can withstand a 550 basis points of tightening high inflation into an inverted yield curve and not go into recession?

Raphael Bostic:

Well, I want to correct you on that first thing. While there has been 525 basis points of-

Speaker 1:

I was adding May.

Raphael Bostic:

Oh, yeah. That's fine. But all of that has not been in the restrictive space. So the first 350 basis points of that was basically taking the foot off the gas and moving out of accommodative into restrictive. So, if you think about what we're going to need to see, we're going to need to see slow down. And slow down is going to require putting your foot on the brakes, if you will. We've only moved into that territory starting in the fall, and so there is still a lot of work that's going to go through our policy. And that's one of the reasons why I think one more move should be enough for us to then take a step back and see how our policy is flowing through the economy to understand the extent to which inflation is returning back to our target.

Speaker 1:

There's also the bank issues, and we've been covering the bank earnings today and last week extensively. We'll get more regionals. But from your perspective, is the bank stress over?

Raphael Bostic:

Well, I'm a bank regulator, so I get paid to worry about this, and so I never think of it as over, over. What I'll say is that the acute tensions seem to be residing-