

Kai Ryssdal:

This is MarketPlace, I'm Kai Ryssdal. We are just a little bit less than two weeks away from the next meeting of the interest rate setting Federal Open Market Committee, and you all know the state of play as well as I do. Unclear, would be that state of play. Maybe they're going to pause, maybe they're going to raise rates a quarter of a percentage point, maybe more. Austan Goolsbee is one of the 11 people who are going to have a vote come meeting time. He is the new-ish president of the Federal Reserve Bank of Chicago after a long stint at the University of Chicago and a couple of years at the Obama White House as well. Austan, it's good to have you back on the program.

Austan Goolsbee:

Thank you, Kai. Thanks for having me back.

Kai Ryssdal:

30 seconds at the top of the show, at the top of the interview. What's your gut on this economy right now?

Austan Goolsbee:

Still waiting to see whether there are other credit shoes to drop, I'd say. Not in the crisis sense but in how much squeezing is going to be coming from the bank side, I think it's going to matter for whether this economy's going to slow down. Everybody's forecasting some growth slowdown for the second half of the year, how intense that will be it's going to depend a lot on the financial part.

Kai Ryssdal:

I'll be honest with you I did not expect to hear credit conditions being the first thing out of your mouth.

Austan Goolsbee:

Yeah, I mean it is because that's been the order of the day. I mean for sure we're watching the job market is the fly far the strongest part of the economy, still getting really unprecedented numbers. And inflation, there's been some improvement, but in a way that's the worst part of the economy is that's proved more persistent than for sure we wanted a year ago. And this is a problem if you look at the Eurozone, inflation's about 7%, the US is about 5%, so there are a lot of countries trying to deal with these similar issues.

Kai Ryssdal:

You gave a speech last week, I think your first big speech since you got the Chicago job, maybe I'm wrong, I don't know. But anyway, it was a big speech and you said in talking about credit conditions and what the Fed might do, you said it's proper to be cautious to see how things play out and everybody's interpreting that as you saying, you know what, let's take a pause on raising rates. Are we reading you the right way?

Austan Goolsbee:

Well, I didn't say... I mean, we still got a couple of weeks before the actual meeting, so if anybody imputed some specific basis points of what I was for that, that'd be inaccurate. Most of my message was-

Kai Ryssdal:

We all imputed that.

Austan Goolsbee:

Yeah, I don't know. I can't speak for others. My message is, be prudent, be patient. The tightening of credit conditions, if they happen in a, doesn't even have to be a credit crunch and for sure it doesn't have to be a financial crisis. If banks are pulling back, it behooves us to pay attention to the data and ask how much of our normal monetary policy job is getting done for us by the credit conditions.

Kai Ryssdal:

Credit conditions aside, what other data are you looking at? What else do you need to see to understand that inflation's moving in the right direction and that there is, all right I'm going to use the phrase even though it's kind of fallen out of fashion, there is a possibility of a soft landing.

Austan Goolsbee:

Transitory soft landing, there's a series of words you're never supposed to say, Kai, you've broken the rule. Look, I'll tell you the things that I look at and I'll tell you a couple that I think we should stop looking at. The ones we should look at are the month to month inflation. As when we quote the number we tend to look backward for a year, but of course that's not an indicator of what's happening instantaneously on prices. So the month to month inflation increment and especially core services not including housing, I would say, because we have a pretty good idea that housing kind of lags and that the components of that will likely mean it's going to start coming down in the near future. The thing that I think too many people look at is wages, and the reason I think it's a mistake is that if you look historically the data show that wages are not a leading indicator of prices, they actually lag prices. So at moments of transition, you can really get yourself twisted into a pretzel that you don't want to be.

Kai Ryssdal:

Not that J Powell is the be all and end all, but he talks about wages all the time. Do you think your view is shared amongst other members of the Federal Open Market Committee?

Austan Goolsbee:

I definitely do not speak for any other members of the Federal Open Market Committee. I'm a huge fan of J Powell and I admire his thinking. I think if for sure wage growth and price growth are tied together what my comment, I realize it's a little bit in the weeds, but is just the question of are wages a leading or a lagging indicator of price inflation? The thing that we should be watching in the here and now over the next two weeks or so before the FOMC meeting, I think are on the price side and on the credit side.

Kai Ryssdal:

Step back for me for a minute, Austan, and let's talk big picture here. As you said in the Chicago speech, and you've certainly said elsewhere, these are wildly uncertain times. We're still recovering from the pandemic in terms of the macro economy. There is the war in Ukraine, the labor market, who knows, and this economy and the supply chain and all of that stuff. How much does that affect how you and your colleagues on the Federal Open Market Committee are thinking about what to do? Because it seems to be a confusing time.

Austan Goolsbee:

Yes, at the least it's a confusing time. It definitely affects my thinking. It's super confusing looking as we come out of a business cycle that really didn't look anything like any previous business cycle.

Manufacturing did not lead it. The cyclical components of the economy were not the things that went down in a recession. It was going to the dentist and a bunch of stuff that's usually recession proof. Now there's pent up demand for these services. Are they even influenced by the interest rate? We don't know that. So I think everybody's got to take a step back, as you phrased it, and just try to get a handle on are we back to normal or are we in some in between state or is this what the world is going to be forever?

Kai Ryssdal:

Well, answer your own question. Are we back to normal? This is the easiest interview ever answer your own question Austan Goolsbee.

Austan Goolsbee:

The answer is yes. We are a yes to many of those, and I guess I still think go gather all the data that you can gather, look at more series than you normally need to look at. That's what you do. If you're an old-fashioned data dog like me in a moment of uncertainty, what you do is go sniff things.

Kai Ryssdal:

This seems like an appropriate point in this interview to ask this question. You have a more informal speaking style, shall we say, than most of your colleagues amongst the Federal Reserve officials. I mean, look, you've been at the national level in economic policy for a long time going back to the Obama White House, so this is not your first rodeo. I wonder though now that your words arguably carry more weight, has that changed how... It obviously hasn't changed how you communicate, has it?

Austan Goolsbee:

Oh, I think it has. I might be irreverent, but I'm less so than I was before. And I'll take that as a caution and I appreciate you giving me that caution.

Kai Ryssdal:

No. Look, your speech in Chicago the other day was the first, and all apologies to all of your colleagues, that's the first economist speech I've watched in a long time that actually had some laughs and was digestible. So that matters. What the Fed says and how it communicates, matters.

Austan Goolsbee:

Look, I hope for the Fed that we can at least be understood. There's a lot of misinformation about the Fed, so I take as a compliment. I'm sure our media folks are going to be sweating. Every time I stand up they're like, oh no, but let us strive as a Fed reserve system to explain why the Fed it's especially important at times like this. And the law gives the Fed a job, stabilize prices, maximize employment, that's the job. And as I say there's nothing in the job description about pay a lot of attention to the stock market or be as opaque as possible, there's nothing in there about that. Let us all embrace the mission of the Fed and I think we'd be better off.

Kai Ryssdal:

Austan Goolsbee is the president of the Federal Reserve Bank of Chicago. Austan, thanks a lot. I appreciate your time.

Austan Goolsbee:

Thanks Kai.