

John C Williams: Monetary policy and the economic outlook

Remarks by Mr John C Williams, President and Chief Executive Officer of the Federal Reserve Bank of New York, at Euromoney Real Return XIII: The Inflation-Linked Products Conference 2019, New York City, 4 September 2019.

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As prepared for delivery

Thank you for the opportunity to speak this morning. In a speech Chair Powell gave last month, he said, “Low inflation seems to be the problem of this era, not high inflation.”¹ Persistently low inflation is just one of the reasons the theme of this conference is very timely.

Our Dual Mandate Goals

And inflation is one of the topics I’m going to address today. The Fed has two goals set by Congress: maximum employment and price stability. These are also known as the dual mandate. When I talk about price stability, our objective is to keep the inflation rate near our symmetric 2 percent goal,² so understanding inflation data and how it fits into the broader economic picture is critically important.

This morning I’m going to set the scene for that broader economic picture and explain how changes in the landscape influenced the rate adjustment the Federal Open Market Committee (FOMC) made in July. I’ll then discuss the challenges on the horizon and how they feed into my thinking on monetary policy.

This is as good a time as any to remind everyone that the views I express today are mine alone and do not necessarily reflect those of the Federal Open Market Committee or others in the Federal Reserve System.

The Economic Outlook

If you do an online search about recent economic developments, the word “uncertainty” will come up a lot. And it’s true that uncertainty, both at home and abroad, is playing an important role in my thinking about the economic outlook and monetary policy, as I’ll discuss shortly.

But when you take a step back and look at where things stand today relative to our goals, the economy is in a favorable place. The current expansion is the longest on record. The economy continues to grow at a moderate pace, as seen in the latest GDP numbers. And this growth has supported month after month of job gains and a pickup in wage growth in the past couple of years.

Furthermore, the overall unemployment rate is near the lowest it has been in 50 years. And the benefits of the strong labor market have been broad across the population: Unemployment rates for African-Americans and Hispanics, while still higher than the overall rate, are near their all-time lows. These low rates aren’t just a fluke of how unemployment is measured in the official statistics—the broadest measure of underemployment, called U-6, is at its lowest level since 2000. These are all very positive signs when it comes to assessing our maximum employment goal.

The economy is in a good place, but not without risk and uncertainty (there, I said it!). Persistently low inflation is a key area of my attention, with the core PCE inflation rate—which strips out volatile food and energy prices—running at 1.6 percent, nearly half a percentage point below our 2 percent longer-run target.

On its own, inflation somewhat below our longer-run goal would not be such a big deal, especially with our economy strong. But the broader context is important. Ongoing disinflationary pressures from abroad, and the risk that inflation expectations in the U.S. may have drifted down after many years of inflation running below 2 percent, form an important part of this picture.

If we look beyond the headline GDP figure, which remains good, there are more mixed signals coming from different sectors. Robust consumer spending is balanced by signs of slowing business investment. We've also seen a decline in exports and weakening manufacturing data, reflecting slowing global growth and uncertainty related to trade and geopolitical risks.

I am carefully monitoring this nuanced picture and remain vigilant to act as appropriate to support continuing growth, a strong labor market, and a sustained return to 2 percent inflation.

Monetary Policy Adjustments

This brings me to our decision to lower the federal funds rate in July and how that fits into recent history. Cast your minds back to a year ago, when the Fed was continuing along the path of normalizing monetary policy. This context provides useful information for how and why our stance has evolved over time.

During the summer of 2018, the economy was growing above trend as businesses rode the wave of fiscal stimulus. The unemployment rate had fallen below 4 percent, a figure not seen since the peak of the tech boom in 2000. The global outlook was still quite positive, and inflation was close to our 2 percent goal. Against that backdrop, very gradually bringing interest rates back to more normal levels was appropriate in order to keep the economy on a sustainable path of growth.

But the economic outlook and the uncertainty around that outlook have evolved considerably since then. While there's not been a dramatic change seen in the overall numbers yet, the more detailed picture that emerged by summer of this year pointed to an outlook of slowing growth and inflation falling short of our goal. This in turn argued for a somewhat more accommodative monetary policy stance.

The combination of muted inflation, slowing global growth, and uncertainties related to trade and other global developments led the FOMC to adjust the federal funds rate down by a quarter of a percentage point and conclude the run-off of the Fed's balance sheet two months earlier than previously indicated.

Our policy actions and communications have contributed to an easing of financial conditions that should help sustain the expansion and get us closer to our dual mandate goals.

Challenges on the Horizon

When I think about the road ahead, my number one goal is to keep the expansion on track. This is how we will keep unemployment low and bring inflation back to 2 percent. I will be watching closely at how both domestic and broader, global developments unfold.

At present, slowing global growth and geopolitical uncertainty pose particular challenges. In its latest World Economic Outlook report, the International Monetary Fund downgraded its projection for global growth and highlighted downside risks.³

Slower global growth reduces demand for our exports and puts a dampener on both U.S. inflation and growth prospects. And these aren't just projections for the future—we're seeing manifestations of slowing growth around the world now. Germany, the UK, and China are all experiencing slowdowns, and the euro area is of particular concern. In response, the European Central Bank and several other central banks have either adjusted, or indicated they will adjust

their monetary policy stance to support their economies.

These concerns about global growth are compounded by broader geopolitical uncertainty. The risk of a no-deal Brexit for the UK is looming large, the political situation in Italy remains fraught, political tensions continue in Hong Kong, and Argentina's economy is coping with a debt crisis.

On our own shores, concerns around trade policy with China are adding to an uncertain picture. My contacts in the business community have said this is making them more cautious about investment. The effects of this angst are already showing up in the investment numbers.

An additional fly in the ointment, if you will, is the recently released downward revision for GDP growth covering last year and an announced estimate of a sizable downward revision to payroll employment. One implication of these revisions is that the economy's underlying momentum was already somewhat less robust than previously thought, even before recent developments pointed to a less rosy outlook.

The Path Forward

So what will the response from the Fed be to all of these developments? Our role is to navigate a complex and at times ambiguous outlook to keep the economy growing and strong.

As events unfold and conditions evolve, it's critical we understand which developments are mere bumps in the road and those that will affect the outlook in a material way over the longer term. That means maintaining a data-dependent approach that takes into account the risks and uncertainty that are weighing on the economy.

I will continue to consult everything from very granular data about individuals' experiences of employment conditions, through to the macro projections for global growth. We need to consider all of the information available and be flexible in our response.

Conclusion

Low inflation is indeed the problem of this era. The current outlook of moderate growth, low unemployment, but stubbornly low inflation is a reflection of the broader economic picture—the July rate adjustment an appropriate response to ease financial conditions and support the economy.

How the U.S. outlook evolves in the future is fundamentally tied to the fortunes of the economies around the world. As I look ahead, I'm keeping a keen eye on all the data, both domestic and global, and the implications for our economy. With an uncertain outlook, vigilance and flexibility are essential for achieving our dual mandate goals of maximum employment and price stability. Persistently low inflation, heightened uncertainty, and global cross-currents make this a particularly challenging time for monetary policy, and my laser focus is on doing the best we can to support a strong economy and achieve our 2 percent inflation goal.

Thank you.

¹ Jerome H. Powell, [Challenges for Monetary Policy](#), speech delivered at the “Challenges for Monetary Policy” symposium, sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming, August 23, 2019.

² See the FOMC's [Statement on Longer-Run Goals and Monetary Policy Strategy](#), as amended effective January 29, 2019.

³ International Monetary Fund. 2019. [World Economic Outlook Update: Still Sluggish Global Growth](#). Washington, D.C., July.