# Richard H Clarida: US economic outlook and monetary policy

Speech by Mr Richard H Clarida, Vice Chairman of the Board of Governors of the Federal Reserve System, at the Washington Policy Summit, sponsored by the Institute of International Finance, Washington DC, 11 April 2019.

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Thank you for the opportunity to participate in the Institute of International Finance's Washington Policy Summit. Before we begin our conversation, I want to share a few thoughts about the outlook for the economy and monetary policy.[1]

## Current Economic Situation and Outlook

The U.S. economy is in a good place and operating close to both of the Federal Reserve's dual-mandate objectives of maximum employment and price stability. Real gross domestic product (GDP) rose about 3 percent last year, and in July, just a few months from now, the current economic expansion almost certainly will become the longest on record. The unemployment rate is near the lowest level recorded in 50 years, and average monthly job gains have continued to outpace the increases needed over the longer run to provide jobs for new entrants to the labor force. Average hourly earnings are showing a welcome increase consistent with a healthy labor market, yet inflation remains near our 2 percent objective.

All that said, the incoming data have revealed signs that U.S. economic growth is slowing somewhat from 2018's robust pace. Prospects for foreign economic growth have been marked down, and important international risks, such as Brexit, remain. U.S. inflation as measured by the core personal consumption expenditures (PCE) price index, which excludes volatile food and energy prices and is a better gauge of underlying inflation pressures, has been muted. And some indicators of longer-term inflation expectations remain at the low end of a range that I consider consistent with our price-stability mandate.

The considerations I just mentioned have led most private-sector forecasters to project that growth will continue in 2019 but at a somewhat slower pace than in 2018. At the Federal Reserve, in our most recent Summary of Economic Projections, the median participant on the Federal Open Market Committee (FOMC) projected that in 2019, GDP growth of 2 percent will be the modal, or most likely, outcome; that core PCE inflation will rise to 2 percent; and that the unemployment rate will fall a bit further, to 3.7 percent, by the end of the year. Again, these are modal outcomes, and, of course, my FOMC colleagues and I should and do factor in risks on either side of these projections in our policy deliberations.

## Monetary Policy

Given this outlook for the U.S. economy, we decided at our March meeting that the current stance of monetary policy is appropriate.[2] The federal funds rate is now in the broad range of estimates of neutral--the rate that tends neither to stimulate nor to restrain the economy. Our baseline economic projections see economic growth for the year as a whole running somewhat above the Committee's median estimate of its longer-run trend and core PCE inflation remaining near our 2 percent objective. For these reasons, we have indicated we can be patient as we assess what adjustments, if any, will be appropriate to the stance of monetary policy.

At our March meeting, the Committee also released revised Balance Sheet Normalization Principles and Plans, and it announced that the FOMC intends to slow the runoff of our securities starting in May and to cease the runoff entirely in September.[3] This decision is the culmination of discussions that we had over the previous four meetings about our operating framework and reflects our desire to converge to a balance sheet that is no larger than it needs to be to conduct monetary policy efficiently and effectively. In September, reserve balances likely will remain above the minimum level, including a buffer, consistent with this goal. In that case, we anticipate we will likely hold the size of our balance sheet at the level reached in September for a time thereafter and let the gradual increase in other (nonreserve) liabilities, such as currency, slowly shrink the level of reserves. Importantly, with this decision on the size of our balance sheet now taken, we can turn our attention in future meetings to discussing and deciding on the maturity composition of our System Open Market Account portfolio.

As you may know, last November the Federal Reserve announced that in 2019 we are undertaking a System review of our monetary policy strategy, tools, and communications practices. Information about this review can be found on the Federal Reserve Board's website.[4] In this review, we will listen to a broad range of stakeholders at public events held around the country, and we will draw on their insights as we assess how best to achieve and maintain maximum employment and price stability in the most robust fashion possible. Taking these viewpoints on board, the FOMC will begin its own discussions this summer on how we might refine our framework, and we will provide a public assessment after the review is complete.

Thank you, and I look forward to our conversation.

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1 The views expressed are my own and not necessarily those of other Federal Reserve Board members or Federal Open Market Committee participants. I am grateful to Brian Doyle of the Federal Reserve Board staff for his assistance in preparing this text.

2 See Board of Governors of the Federal Reserve System (2019), "Federal Reserve Issues FOMC Statement," press release, March 20.

3 See Board of Governors of the Federal Reserve System (2019), "Balance Sheet Normalization Principles and Plans," press release, March 20.

4 Information about the review and the events associated with it are available on the Board's website at www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications.htm.