Richard H Clarida: US economic outlook and monetary policy

Speech by Mr Richard H Clarida, Vice Chair of the Board of Governors of the Federal Reserve System, at the C. Peter McColough Series on International Economics, Council on Foreign Relations, New York City, 9 January 2020.

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Thank you for the opportunity to join you bright and early on this January 2020 Thursday morning. As some of you may know, I am a longtime member of the Council on Foreign Relations and have attended and participated in many such events over the past 20 years, although I will point out that in my previous visits to the dais, I was in the somewhat less demanding position of asking the questions rather than answering them. I am really looking forward to this conversation, but I would like first to share with you some thoughts about the outlook for the U.S. economy and monetary policy.[1]

The U.S. economy begins the year 2020 in a good place. The unemployment rate is at a 50-year low, inflation is close to our 2 percent objective, gross domestic product growth is solid, and the Federal Open Market Committee's (FOMC) baseline outlook is for a continuation of this performance in 2020.[2]

At present, personal consumption expenditures (PCE) price inflation is running somewhat below our 2 percent objective, but we project that, under appropriate monetary policy, inflation will rise gradually to our symmetric 2 percent objective. Although the unemployment rate is at a 50-year low, wages are rising broadly in line with productivity growth and underlying inflation. We are not seeing any evidence to date that a strong labor market is putting excessive cost-push pressure on price inflation.

Committee projections for the U.S. economy are similar to our projections at this time one year ago, but over the course of 2019, the FOMC shifted the stance of U.S. monetary policy to offset some significant global growth headwinds and global disinflationary pressures. In 2019, sluggish growth abroad and global developments weighed on investment, exports, and manufacturing in the United States, although there are some indications that headwinds to global growth may be beginning to abate. U.S. inflation remains muted. Over the 12 months through November, PCE inflation was running at 1.5 percent, and core PCE inflation, which excludes volatile food and energy prices and is a better measure of underlying inflation, was running at 1.6 percent. Moreover, inflation expectations, those measured by both surveys and market prices, have moved lower and reside at the low end of a range I consider consistent with our price-stability mandate.

The shift in the stance of monetary policy that we undertook in 2019 was, I believe, well timed and has been providing support to the economy and helping to keep the U.S. outlook on track. I believe that monetary policy is in a good place and should continue to support sustained growth, a strong labor market, and inflation running close to our symmetric 2 percent objective. As long as incoming information about the economy remains broadly consistent with this outlook, the current stance of monetary policy likely will remain appropriate.

Looking ahead, monetary policy is not on a preset course. The Committee will proceed on a meeting-by-meeting basis and will be monitoring the effects of our recent policy actions along with other information bearing on the outlook as we assess the appropriate path of the target range for the federal funds rate. Of course, if developments emerge that, in the future, trigger a material reassessment of our outlook, we will respond accordingly.

In January 2019, my FOMC colleagues and I affirmed that we aim to operate with an ample level of bank reserves in the U.S. financial system.[3] And in October, we announced and began to implement a program to address pressures in repurchase agreement (repo) markets that became evident in September.[4] To that end, we have been purchasing Treasury bills and conducting both overnight and term repurchase operations, and these efforts were successful in relieving pressures in the repo markets over the year-end. As we enter 2020, let me emphasize that we stand ready to adjust the details of this program as appropriate and in line with our goal, which is to keep the federal funds rate in the target range desired by the FOMC. As the minutes of the December FOMC meeting suggest, it may be appropriate to gradually transition away from active repo operations this year as Treasury bill purchases supply a larger base of reserves, though some repo might be needed at least through April, when tax payments will sharply reduce reserve levels.

Finally, allow me to offer a few words about the FOMC review of the strategy, tools, and communication practices that we commenced in February 2019. This review—with public engagement unprecedented in scope for us—is the first of its kind for the Federal Reserve. Through 14 *Fed Listens* events, including an academic conference in Chicago, we have been hearing a range of perspectives not only from academic experts, but also from representatives of consumer, labor, community, business, and other groups. We are drawing on these insights as we assess how best to achieve and maintain maximum employment and price stability. In July, we began discussing topics associated with the review at regularly scheduled FOMC meetings. We will continue reporting on our discussions in the minutes of FOMC meetings and will share our conclusions with the public when we conclude the review later this year.[5]

Thank you very much for your time and attention. I look forward to the conversation and the question-and-answer session to follow.

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[1] 1. These remarks represent my own views, which do not necessarily represent those of the Federal Reserve Board or the Federal Open Market Committee. I am grateful to Brian Doyle of the Federal Reserve Board staff for his assistance in preparing this text.

[2] 2. The most recent Summary of Economic Projections is an addendum to the minutes of the December 2019 FOMC meeting. See Board of Governors of the Federal Reserve System (2020), "Minutes of the Federal Open Market Committee, December 10–11, 2019," press release, January 3.

[3] 3. See the Statement Regarding Monetary Policy Implementation and Balance Sheet Normalization, which is available on the Board's website at www.federalreserve.gov/newsevents/pressreleases/monetary20190130c.htm. Also see the Balance Sheet Normalization Principles and Plans, available on the Board's website at www.federalreserve.gov/newsevents/pressreleases/monetary20190320c.htm.

[4] 4. See the Statement Regarding Monetary Policy Implementation, which can be found on the Board's website at www.federalreserve.gov/newsevents/pressreleases/monetary20191011a.htm.

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