Rachelle:

Well, let's get over to Yahoo Finance's, Jennifer Schonberger. She's sitting down for an exclusive interview with the man himself. Jennifer.

Jennifer Schonberger:

Thanks, Rachelle. And President Goolsbee, welcome to the program. It's great to have you and a belated congratulations to you on the appointment to this position.

Austan Goolsbee:

Well, thank you very much, Jennifer, and thanks for having me back on.

Jennifer Schonberger:

Want to kick off the conversation with your thoughts ahead of the last policy meeting when you suggested that the Fed should move cautiously when it comes to raising interest rates in light of the recent bank failures and the uncertainty that presents for tightening credit conditions. Yet you voted in favor of raising rates by 25 basis points at the last meeting. Why?

Austan Goolsbee:

Well, I did, and in the speech where I said that we want to be cautious, I said this moment that we're in highlights how data dependent we need to be, that we need to be looking at credit conditions and a whole bunch of financial indicators in addition to our normal things that we look at on the real side of the economy. And in our surveys and our contacts with business contacts and in looking at the credit conditions, we had yet to see that tightening really bite on the real side of the economy. So I felt that it was appropriate to stick with the plan that we had outlined the meeting before.

Jennifer Schonberger:

So then how are you viewing credit conditions right now? What are you seeing? How do you interpret that for credit conditions going forward in the outlook for the economy and setting policy?

Austan Goolsbee:

Well, I'm certainly getting vibes as you are in the market and in the business context that the credit crunch or at least a credit squeeze is beginning. We'll get more information today from the lending officer survey, but that's shown that those conditions have been tightening for some time. So we'll have to keep that in mind. This whole... I don't even know what we would call it. The argument about the debt ceiling comes at the worst possible time, worst possible time where we're trying to figure out what is a very strange business cycle coming out of the pandemic, weighing off against the tightening that's coming from these bank failures and uncertainty. And to add onto it, this uncertainty about whether the government is going to pay its bills, it just makes it extremely difficult to figure out what will be the conditions for economic growth in the job market.

I think you highlighted properly or that they highlighted in the opening segment that the job market has been extremely robust. At the same time, we've seen the jobs openings come down, the so-called vacancies to unemployment rate, which a lot of economists look at as a key indicator of wage demands and the strength of the labor market, you've seen that ratio coming down. In a way, that's consistent with soft landing. So what we're just trying to do here is fulfill the legal mandate of the Fed, maximize employment and stabilize prices. Inflation's been higher than we wanted, but let's try to stabilize the prices without generating any unnecessary recession.

Jennifer Schonberger:

You mentioned we may be at the beginning stages of a credit crunch. Of course, juxtaposed that with how you just characterized the job market and the fact that we are still dealing with uncertainty about raising the debt ceiling here, so bringing all of this together, does it at least raise the odds for a recession?

Austan Goolsbee:

I think you have to say that recession is a possibility. You've got a lot of major forecasters forecasting a mild recession already for the second half of the year. So I think that that's got to be on everyone's mind. And in a way, you do not land the plane nose down. And so we want to just make sure that these bank stresses, I don't know if it's full-blown credit crunch, but it's certainly credit tightening you see from talking to the lending officers or our business contacts out here in the Midwest, that will slow the economy and we absolutely should take that into account when we're setting monetary policy. We have to figure out how much of the work of monetary policy is getting done already through the credit conditions. And we have to be mindful that that's not going to be evenly distributed around the country. The sectors that are more bank dependent are going to be more directly affected by that kind of credit tightening.

Jennifer Schonberger:

So on the job market, we got what people are calling a pretty strong jobs report on Friday. You saw wage growth of 4.4%. Juxtapose that with the revision downwards in non-farm payroll numbers earlier in the year. You started to see job openings drop. How do you view that report and how does that inform your view of the job market going forward?

Austan Goolsbee:

Well, I like that you highlighted we got a strong number that was higher than expected for this month, but they revised very heavily downward the previous two months. Sometimes I think that one of the most instructive ways to look at the job market is both over, let's call it three months, but look at the total hours worked by everyone in the economy, not just the number of jobs. And you've seen that the total hours worked has not been as robustly growing as the jobs numbers would suggest. Given what's happening with the jobs opening, it does look like that is cooling the froth off the top of it, I guess I would say. But there's a long time between now and the next FOMC meeting where we got to decide on the rates. Over a month, I think the job market and the credit conditions, those are the two main things that we want to be looking at besides, of course, the prices themselves.

Jennifer Schonberger:

Okay. So you said you don't want to land the plane with the nose down, right? You are perhaps seeing some cooling now as you just mentioned in the job market. So how does it inform the policy path for you here? How much work do you think is left to do? Is it worth sitting back, taking a pause? What's your sense?

Austan Goolsbee:

Well, like I say, we're more than a month away from the next FOMC meeting. I don't think we can decide what we should do with rates now. We have to see what's happening with these conditions, especially the credit conditions, the job market conditions, and what's coming in on the month to month inflation on the price side. You saw the producer price index moving into a deflationary environment, which was a surprising number to get. And I think the whole backdrop of, "Are we easing the supply constraints that plagued us for the last couple of years?" Is also a factor in thinking about whether you can have the proverbial soft landing.

Jennifer Schonberger:

So we're in a range now of 5 to 5.25% on the Fed funds rate. That has been penciled in by the median as the peak rate. Does that make sense to you right here, right now?

Austan Goolsbee:

Well, like I say, at the last meeting, two meetings ago, we laid out a strategy, a plan. When you look at the SEP where all of the members of the FOMC give their forecast of what they think would be appropriate policy, we are getting in the range of what the dots say in the dot plot. I just do not think that it's responsible to make pre-announcements months before the FOMC meetings what's going to be appropriate. We have to be paying attention to the data and the critical pieces of information that we need to be watching are how much of the tightening that the monetary policy goals' intent, how much of that is being done already from the credit cycle. That's a critical thing that we're going to get some information on today and a great deal more over the next four or five weeks. So let's focus on it.

Jennifer Schonberger:

President Goolsbee, I'm a bit surprised that with quantitative tightening now that that is not slowing down a bit in light of the liquidity issues that we are seeing. Why not temporarily slow that down?

Austan Goolsbee:

Well, as you know, there's a balance to be had on any quantitative tightening or easing where putting that on autopilot so people are not thinking that, at every meeting they're debating exactly how many billions of tightening or easing should be done, I think it's healthy to get on a rule and a path. Now if there are really major adjustments that happen in the economy, of course you can revisit that. But I think some stability and credibility on that front is definitely not crazy. I think the context of the debt ceiling now kind of coming due, becoming more salient is going to make for potentially a lot of weird things to happen in financial markets. So we should be extra attuned to that and let us hope they can just get past this and raise the debt ceiling so this isn't a self-inflicted wound of the most grievous kind.

Jennifer Schonberger:

Yeah. On that debt ceiling, sir, there's a meeting tomorrow between President Biden and House Speaker Kevin McCarthy. If things really come down to the wire before they clinch a deal, what kind of chilling economic effects could we see? I mean, we're already seeing dated treasuries jump and what could this mean for the average American?

Austan Goolsbee:

Well, I was there back in 2011 when we kind of came down to the wire and you saw at that time a very severe drop in consumer confidence. So much of the financial system kind of rests on the safest asset in the world, which is US treasuries, that if there's some doubt about US treasuries, I'm worried about things like are we going to reignite a bunch of banking stresses where financial institutions have treasuries as their collateral? And then on the consumer side, for sure, you would see interest rates going up on mortgages, on auto loans, on credit cards, a whole bunch of things that are indirectly tied to the rates on treasuries. I think you would a lot of chaos to say nothing of the fact that we got to pay the people in the armed forces. We got to pay social security. How is it going to work if we can't do that? I think this makes no sense. They have to figure it out. They have to raise the debt ceiling. As Chair Powell said, there isn't another alternative. So let's hope they can get that message.

Jennifer Schonberger:

All right. Well we'll have to leave the conversation there. President Goolsbee, thank you so much for your insight. I so appreciate it. Hope to speak with you again soon.

Austan Goolsbee:

Thank you.