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Opening Remarks

by

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Chair

Board of Governors of the Federal Reserve System

at the

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the Federal Reserve Board

Washington, D.C.

May 15, 2025

Good morning. I am pleased to welcome everyone here today. Thomas Laubach's research and support of the Federal Open Market Committee (FOMC) helped us better understand monetary policy, and it is fitting that this work will continue today in his name. Thank you to the authors of the papers, to the discussants, and to our panel participants. Thank you also to Trevor and his team for organizing this conference; a lot of work went into bringing us together.

As in our last review, the 2025 review consists of three key elements: this conference, *Fed Listens* events at Reserve Banks around the country, and policymaker discussions and deliberations, supported by staff analysis, at a series of FOMC meetings. In the current review we will reconsider aspects of our strategic framework in light of the experience of the last five years. We will also consider possible enhancements to the Committee's policy communication tools, regarding forecasts, uncertainty, and risks.

The Consensus Statement

In 2012, the FOMC first codified our monetary policy framework in a document entitled the Statement on Longer-Run Goals and Monetary Policy Strategy, which we refer to as the consensus statement.[1] The language in the opening paragraph, which has never changed, articulates our commitment to fulfilling our congressional mandate and to explaining clearly what we are doing and why (figure 1).[2] That clarity reduces

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[1] The full history of consensus statements is available on the Board's website at https://www.federalreserve.gov/monetarypolicy/historical-statements-on-longer-run-goals-and-monetary-policy-strategy-2019-2020.htm.

[2] The first paragraph of the current consensus statement was the second paragraph of the initial statement in 2012. That initial consensus statement began with the following language: "Following careful deliberations at its recent meetings, the Federal Open Market Committee (FOMC) has reached broad agreement on the following principles regarding its longer-run goals and monetary policy strategy. The Committee intends to reaffirm these principles and to make adjustments as appropriate at its annual organizational meeting each January." In 2013, the first sentence of that preamble was deleted, and the second was moved to the end of the statement.

uncertainty, improves the effectiveness of our policy, and enhances transparency and accountability.

As Chair, Ben Bernanke led the Committee through the creation of that initial consensus statement, adopting a 2 percent inflation target, and outlining our approach to achieving our congressionally assigned dual mandate. The framework laid out in that document broadly aligned with best practices for a flexible inflation-targeting central bank.

The structure of the economy evolves over time, and monetary policymakers' strategies, tools, and communications need to evolve with it. The challenges presented by the Great Depression differ from those of the Great Inflation and the Great Moderation, which in turn differ from the ones we face today.[3] A framework should be robust to a broad range of conditions, but also needs to be updated periodically as the economy and our understanding of it evolve.

2019–20 Review

From 2012 to 2018, the FOMC voted at each January meeting to reaffirm the consensus statement, in most years without substantive changes.[4] In 2019, we changed that practice, conducting our first-ever public review, and said that we would repeat such reviews at roughly five-year intervals. There is nothing magic about a five-year pace. We believe that frequency is appropriate to reassess structural features of the economy and to engage with the public, practitioners, and academics on the performance of our

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[3] See Jerome H. Powell (2019), "Challenges for Monetary Policy," speech delivered at "Challenges for Monetary Policy," a symposium sponsored by the Federal Reserve Bank of Kansas City, held in Jackson Hole, Wyo., August 23, https://www.federalreserve.gov/newsevents/speech/powell20190823a.htm.

[4] An exception was in January 2016, when the statement was amended to highlight the symmetric nature of the Committee's 2 percent longer-run objective by noting, among other small changes, that "the Committee would be concerned if inflation were running persistently above or below this objective" (paragraph 3).

framework. Several of our global peers have adopted similar approaches to their framework reviews.

At the time of the last review, we had been living for about a decade in a new normal characterized by proximity to the effective lower bound, with low interest rates, low growth, low inflation, and a very flat Phillips curve. If I could capture that era with one statistic, it would be that the policy rate had been stuck at the lower bound for seven long years following the onset of the Global Financial Crisis in late 2008 (figure 2). After liftoff in December 2015, we were able to raise the policy rate only very gradually over a period of three years to a peak of just 2.4 percent. Seven months later, we began reducing it, leaving the rate at 1.6 percent in late 2019, where it would be when the pandemic arrived a few months later. Policy rates in other major advanced economies were even lower, in many cases below zero, and in all such economies, inflation regularly ran below its target.

The sense at that time was that when the economy next experienced even a mild downturn, we would be right back at the lower bound, probably for another extended period. The post–financial crisis decade had demonstrated the pain that could bring. Inflation would likely decline in a weak economy, raising real interest rates as nominal rates are pinned at zero. Higher real rates would further weigh on job growth and reinforce the downward pressure on inflation and inflation expectations.

Reflecting these concerns, we adopted a policy to make up for persistent shortfalls from the inflation target, an approach that was common in the extensive literature on the risks associated with the lower bound.[5] Given the downside risks to employment and

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[5] For further details on contemporaneous views at the time of the 2020 review, see Jerome H. Powell (2019), "Opening Remarks," speech delivered at the "Conference on Monetary Policy Strategy, Tools, and

inflation from proximity to the lower bound and the need to anchor longer-term inflation expectations at 2 percent, we said that following periods in which inflation has been running persistently below 2 percent, we would likely aim to achieve inflation moderately above 2 percent for some time.

We also concluded that policy decisions would be informed by assessments of "shortfalls" rather than "deviations" from maximum employment. The change to shortfalls was not a commitment to permanently forswear preemption or to ignore labor market tightness.[6] Rather, it signaled that apparent labor market tightness would not, in isolation, be enough to trigger a policy response, unless the Committee believed that, if left unchecked, it would lead to unwelcome inflationary pressure.

This change reflected our experience with long expansions that featured historically low unemployment amid low and stable inflation, suggesting that a policy approach that carefully probed for the maximum level of employment could bring about the benefits of a strong labor market without risking price stability. In the years just prior to the pandemic, for example, unemployment was at multidecade lows while inflation ran below 2 percent. By December 2019, estimates of the longer-run unemployment rate had

Communications Practices," sponsored by the Federal Reserve, Federal Reserve Bank of Chicago, Chicago, June 4, https://www.federalreserve.gov/newsevents/speech/powell20190604a.htm. See also Dario Caldara, Etienne Gagnon, Enrique Martínez-García, and Christopher J. Neely (2020), "Monetary Policy and Economic Performance since the Financial Crisis," Finance and Economics Discussion Series 2020-065 (Washington: Board of Governors of the Federal Reserve System, August), https://doi.org/10.17016/FEDS.2020.065; Fernando Duarte, Benjamin K. Johannsen, Leonardo Melosi, and Taisuke Nakata (2020), "Strengthening the FOMC's Framework in View of the Effective Lower Bound and Some Considerations Related to Time-Inconsistent Strategies," Finance and Economics Discussion Series 2020-067 (Washington: Board of Governors of the Federal Reserve System, August), https://doi.org/10.17016/FEDS.2020.067; and citations within.

[6] It is important to differentiate between the change from "deviations" to "shortfalls" in the strategy laid out within the consensus statement, and the subsequent tactical use of forward guidance beginning in the September 2020 FOMC.

fallen sharply (figure 3).[7] The use of "shortfalls" acknowledged that a combination of low inflation and low unemployment does not necessarily pose an adverse tradeoff for monetary policy.

The economic conditions that brought us close to the lower bound and drove the changes in our consensus statement were thought to be rooted in slow-moving global factors that were likely to persist for an extended period—at least until our next five-year review.[8] And that might well have been the case had the pandemic not intervened.

The idea of an intentional, moderate overshoot proved irrelevant to our policy discussions and has remained so through today. There was nothing intentional or moderate about the inflation that arrived a few months after we announced our changes to the consensus statement. I acknowledged as much publicly in 2021.[9] We fell back on the rest of the framework, which called for traditional inflation targeting.

Through the end of 2021, FOMC participants continued to forecast that inflation was likely to subside fairly quickly in 2022, with only a moderate increase in our policy rate. That projection was consistent with other central banks with different frameworks and the vast majority of forecasters (figure 4).[10] When the evidence showed otherwise, we hiked 525 basis points over a period of 16 months. The most recent data suggest that

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[7] In the January 2012 Summary of Economic Projections (SEP), the range of estimates for the longer-run unemployment rate was 5 percent to 6 percent, and the median was 5.5 percent; by December 2019, that range was 3.5 percent to 4.5 percent, and the median had declined to 4.1 percent.

[8] See Caldara and others, "Monetary Policy and Economic Performance" (in note 5), which discusses the structural factors behind the slow evolution of changes in the natural rate of unemployment, trend productivity growth, the natural rate of interest, and the slope of the Phillips curve.

[9] See, for example, Jerome H. Powell (2021), "Transcript of Chair Powell's Press Conference," December 15, https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20211215.pdf#page=16.

[10] In December 2021, the median SEP projection anticipated core inflation declining from 4.4 percent in 2021 to 2.7 percent in 2022, while the federal funds rate projection for the end of 2022 was 0.9 percent, below its longer-run estimate of 2.5 percent. Similarly, the December 2021 Survey of Primary Dealers as well as the December 2021 Blue Chip consensus anticipated core inflation in 2022 of 2.5 percent and 2.6 percent, respectively, alongside average projections of short-term interest rates that remained below 1 percent throughout 2022.

12-month PCE (personal consumption expenditures) inflation was 2.2 percent in April, far below its 7.2 percent peak in 2022.[11] In a welcome and historically unusual result, this disinflation has come without the sharp increase in unemployment that has often accompanied a campaign of rate hikes to reduce inflation.

The economic environment has changed significantly since 2020, and our review will reflect our assessment of those changes. Longer-term interest rates are a good deal higher now, driven largely by real rates given the stability of longer-term inflation expectations. Many estimates of the longer-run level of the policy rate have risen, including those in the Summary of Economic Projections (figure 5).[12]

Higher real rates may also reflect the possibility that inflation could be more volatile going forward than in the inter-crisis period of the 2010s. We may be entering a period of more frequent, and potentially more persistent, supply shocks—a difficult challenge for the economy and for central banks.[13]

While our policy rate is currently well above the lower bound, in recent decades we have cut the rate by about 500 basis points when the economy is in recession.[14]

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[11] The 12-month total PCE inflation estimate for April is based on information from the April 2025 consumer price index release.

[12] For example, the Federal Reserve Bank of New York's March 2025 Survey of Market Expectations had a median estimate of the longer-run federal funds rate of 3.13 percent, up from 2.5 percent in the equivalent primary dealer survey of December 2019. The median projection of the longer-run level of the federal funds rate was 3.0 percent in the March 2025 SEP, up from 2.5 percent in the December 2019 SEP.

[13] See, for example, Agustín Carstens (2022), "Luncheon Address: A Story of Tailwinds and Headwinds: Aggregate Supply and Macroeconomic Stabilization," paper presented at "Reassessing Constraints on the Economy and Policy," a symposium sponsored by the Federal Reserve Bank of Kansas City, held in Jackson Hole, Wyo., August 26, https://www.kansascityfed.org/Jackson%20Hole/documents/9668/JH2022_Carstens.pdf.

[14] See, for example, David Reifschneider (2016), "Gauging the Ability of the FOMC to Respond to Future Recessions," Finance and Economics Discussion Series 2016-068 (Washington: Board of Governors of the Federal Reserve System, August), http://dx.doi.org/10.17016/FEDS.2016.068; and Michael Kiley (2020), "Monetary Policy Space in a Recession: Some Simple Interest Rate Arithmetic," FEDS Notes (Washington: Board of Governors of the Federal Reserve System, January 8), https://doi.org/10.17016/2380-7172.2484.

Although getting stuck at the lower bound is no longer the base case, it is only prudent that the framework continue to address that risk.

While the framework must evolve, some elements of it are timeless. Policymakers emerged from the Great Inflation with a clear understanding that it was essential to anchor inflation expectations at an appropriately low level. During the Great Moderation, well-anchored inflation expectations allowed us to provide policy support to employment without risking destabilizing inflation.[15] Since the Great Inflation, the U.S. economy has had three of its four longest expansions on record.[16] Anchored expectations played a key role in facilitating these expansions. More recently, without that anchor, it would not have been possible to achieve a roughly 5 percentage point disinflation without a spike in unemployment.

Keeping longer-run inflation expectations anchored was a driving force behind establishing the 2 percent target in the 2012 framework. Maintaining that anchor was a major consideration behind the changes in 2020. Anchored expectations are critical to everything we do, and we remain fully committed to the 2 percent target today.

2025 Review

In the current review, the Committee is engaged in discussions about what we have learned from the experience of the past five years. We plan to complete consideration of specific changes to the consensus statement in coming months. We are

[15] In a 2004 speech, Bernanke highlighted the role of monetary policy in the Great Moderation (see Ben S. Bernanke (2004), "The Great Moderation," speech delivered at the meetings of the Eastern Economic Association, Washington, February 20, https://www.federalreserve.gov/boarddocs/speeches/2004/20040220).

[16] The National Bureau of Economic Research's business cycle dating indicates that the four longest expansions since 1854 were those that ended in February 2020 (128 months), March 2001 (120 months), December 1969 (106 months), and July 1990 (92 months). See National Bureau of Economic Research (2023), "US Business Cycle Expansions and Contractions," webpage, https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions.

paying particular attention to the 2020 changes as we consider discrete but important updates reflecting what we have learned about the economy, and the way those changes were interpreted by the public. In our discussions so far, participants have indicated that they thought it would be appropriate to reconsider the language around shortfalls. And at our meeting last week, we had a similar take on average inflation targeting. We will ensure that our new consensus statement is robust to a wide range of economic environments and developments.

In addition to revising the consensus statement, we will also consider potential enhancements to our formal policy communications, particularly regarding the role of forecasts and uncertainty. As we have been reviewing assessments of the 2020 framework and of policy decisions in recent years, a common observation is the need for clear communications as complex events unfold. While academics and market participants generally have viewed the FOMC's communications as effective, there is always room for improvement.[17] Indeed, clear communication is an issue even in relatively placid times. A critical question is how to foster a broader understanding of the uncertainty that the economy generally faces. In periods with larger, more frequent, or more disparate shocks, effective communication requires that we convey the uncertainty that surrounds our understanding of the economy and the outlook. We will examine ways to improve along that dimension as we move forward.

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[17] See, for example, the Hutchins Center on Fiscal and Monetary Policy survey of private-sector and academic economists that reviews Federal Reserve communications. The survey has been conducted every four years since 2016, and the most recent survey results can be found on the Brookings Institution's website at https://www.brookings.edu/articles/grading-fed-communications-a-2024-survey-of-fed-watchers.

Let me end by saying thank you again for being here. We have been looking forward to the conversations that will occur over the next two days. These discussions will help broaden and deepen our thinking about these issues, and they are critical to the success of these reviews.

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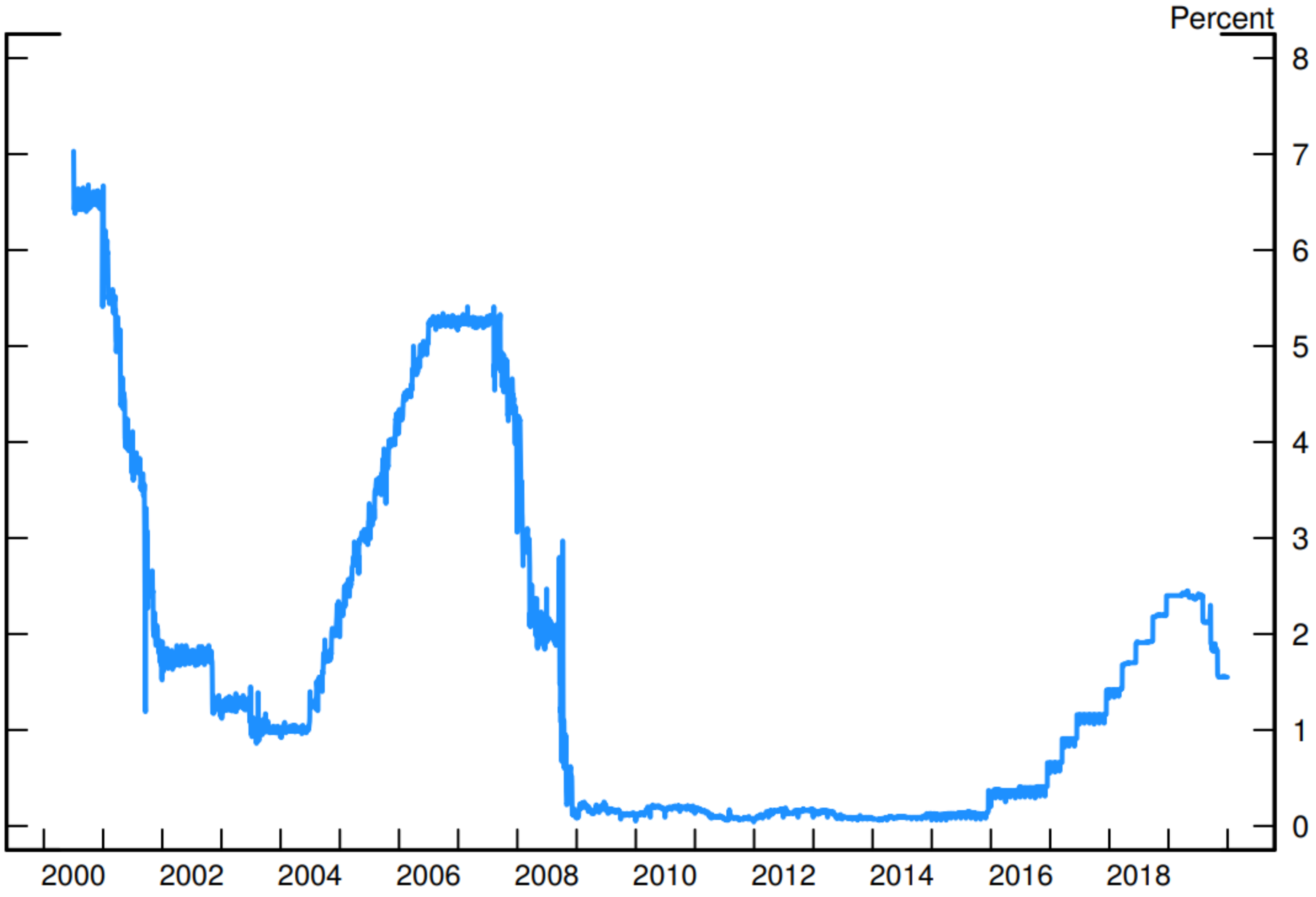
Figure 1. Statement on Longer-Run Goals and Monetary Policy Strategy

Adopted effective January 24, 2012; as reaffirmed effective January 30, 2024

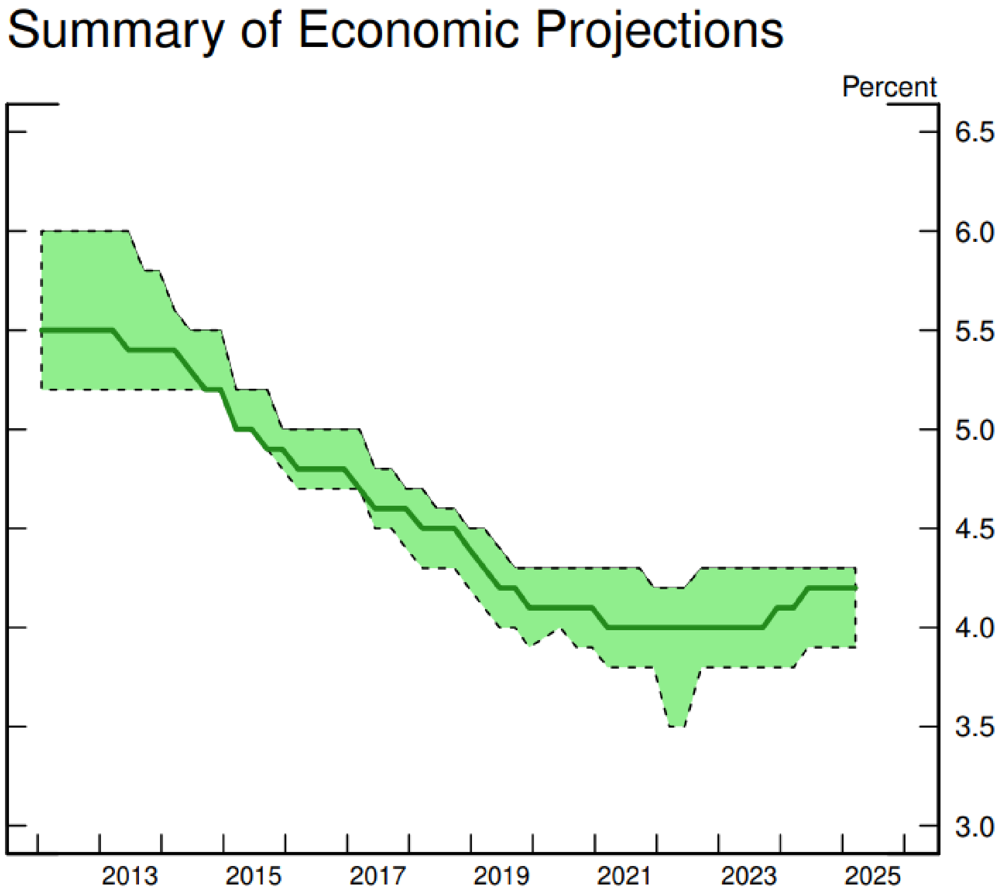
"The Federal Open Market Committee (FOMC) is firmly committed to fulfilling its statutory mandate from the Congress of promoting maximum employment, stable prices, and moderate long-term interest rates. The Committee seeks to explain its monetary policy decisions to the public as clearly as possible. Such clarity facilitates well-informed decisionmaking by households and businesses, reduces economic and financial uncertainty, increases the effectiveness of monetary policy, and enhances transparency and accountability, which are essential in a democratic society."

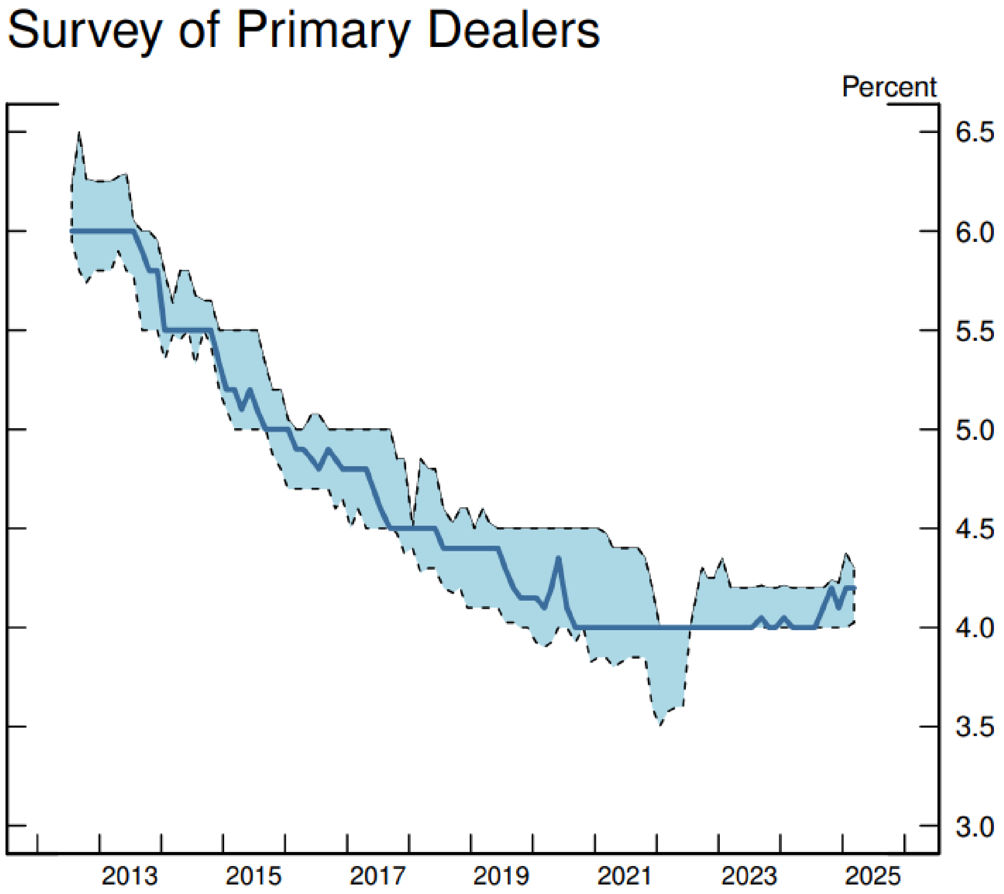
Figure 2. Effective Federal Funds Rate Pre-COVID



Source: Federal Reserve Bank of New York.

Figure 3. Longer-Run Unemployment: Summary of Economic Projections and Survey of Primary Dealers





Note: The green shading is the central tendency from the Summary of Economic Projections. The blue shading represents the 25th to 75th percentiles of responses from the Survey of Primary Dealers.

Source: Federal Reserve Board; Federal Reserve Bank of New York.

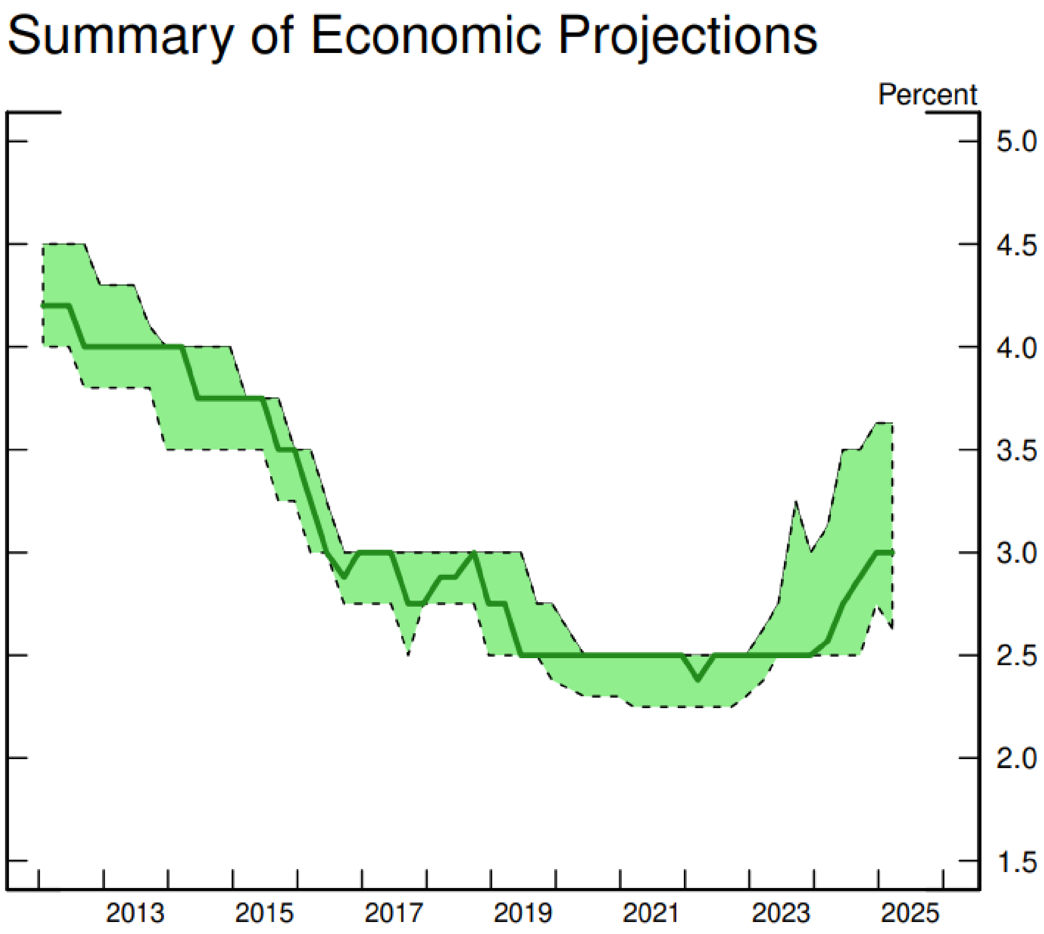
Figure 4. Forecasts Made in December 2021

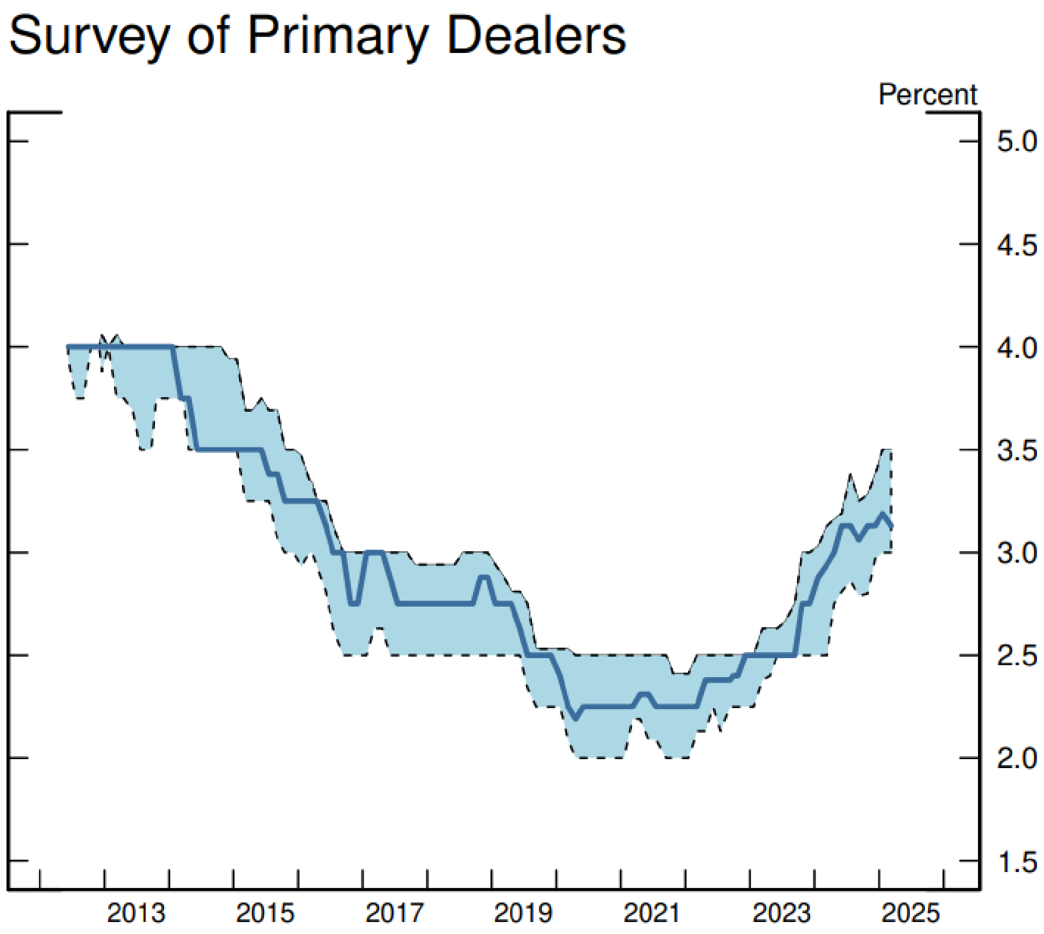
	2021 Q4/Q4 Core Inflation	2022 Q4/Q4 Core Inflation	End-2022 Policy Rate
SEP Median	4.4%	2.7%	.90%
Blue Chip Consensus	4.4%	2.6%	.50%*
Primary Dealer Median	4.4%	2.5%	.75%

* Blue Chip reports projections of the 3-month T-bill rate in the fourth quarter. SEP is Summary of Economic Projections.

Source: Federal Reserve Board; Blue Chip; Federal Reserve Bank of New York.

Figure 5. Longer-Run Federal Funds Rate: Summary of Economic Projections and Survey of Primary Dealers.





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Source: Federal Reserve Board; Federal Reserve Bank of New York.