John C Williams: All about data

Remarks by Mr John C Williams, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the Binghamton University, Binghamton, New York, 10 October 2024.

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As prepared for delivery

Introduction

Good morning. I'm so pleased to be here at Binghamton University, a true gem of the SUNY system. Meeting with students, educators, and business and community leaders is a valuable and enjoyable part of my job.

The New York Fed represents the Federal Reserve System's Second District, which includes New York State, northern New Jersey, western Connecticut, Puerto Rico, and the U.S. Virgin Islands. This is a diverse region made up of many smaller local economies. Therefore, it's important for me and my colleagues at the New York Fed to collect data and learn about the challenges and opportunities facing all of the communities we serve.

That said, monetary policy affects everyone, and the Federal Reserve is committed to using its tools to achieve its dual mandate of maximum employment and price stability. Today, I will talk about monetary policy and how the Fed is working to fulfill this dual mandate. I'll also give you my outlook on the U.S. economy.

Before I do, I will give the standard Fed disclaimer that the views I express today are mine alone and do not necessarily reflect those of the Federal Open Market Committee (FOMC) or others in the Federal Reserve System.

Obsessing Over Data

As I've traveled around the Southern Tier region, I've enjoyed seeing the emergence of the colors of autumn. Tracking fall foliage is a hobby for many. What I like is that it's all about data. "Leaf peepers" submit field reports on changing color conditions, and experts pore over the information. One forecast predicts we will hit peak foliage in four days.[1]

At the Fed, we're equally obsessed with data. In our case, we study data about the economy-whether here in the district, across the country, or around the world. So, I'll highlight some of the data that help my understanding of how the economy is performing relative to our dual mandate goals, as well as what policy actions we can take to achieve these goals.

When inflation became unacceptably high and the labor market exceptionally tight, the FOMC acted with resolve to bring inflation back down to our 2 percent longer-run target. The Committee's strong actions have helped bring the economy much closer to our goals. Imbalances between supply and demand in the economy have mostly dissipated, even as the economy and employment have continued to grow. And inflation, as measured by the personal consumption expenditures (PCE) price index, has declined from over 7 percent in June of 2022 to just 2-1/4 percent in the latest reading. There's still some distance to go to reach our goal of 2 percent, but we're definitely moving in the right direction.

The data paint a picture of an economy that has returned to balance, or in a word that the English majors in the room may appreciate, "equipoise." In light of the progress we have seen in reducing inflation and restoring balance to the economy, the FOMC decided at its most recent meeting to lower the interest rate that it sets. Simply put, this action will help maintain the strength of the economy and labor market while inflation moves back to 2 percent on a sustainable basis.

Moving to Price Stability

I'll go further into our policy decision and what it means for the economic outlook in a minute. But first, I'll give more details about each side of our dual mandate, starting with inflation. I'll use an onion analogy that I have found useful over the past two years to demonstrate how inflation's three distinct layers are normalizing at different rates.[2]

The onion's outer layer represents globally traded commodities. As the economy started to rebound from pandemic shutdowns and demand began to soar, inflation surged, then rose further when Russia invaded Ukraine. Since then, supply and demand have come into balance, and these prices have generally been flat or falling.

The middle onion layer is made up of core goods, excluding commodities. Demand for goods rose sharply as the economy emerged from the pandemic downturn-just as global pandemic-related supply-chain disruptions significantly hampered supply. But, as seen in the New York Fed's Global Supply Chain Pressure Index, those supply pressures have eased, and core goods inflation has returned to pre-pandemic norms.[3]

The inner onion layer comprises core services. Although this category is taking the longest to normalize, the disinflationary process is well underway here too. For example, measures of underlying inflation that tend to be heavily influenced by core services inflation today average around 2-1/2 percent.[4]

One positive piece of data that reinforces my confidence that inflation is on course to reach our 2 percent goal is that inflation expectations remain well anchored across all forecast horizons. This is seen in the New York Fed's Survey of Consumer Expectations as well as other surveys and market-based measures.[5]

A Labor Market in Balance

Now I'll turn to the employment side of our mandate. And no surprise, I'll point to data. A wide range of metrics-including the unemployment rate; measures of job openings, hiring, quits, and employment flows; and perceptions of job and worker availability-indicate that the very tight labor market of the past few years has now returned to more normal conditions and is unlikely to be a source of inflationary pressures going forward.

Recent analysis by researchers at the New York Fed provides a useful way to gauge whether the labor market is tight or loose.[6] They find that you can effectively summarize the state of the overall labor market in terms of its effect on compensation growth by using just two indicators: the rate at which employees quit their jobs and the ratio of job openings to job seekers. In fact, once you take these two measures into account, other labor market metrics that get a lot of attention-such as the unemployment rate and the vacancy-to-unemployment ratio-don't provide additional useful information.

Combining these two measures into an index of labor market tightness provides two key insights. First, data as of the second quarter of this year indicate that the labor market is about where it was in early 2018-a period of solid labor market conditions and low inflation. Second, compensation growth should soon return to levels that prevailed prior to the pandemic.

Seasons of Change

So, the labor market is solid. The economy is in a good place. And inflation is closing in on our 2 percent longer-run goal. With the risks to achieving our goals now in balance, the FOMC decided to lower the target range for the federal funds rate by half a percentage point, to 4-3/4 to 5 percent. In addition, the Committee continued to normalize the holdings of securities on the Fed's balance sheet.[7]

Looking ahead, based on my current forecast for the economy, I expect that it will be appropriate to continue the process of moving the stance of monetary policy to a more neutral setting over time. The timing and pace of future adjustments to interest rates will be based on the evolution of the data, the economic outlook, and the risks to achieving our goals. We will continue to be data-dependent and attuned to the evolution of economic conditions in making our decisions.

With monetary policy moving to a more neutral setting over time, I expect real GDP to grow between 2-1/4 and 2-1/2 percent this year and to average about 2-1/4 percent over the next two years. I anticipate the unemployment rate to edge up from its current level of about 4 percent to around 4-1/4 percent at the end of this year and stay around that level next year. With the economy in balance and inflation expectations well anchored, I expect overall PCE inflation to be around 2-1/4 percent this year, and to be close to 2 percent next year.

Conclusion

The economy has been on a remarkable journey. In two years, the red-hot labor market has normalized, and inflation has come within striking distance of our 2 percent longer-run goal-all while employment and the economy continue to grow.

We instituted and maintained a very restrictive monetary policy stance until the data gave us confidence that inflation is sustainably on course to 2 percent. With this progress toward achieving price stability, moving toward a more neutral monetary policy stance will help maintain the strength of the economy and labor market. Although the outlook remains uncertain, we are well positioned to achieve our dual mandate goals.

[1] See https://smokymountains.com/fall-foliage-map for the forecast of foliage in this area as well as across the nation.

[2] John C. Williams, A Bedrock Commitment to Price Stability, remarks at the 2022 U.S. Hispanic Chamber of Commerce National Conference, Phoenix, Arizona, October 3, 2022; John C. Williams, Peeling the Inflation Onion, remarks at the Economic Club of New York (delivered via videoconference), November 28, 2022; John C. Williams, "Peeling the Inflation Onion, Revisited," Federal Reserve Bank of New York, *The Teller Window*, September 29, 2023.

[3] Federal Reserve Bank of New York, Global Supply Chain Pressure Index (September 2024).

[4] In particular, the Federal Reserve Bank of New York Multivariate Core Trend Inflation measure was 2.6% in August (August 2024 report), while the 6-month change in the Dallas Fed trimmed mean measure was 2.3% at an annual rate.

[5] Federal Reserve Bank of New York, Survey of Consumer Expectations (August 2024).

[6] Sebastian Heise, Jeremy Pearce, and Jacob P. Weber, "A New Indicator of Labor Market Tightness for Predicting Wage Inflation," Federal Reserve Bank of New York *Liberty Street Economics*, October 9, 2024; and Sebastian Heise, Jeremy Pearce, and Jacob P. Weber, "Wage Growth and Labor Market Tightness," Federal Reserve Bank of New York Staff Report Number 1128, October 2024.

[7] Board of Governors of the Federal Reserve System, Federal Reserve issues FOMC statement, September 18, 2024.