

## John C Williams: The joys of spring

Remarks by Mr John C Williams, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the 21st Annual Bronx Bankers Breakfast, Bronx, New York, 10 May 2019.

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*As prepared for delivery*

It's an honor to be kicking off Bronx Week, and I'd like to thank Borough President Ruben Diaz, Jr., for the kind invitation. I first visited the Bronx—and first met Ruben—back in November, when I also spent time with students discussing their plans for the future. I was particularly impressed by their talent, energy, and enthusiasm, which is a true reflection of this vibrant and proud community.

Today I'm going to share some brief remarks on the national and global economy. I'll then discuss what that means for monetary policy today and going forward. For me, the most interesting part of this event is hearing and responding to your questions, so please, don't be shy when I open the floor for discussion.

I've warned you that monetary policy is on the agenda, so before I go any further, I have to give the usual Fed disclaimer that everything I say reflects my own views and not necessarily those of the Federal Open Market Committee or anyone else in the Federal Reserve System.

### **The U.S. Economy**

With that out of the way, let me start by saying the U.S. economy is in a very good place. Late last year, as the long, dark winter closed in, there were considerable jitters in financial markets, with some observers fretting that the economy may be on the verge of a hard landing. Indeed, there was a lot of talk about the possibility of a recession looming.

I am happy to report that the economy has emerged from the New York freeze. The sun is out, the tulips and the cherry blossom are now in full bloom and the picture of the economy is similarly rosy. In the first four months of the year, the U.S. economy added over 800,000 jobs, and the unemployment rate is now 3.6 percent—the lowest level in nearly 50 years.

The latest GDP numbers indicate that the economy remained in high gear through the first quarter, with growth clocking in at an impressive 3.2 percent annual rate.

Despite this very strong economy, we are not seeing any signs of inflationary pressures. In fact, the latest inflation data have come in lower than expected, with core inflation over the past 12 months dipping to 1.6 percent. Now, most people don't seem that bothered by inflation that is a touch too low, but at the Federal Reserve we have set a long-run inflation goal of 2 percent. When inflation runs persistently above or below that goal, we take that very seriously.

So far, the recent downward movement appears mostly to reflect normal volatility in inflation statistics. For example, if you look at my preferred measure of underlying inflation, called trimmed-mean inflation—which removes the most volatile price movements—it's been running at 2 percent. This measure of inflation hasn't shown any signs of trending up or down. That said, I will be watching developments closely for signs of a persistent shift away from our 2 percent long-run goal.

As I mentioned, the economy started the year with a lot of momentum. But there are reasons to believe that the surge in growth won't persist through the remainder of the year. Taking into account of all the indicators we follow, I anticipate a step-down of economic growth, from the 3 percent growth recorded last year to a still-solid pace of about 2-1/4 percent in 2019.

This is good news. It's above the economy's underlying potential, but not unsustainably so. Healthy economic growth should in turn fuel solid job gains, higher wages for workers, and some further declines in unemployment. The strong economy and labor market should also support inflation returning to 2 percent, the Federal Reserve's long-run goal.

## **The Global Picture**

In addition to the positive data we've been getting for the U.S., we've also seen encouraging signs that risks from global economic and financial markets are abating. Last year there were worries that the global growth slowdown centered in China and Europe would spill over onto our shores. This was one factor contributing to a more downbeat assessment of U.S. growth and the stock market sell-off.

Since then, we've seen more positive readings on China's economy, in part due to steps the authorities have taken to reignite growth. And financial markets have definitely rebounded from their winter doldrums.

Still, we're not entirely out of the woods regarding risks from a global growth slowdown. Signs of weakness in Japan, South Korea, and some regions of Europe continue, so I am particularly vigilant about monitoring the international data. Trade tensions and ongoing uncertainty regarding Brexit continue to present downside risks.

## **Monetary Policy**

What does this mean for monetary policy? At last week's meeting, the Federal Open Market Committee decided to leave the target range for the federal funds rate unchanged, between 2-1/4 and 2-1/2 percent. We also reiterated our patient approach to assessing the need to adjust interest rates in the future.

In a nutshell: The economy remains on a path of healthy growth, with a very strong labor market and without the emergence of inflationary pressures. The current setting of policy positions us well to keep it that way.

Although my view that we are in the right place in terms of monetary policy has not changed of late, the reasons for it have evolved in line with the economic and financial developments I sketched out earlier in my remarks. The strength of recent data on economic activity, the rebound of growth in China, and the reversal in the tightening of financial markets all imply that near-term risks to growth have receded somewhat. This has increased my confidence that the economy remains on track for moderate growth going forward. At the same time, recent price data reaffirm that inflationary pressures remain muted.

## **Conclusion**

Looking ahead, although the baseline forecast I laid out looks very good, the situation can change. We need to remain vigilant in responding to evolving economic conditions and the outlook, with our eye on sustaining the expansion, keeping the labor market strong, and fostering price stability.

Thank you. I look forward to your questions.