Speaker 1:

You look at the ADP numbers, we might as well start with that because it's just at 145,000. I know there's questions about their methodology or what it means, but what do you take away from it?

Loretta Mester:

Well, we have to look at all the data. So that's a data point that we're going to look at. We're going to get the employment report on Friday, so there's just a lot of data coming in. And we're going to use that to assess not only where the economy has been, but where it's going, because as you know, it's about where the economy's going that's really important for setting monetary policy.

Speaker 1:

Well, that was one of the questions that they were just asking me in the surveillance studio. How do you know what you're looking for when the data are in the rear view mirror?

Loretta Mester:

Well, the data in the rear view mirror is important because it tells you something about where the economy is going. So you don't throw that data away, but you also have to do a lot of other kind of reconnaissance. So the nice thing about having Federal Reserve banks across the country, is that we can talk to contacts in our districts, whether it be labor market contacts or business contacts, to really find out what's happening on the ground at the moment. And that information, anecdotal information is very helpful as well. And then we do surveys and other kinds of more timely information. So all of that goes into sort of formulating monetary policy. So I think it's wrong to think like, oh, we're looking only in the rear view mirror at data that's from a month ago or two months ago, that data is actually helpful for looking at trends. And then we also augment that with other data about what's really happening on the ground, on Main Street for businesses that have to cope with this economy.

Speaker 1:

Well, what's happening on Main Street, kind of two parts, in general, what are you hearing and then what are you hearing from bankers in your district about credit quality?

Loretta Mester:

So credit quality is still fine. Bankers are telling us that that isn't really a problem. It might have ticked up a tad, but it's certainly is still low, very low by historical standards. So that isn't a focus now. The bankers have struggled with retaining deposits, storing, the March tensions in the banking industry, but that has stabilized since then. In terms of credit standards, they had already been tightening credit standards as interest rates went up. So they're continuing to do that, they're continuing to monitor their customers, they're continuing to monitor going forward in terms of making sure that they're well positioned for the economy with higher interest rates.

In terms of the businesses themselves, of course, they are preparing for, I would say, some slowdown in the economy, but a lot of the firms are still telling us that their conditions are still pretty good. They're worried about the economy in general, and so they're being a little defensive now, some pull back in some of their investment spending. But again, it doesn't feel like everyone thinks that we're going to have a deep recession, it's just they're trying to be more cautious so that they're well-prepared for whatever happens in the economy in the future.

Speaker 1:

Well, the recession argument that a lot of people are making sort of depends on the idea that the full weight of all of the cumulative weight of your rate increases hasn't hit the economy yet, plus we throw in that banking maybe tightening credit standards a little more. Are you worried about the second half of the year?

Loretta Mester:

Well, I do think that growth this year is going to be well below trend. And you're right, the banking tensions certainly, typically when you see that happening, you do see banks pull back on their credit standards and tighten their credit standards. We don't know right now either the duration of those effects from what happened in March or how strong those effects will be. So we do expect that to happen, but right now we're in that time where we're assessing, talking to the bankers, looking at things like the SLOOS, which is the senior loan officer opinion survey, to get a really good sense of where bankers are.

As I said, even before the March tensions in the industry, banking industry, the banks were pulling back and tightening credit standards, and that's kind of normal, that's the normal flow of monetary policy tightening throughout the economy, that's one of the ways it gets pushed out into the economy. So that's fine, that's kind of what we are intending in terms of making sure that we can slow down demand so that we get a better balance between demand and supply and reduce those price pressures. And now we're assessing whether the tensions in the banking industry have augmented that, and that's part of what the evaluation will be as we go in to the next FOMC meeting, in terms of calibrating monetary policy.

Speaker 1:

Well, you're in New York, all the big trading desks are only a few blocks away from us, and they're calibrating recession right now, and that you're going to be cutting rates, not once, two or three times before times by next January. How do you process that view versus yours?

Loretta Mester:

Well, we've seen periods where the markets have one view of what's going to happen in the economy, and the Fed has another view, and we certainly take information from that. We see what they're doing and we're saying, "Okay, that's their view of what's happening." We have our own forecast, we just put out forecasts at the last FOMC meeting. And if you look at those, we did say that growth this year was going to be very much below trend growth. And so I think we see things a little bit differently in terms of what the appropriate monetary policy is, given where the economy is and where it's going. We certainly are focused on inflation and making sure that inflation gets back down to 2% over time.

Speaker 1:

Well, is the idea of four rate cuts in the next year crazy?

Loretta Mester:

Well, it certainly isn't my policy path. I mean, I think we're going to have to go a little bit higher from where we are, a little bit more and then hold there for some time in order to make sure that inflation is on that sustainable downward path to 2%. That doesn't mean we're going to continue to raise rates until inflation gets back to 2%. We're going to be sort of calibrating in order to see that inflation is going to move down. And my own forecast is that it will take some time to get inflation back down, but I think we're going to make some appreciable progress this year and then continue to make progress next year and then hit 2% in 2025.

Speaker 1:

What's your trajectory for inflation? Where can we end the year and how fast would we get there?

Loretta Mester:

Yeah, so I'm about three and three quarters percent by the end of this year, continued progress next year, maybe two and three quarters, and then 2% in 2025. And I think that's a good progress. But you got to remember, we've been at high inflation well over 2% for quite some time, and that's why it's imperative that we continue to make progress and that we continue on this path. Now we're going to be judicious about it, we're not going to throw the baby out with the bath wither, as they say. We're going to make sure that we're making good judgments along the way, but it is crucial that we get inflation back down in a timely way to 2%.

Speaker 1:

Well, you're talking about not throwing the baby out with the bath water, but the old adage is, the Fed tightens until something breaks. What would you say the balance of risks is now between something breaking on the growth side and unemployment side and inflation?

Loretta Mester:

Well, I'm hoping we don't tighten until something breaks, I don't think that's the strategy that I would like to follow. I think we've got to be judicious about it and try to calibrate our policy in the correct way. I mean, we've made a lot of progress in terms of where we started, when we started raising rates, we were at zero, and we've come a long way. So we're making progress on getting to where we need to get to. And my own view is that we're going to have to go a little bit further, but we're certainly well on the way of where we need to get to. And then we hold for a while. And yes, we can recalibrate our policy if the economy evolves differently than we're anticipating. And that's the nature of monetary policymaking, you want to be able to take all the information in, set a policy path that is consistent with getting back to full employment, maximum employment and price stability.

And then if the economy evolves differently than you anticipate, then you might have to adjust your policy path, and you need to be open to that, and especially in a situation like this where there is high uncertainty. There were high uncertainty in the economy before we had the tensions in the banking system, that tension in the banking system, the stresses in those banks has added more uncertainty. And so you've got to be willing to take in more information, look at it, and reassess if need be, in terms of where policy needs to get to.

Speaker 1:

Well, you said we should do a little more. The consensus median dot was 5.1, which would be one more rate move. Are you in the group that was above that? How far do you think it could go?

Loretta Mester:

Well, I see a little more inflation pressures than the median in the SEP, from the December SEP, so I probably am a little bit higher than the median dot. But again, I'm open to making sure that we're setting policy to get inflation back down to 2%. So I'm open in terms of let's take in what the economy is telling us about where it's going, let's make sure that we get inflation on that sustainable downward path. So we've made a lot of progress and I'm willing to sort of, let's take it in and look at where the economy's going. My own view is that we'll have to go above 5%, but exactly how much, precisely how much, and precisely how long it has to stay above, we've got to be open to allowing the economy to tell us.

Speaker 1:

Is rate increase on May 3rd a certainty, basically locked in at this point?

Loretta Mester:

Too soon. I heard the promo before, you're right, I'm going to tell you that we have a lot more data to get to, and we'll see as we get there, what's happening in the economy. Again, the economy's going to tell us where it wants us to get to.