Marketplace Transcript

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Bostic spoke with "Marketplace" host Kai Ryssdal about the issues facing the Fed right now. The following is an edited transcript of their conversation.

Kai Ryssdal: So I was reading through the minutes of the most recent meeting, that came out this morning, as one does. And a phrase hit me that I need you to decipher for me. It said, "Many participants focused on the need to retain optionality at the next meeting." What does that mean?

Raphael Bostic: Well, it basically means that we're going to let the data guide us, and we don't want to be locked into any particular movement. Look, we know that right now, the policies that we've done, the tightening that we've done, is just starting to show up into the economy. And the real question is, how fast is that bite going to slow things down? And we won't know until we start seeing data points. So the conversation was really around, don't get locked into anything, let the data come in, and then make a judgment after that.

Ryssdal: You did a panel a number of days ago with Austan Goolsbee at the Chicago Fed and Jeanna Smialek at the New York Times, who people hear on the show every now and then. And one of the things you said to Jeanna after she asked you, "What happens if you guys are wrong on inflation?" You said that, you know, your counsel to your staff in Atlanta is, "We haven't even gotten to the hard part yet." What is the hard part if this ain't it?

Bostic: Well, I think we're right at the beginning of the hard part. You know, as we get further into inflation getting, closer to our target, I'm expecting we're going to see stresses in labor markets. We've not really seen that. And when that starts to happen, people are going to be looking to us to try to do something about that as well, and maybe turn away from our focus on inflation. But we can't do that, because failing in getting the inflation back to the 2% target will be much more problematic for the economy. And so as people start to call out for action to provide relief in labor markets, I think what we're going to have to do is just stay laser focused on the fact that, you know, our employment mandate goal, we are very, very close to that right now. And we're not close to that in inflation. So we have to stay focused on inflation.

Ryssdal: You were all in the same room for this meeting in the beginning of May, right?

Bostic: Yep.

Ryssdal: OK, here comes a sideways question. What was the vibe like? I mean, are you all seeing things the same way?

Bostic: So you know, what I would say is this: Business people across the country are all feeling that slowdown is definitely coming. But there is variation in the extent to which that's happening. So across my district, for example, when I talk to real estate folks, they tell me that the slowdown is here, there's a lot of pain happening, and you guys need to really be careful. But when I talk to others, they say, "Look, demand is slowing, but it is still quite strong. And so we need you to stay focused and not assume that we're going to get to 2%. But rather, just be diligent, be ready to do what you need to do." So, that's the vibe. The vibe is we've got to be very, very much with our fingers on the pulse of the economy and all the different ways that it shows up.

Ryssdal: Let me offer you the opportunity to put a stake in "The Fed's going to cut rates at some point later this year." Or is that on the table, do you think?

Bostic: Well, you know, I'm gonna say this two ways. So one, everything is always on the table. Right? So data can come in however it is. My best case is that we won't be thinking about a cut until well into 2024. And, you know, inflation is just double what our target is by just about every measure. I don't see scenarios where the economy is going to evolve in a way such that inflation gets close enough to our target where we might contemplate any kind of cut.

Ryssdal: OK, new topic. I want to ask you about banks. Federal Reserve Chair Jerome Powell said at the last press conference he had, you know, he thinks that the really hard part is done, that we've drawn a line under the most stressful part. And then, of course, First Republic goes under. Treasury Secretary Janet Yellen said the other day, "We might need more bank mergers." What is your sense of where banking is and how that's affecting credit conditions and what it is the Fed is trying to do?

Bostic: Yeah, there are really two things that I would say when I think about the banking sector. The first is that for the most part, banking deposits are stable. Banks have a lot of capital. Their customers are not nervous, and they're doing what they do. And so the risks that we saw reveal themselves to Silicon Valley Bank and First Republic, I don't think we're going to see those in most of the banks and any of the banks in my district. That said, we have to be careful, you know, and we have to be mindful and be on top of all of that, and we will continue to do that.

The second point is really around how banks are approaching lending standards, and they are all tightening the lending standards. In part to guard against liquidity risk, but in part because they see that there's some credit risk coming as well. My contacts tell me that the extent of their tightening has not been Draconian thus far though. And so I don't see evidence that we're going to be in a critical credit crunch or anything like that. But this is sort of the more orderly way that our policy typically plays through in the economy. And I think it'll help us get to slow down in a way that will kind of minimize the amount of aggregate pain that we experience as we get inflation back into target.

Ryssdal: Last thing, sir, and then I'll let you get back to work. I can't not ask you about the debt limit. But I don't want to give you a softball that you can then just bat away and say, "Well, it's up to Congress, and they have to figure it out, and the Fed can't save you." So here's my question: Can you believe we're talking about this again, still?

Bostic: Well, you know, I would just say this: Through the pandemic, so many things have happened that I didn't expect could happen. I didn't think there'd be a pandemic, I didn't think we would see a war in Europe. And what I really had to do is stop having a lot of expectations about things that were somewhat inconceivable but then happened to play out. So you know, I'm just trying not to be too surprised. This is something that needs to get resolved, because ultimately, shaken confidence in the full faith and credit of the United States government will not be good for the economy and will not be good for your average American.