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 36th Annual NABE Economic Policy Conference "2020 Vision: Examining Policy Prescriptions in an Election Year", Washington DC, 25 February 2020.

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Thank you for the opportunity to participate again this year in the Annual Economic Policy Conference of the National Association for Business Economics. I am really looking forward to this conversation. But first, I would like to share with you some thoughts about the outlook for the U.S. economy and monetary policy.[1]

In its 11th year of a record expansion, the U.S. economy is in a good place. The labor market remains strong, economic activity is increasing at a moderate pace, 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, or PCE, price inflation is running somewhat below the Committee's 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 around 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.

Although the fundamentals supporting household consumption remain solid, over 2019, sluggish growth abroad and global developments weighed on investment, exports, and manufacturing in the United States. Coming into this year, indications suggested that headwinds to global growth had begun to abate, and uncertainties around trade policy had diminished. However, risks to the outlook remain. In particular, we are closely monitoring the emergence of the coronavirus, which is likely to have a noticeable impact on Chinese growth, at least in the first quarter of this year. The disruption there could spill over to the rest of the global economy. But it is still too soon to even speculate about either the size or the persistence of these effects, or whether they will lead to a material change in the outlook. In addition, U.S. inflation remains muted. And inflation expectations—those measured by surveys, market prices, and econometric models—reside at the low end of a range I consider consistent with our price-stability mandate.

Over the course of 2019, the FOMC undertook a shift in the stance of monetary policy to offset some significant global growth headwinds and global disinflationary pressures. I believe this shift was well timed and has been providing support to the economy and helping to keep the U.S. outlook on track. Monetary policy is in a good place and should continue to support sustained growth, a strong labor market, and inflation returning 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.

That said, 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. These efforts have been successful in achieving stable money market conditions, including over the year-end. As our bill purchases continue to build reserves toward levels that we associate with ample conditions, we intend to gradually transition away from the active use of repo operations. And as reserves reach durably ample levels, we intend to slow the pace of purchases such that our balance sheet grows in line with trend demand for our liabilities. 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, and that these operations are technical measures not intended to change the stance of monetary policy.

Finally, allow me to offer a few words about the FOMC's review of the monetary policy strategy, tools, and communication practices that we commenced in 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 a research 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 complete 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] 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] 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] 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] 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] 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.