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Economic Outlook

Remarks by

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Vice Chair

Board of Governors of the Federal Reserve System

at the

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Federal Reserve Bank of New York

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May 14, 2025

Thank you, President Williams. It is wonderful to be back in New York, and it is an honor to speak to you, the directors and advisers to the Second District. You all play an extremely important role for the Federal Reserve Bank of New York and, indeed, for the entirety of the Federal Reserve System. You, and your peers around the country, inform President Williams and the other Bank presidents about how you see the economy unfolding in your communities and in your industries. The presidents, in turn, share that vital information with all the members of the Federal Open Market Committee (FOMC) so that we can make the best monetary policy decisions to benefit all Americans. Thank you for the important contributions.[1]

In the spirit of sharing information, I thought it would be helpful to share with you my economic outlook. First, I will discuss how I see recent economic activity. Next, I will talk about developments pertaining to both sides of our dual mandate, maximum employment and price stability. Finally, I will offer my current view of monetary policy.

Economic Activity

While the economy entered a period of heightened uncertainty this year, the underlying data through the first quarter showed resilience. As you can see in figure 1, gross domestic product (GDP) contracted slightly by 0.3 percent in the first quarter, on an annualized basis, after expanding at a 2.4 percent rate in the fourth quarter of 2024. That change, however, overstates the deceleration in activity. A surge in imports apparently ahead of anticipated changes to trade policy did not seem to be reflected fully in inventory or spending data. That misalignment complicated the interpretation of measured GDP data. Private domestic final purchases, which exclude government

[1] The views expressed here are my own and not necessarily those of my colleagues on the Federal Open Market Committee.

spending, inventory investment, and net exports, usually gives a better read than GDP on the underlying momentum in the economy. That came in at a 3 percent rate in the first quarter, consistent with readings from last year.

Looking at figure 2, you can see that inflation-adjusted consumer spending was strong much of last year. Spending eased at the start of 2025, which could in part reflect poor weather and seasonal adjustment challenges. Spending bounced back in March, perhaps reflecting some purchases ahead of expected trade policy changes.

Of course, those observations of first-quarter economic activity are now in the rearview mirror. Tariff announcements and heightened uncertainty about government policies in general are the dominant economic developments of more recent weeks and have caused me to look carefully at my forecasts. It is not my role to express views on policies coming from the Administration or Congress, but I do study the implications of those policies on economic activity and inflation.

Various surveys show a decline in business sentiment related to trade policy. The Beige Book reported that some retailers are expecting to raise prices in response to tariffs, which could then limit spending, especially by the most price-sensitive consumers. Manufacturers saw risks of supply chain disruptions related to trade policy changes. Moreover, uncertainty is quite high. As a result, I have adjusted down my expectations for economic growth this year, but I see the U.S. economy as continuing to expand. Of course, trade policy is still evolving, so its ultimate economic implications are not known, and I will be following developments carefully.

Labor Market

Turning to the labor market, conditions continue to be solid. As you can see in figure 3, the unemployment rate was 4.2 percent in April. It has fluctuated within a narrow and historically low range between 4 and 4.2 percent since the middle of last year. U.S. employers added 177,000 jobs to payrolls last month, effectively matching the average growth over the past six months. Payrolls have been rising at a pace consistent with a stable unemployment rate and a flat labor force participation rate. Hiring has slowed from the rapid pace recorded earlier in the current expansion, but layoffs remain historically low. That can be seen in figure 4. New applications for unemployment benefits this year remain in the same low range recorded over the previous three years.

Looking at figure 5, you can see the ratio of job vacancies to unemployed workers was at 1 in March, well down from a peak of 2 in 2022. The measure is consistent with a labor market that looks to be in balance and is not a source of inflationary pressure. Looking ahead, I am watching for signs that the labor market could cool as tariff increases begin to weigh on economic activity.

Inflation

Regarding inflation, recent data are consistent with further progress toward our 2 percent inflation target; however, that goal has not yet been reached. Looking at figure 6, the blue line shows inflation as measured by the price index for personal consumption expenditures (PCE) has trended down from a peak above 7 percent in mid-2022. In March, PCE prices advanced 2.3 percent from a year earlier. Core PCE inflation, which excludes volatile consumer energy and food prices and is usually a better indicator of future inflation, the dashed red line, was at 2.6 percent. Figure 7 shows the components of core PCE inflation, which can provide insight into sources of inflationary pressures. Housing services inflation, the purple dotted line, has fallen notably since early 2023 and could continue to provide support to the disinflation process. Core services inflation, the dashed red line, has largely moved sideways since the early part of last year, contributing little to further disinflation, and I largely expect that pattern to continue as well. In contrast, goods inflation, outside of food and energy, the blue line, has picked up a bit this year.

There is much uncertainty, however, around the future path of inflation. If the increases in tariffs announced so far are sustained, they are likely to interrupt progress on disinflation and generate at least a temporary rise in inflation. Whether tariffs create persistent upward pressure on inflation will depend on how trade policy is implemented, the pass-through to consumer prices, the reaction of supply chains, and the performance of the economy. Short-term inflation expectations have increased in both survey- and market-based measures, but I think it is notable that most measures of longer-run inflation expectations have been largely stable, suggesting that the American people understand the Federal Reserve's commitment to return inflation to our 2 percent target.

While trade policy has received the bulk of recent attention, I remain focused on the aggregate effect from the totality of different government policy changes, including trade, immigration, regulatory, and fiscal policies, as well as their net effects on the economy. This net effect will likely remain uncertain for some time.

Monetary Policy

Last week I supported the FOMC's decision to hold the federal funds rate at current levels as the best policy to achieve our dual mandate of maximum employment and price stability. As you can see in figure 8, the FOMC acted last year to reduce the policy rate by a full percentage point. Over the past several meetings, the rate has been held at what I view as a moderately restrictive level. I view the current stance of policy as well positioned to respond to developments that may arise.

With respect to the path of the policy rate going forward, I will carefully assess incoming data, the evolving outlook, and the balance of risks. Various measures of consumer and business sentiment have declined sharply this year, and I will be watching very carefully for signs of weakening economic activity in hard data. At the same time, higher tariffs could lead to higher inflation this year. It is uncertain whether inflationary pressures would be temporary or persistent. Our monetary policy actions are guided by our dual mandate to promote maximum employment and stable prices for the American people. With the increased risks to both sides of our mandate, I believe that the current stance of monetary policy is well positioned to respond in a timely way to potential economic developments.

Conclusion

The uncertain economic outlook presents a challenge for monetary policymakers. It is critical that we have the best available information from a broad cross section of sources, which is again why your efforts to keep President Williams and other monetary policymakers informed are so critical. Effective policymaking starts with hearing from people in every corner of this country—including New York, New Jersey, Connecticut, Puerto Rico, and the U.S. Virgin Islands. Directors and advisers like you make that possible. Thank you again.

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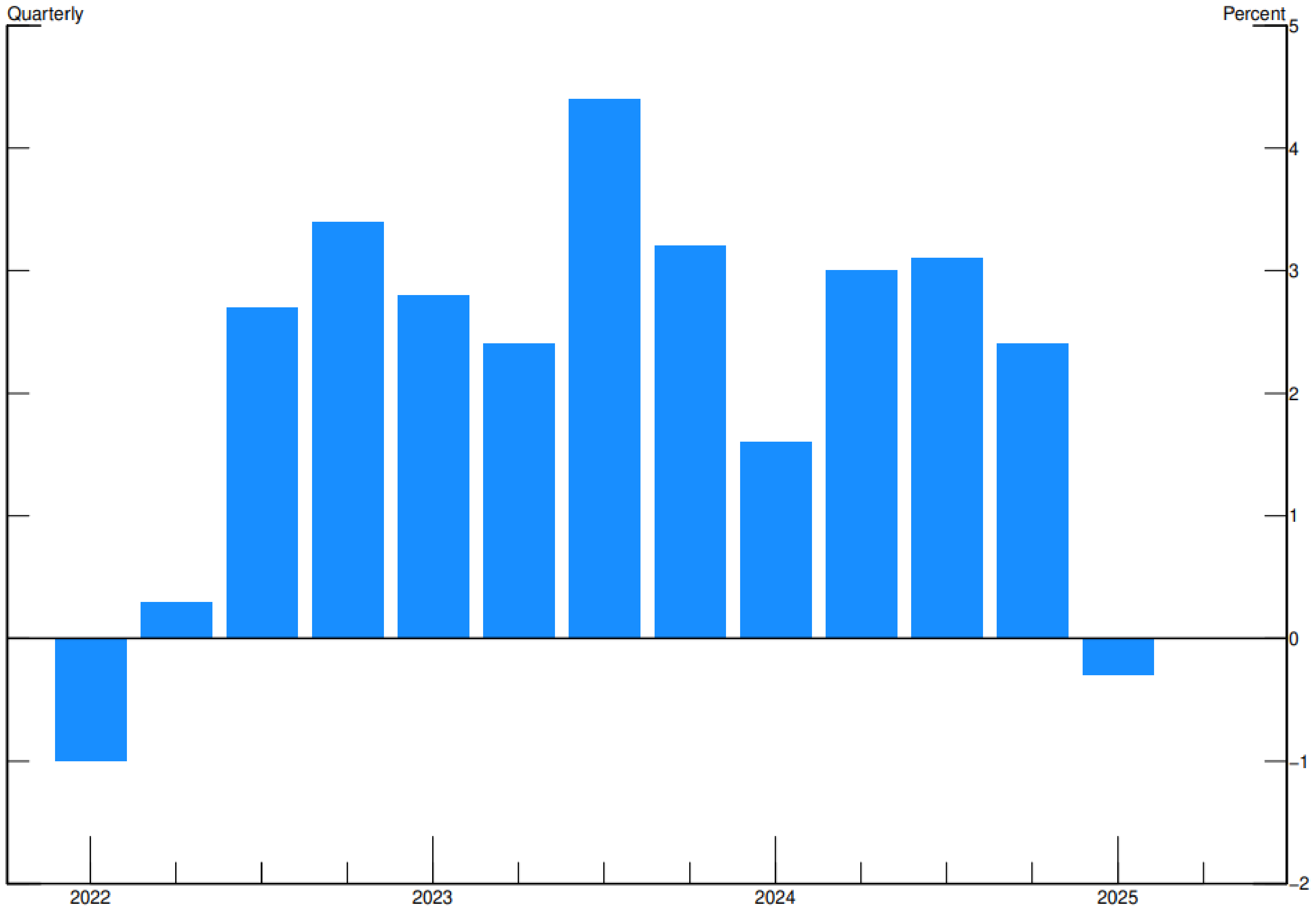
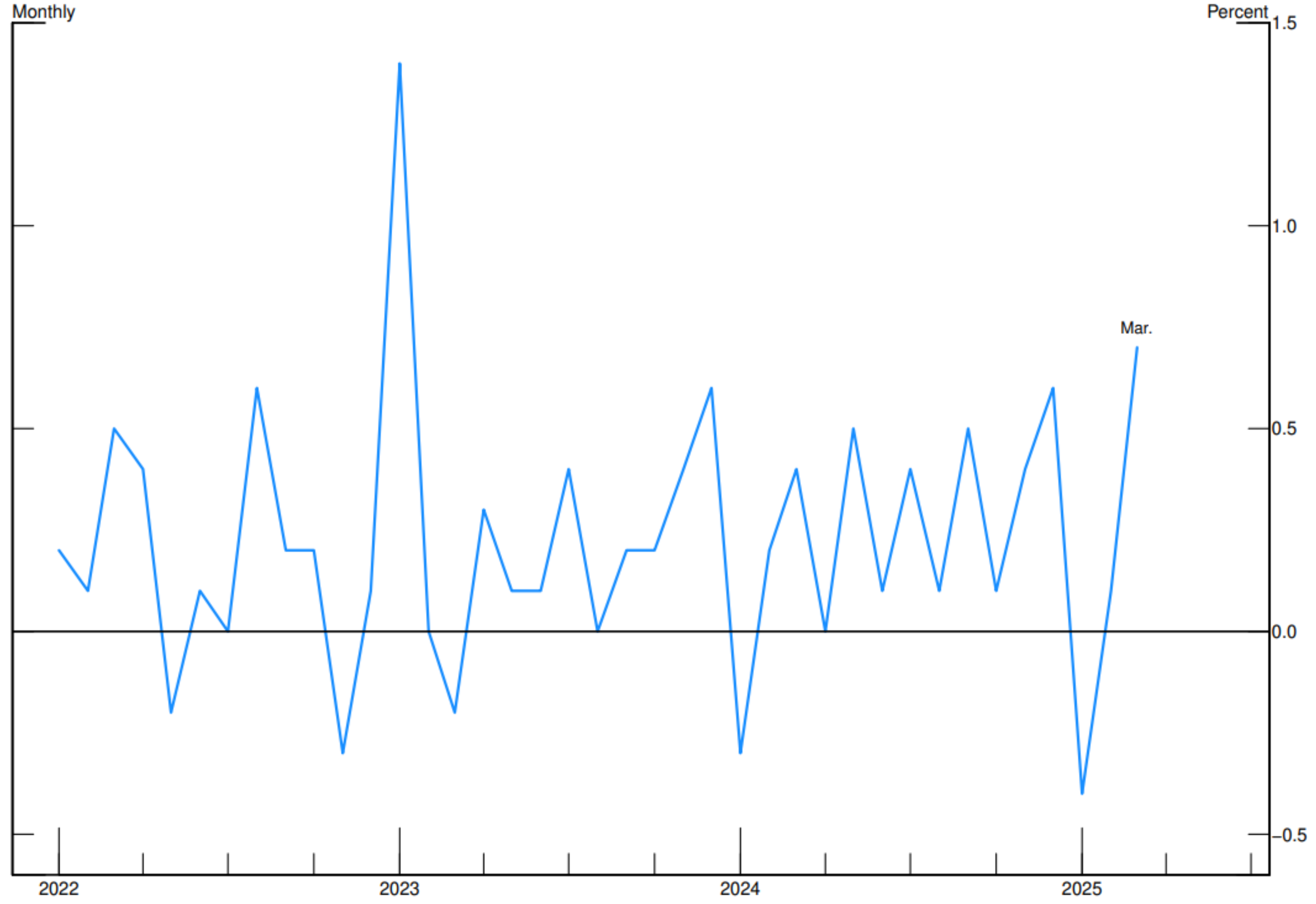
Figure 1: Real Gross Domestic Product



Note: Percent change from preceding period, seasonally adjusted annual rate.

Source: U.S. Bureau of Economic Analysis, Real Gross Domestic Product, retrieved from FRED, Federal Reserve Bank of St. Louis.

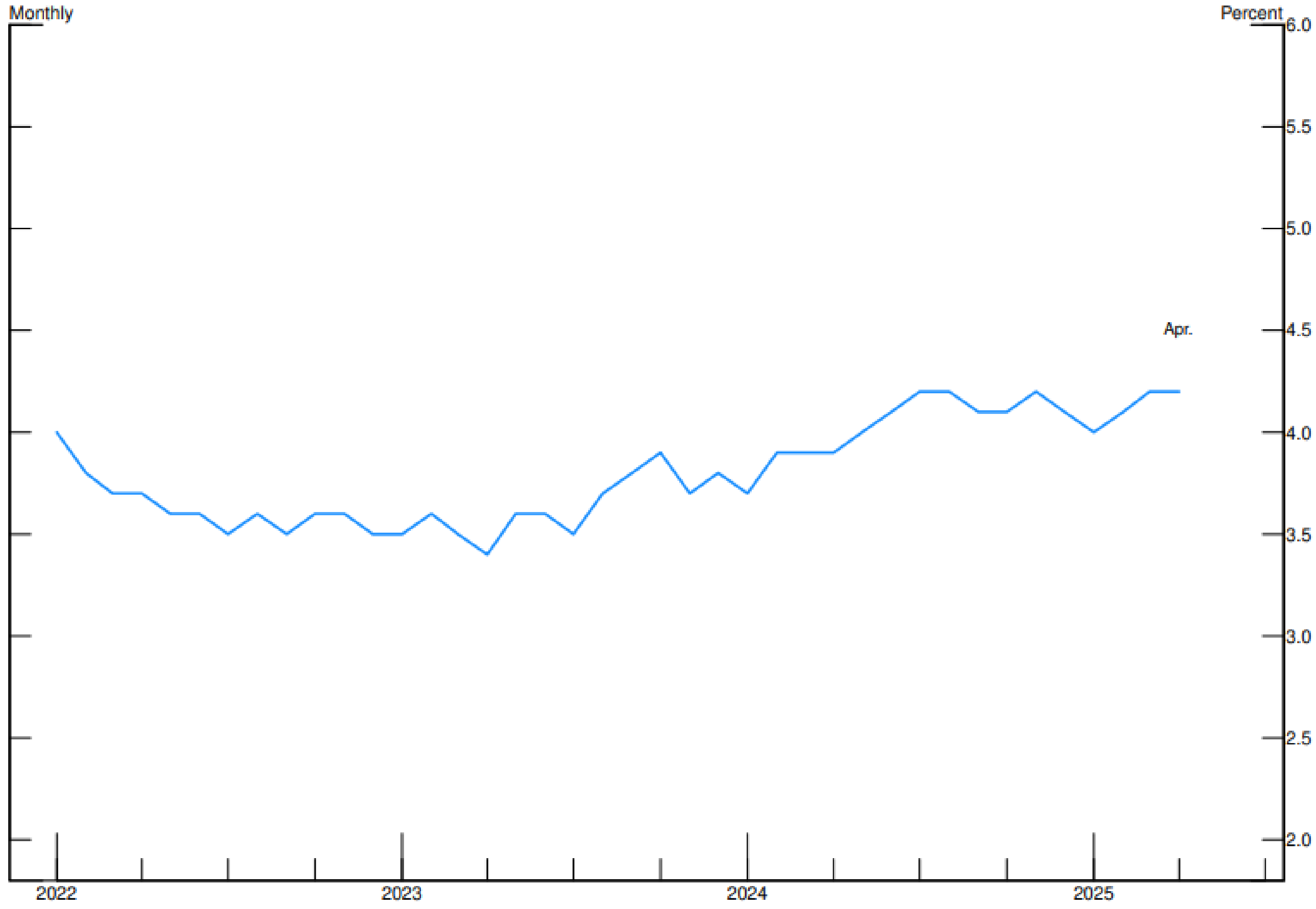
Figure 2: Real Personal Consumption Expenditures



Note: Seasonally adjusted.

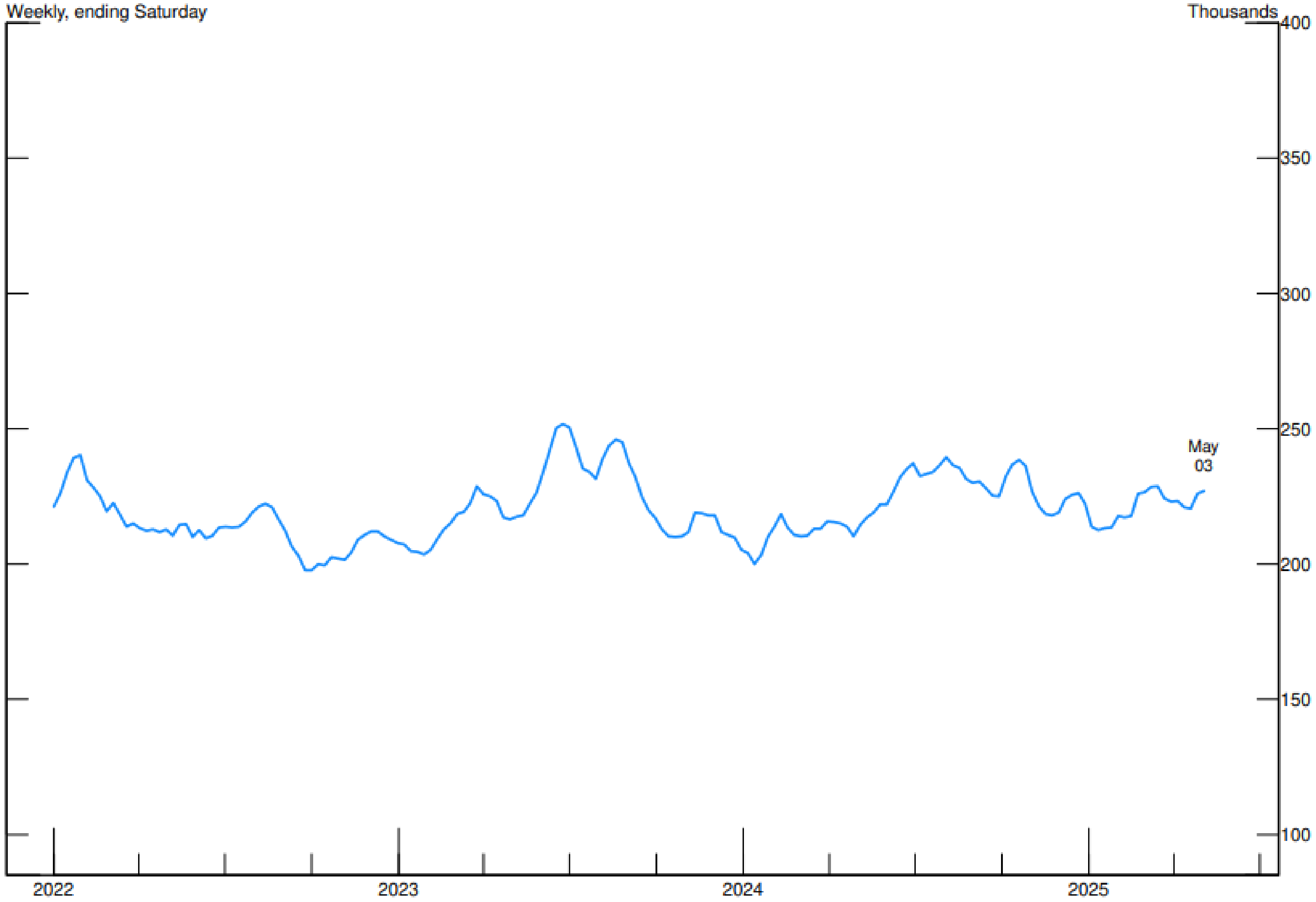
Source: U.S. Bureau of Economic Analysis, Real Personal Consumption Expenditures, retrieved from FRED, Federal Reserve Bank of St. Louis.

Figure 3: Unemployment Rate



Source: U.S. Bureau of Labor Statistics, Unemployment Rate, retrieved from FRED, Federal Reserve Bank of St. Louis.

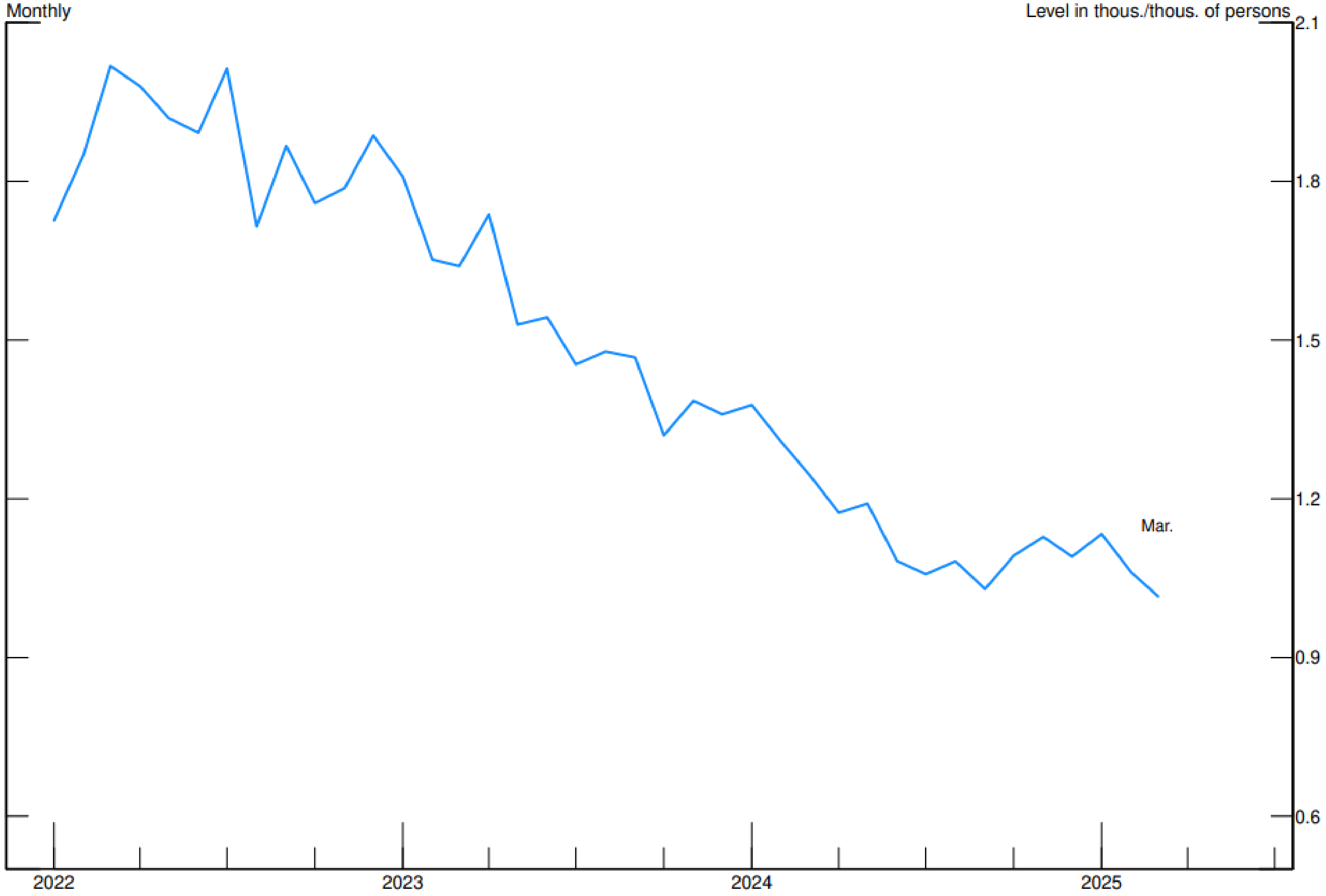
Figure 4: 4-Week Moving Average of Initial Claims



Note: Seasonally adjusted.

Source: U.S. Employment and Training Administration, 4-Week Moving Average of Initial Claims, retrieved from FRED, Federal Reserve Bank of St. Louis.

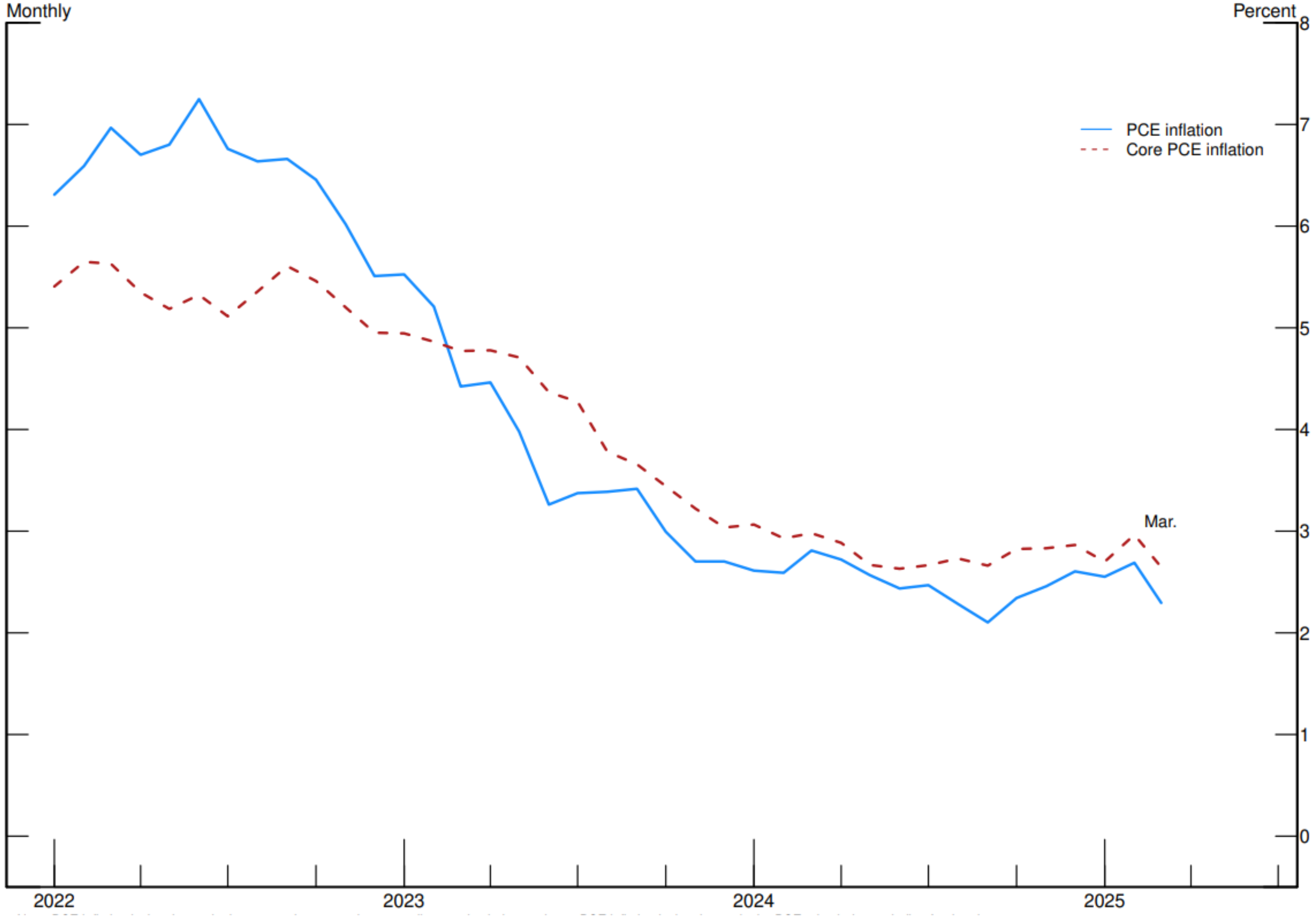
Figure 5: Job Openings: Total Nonfarm/Unemployment Level



Note: Seasonally adjusted.

Source: U.S. Bureau of Labor Statistics, Job Openings: Total Nonfarm and Unemployment Level, retrieved from FRED, Federal Reserve Bank of St. Louis.

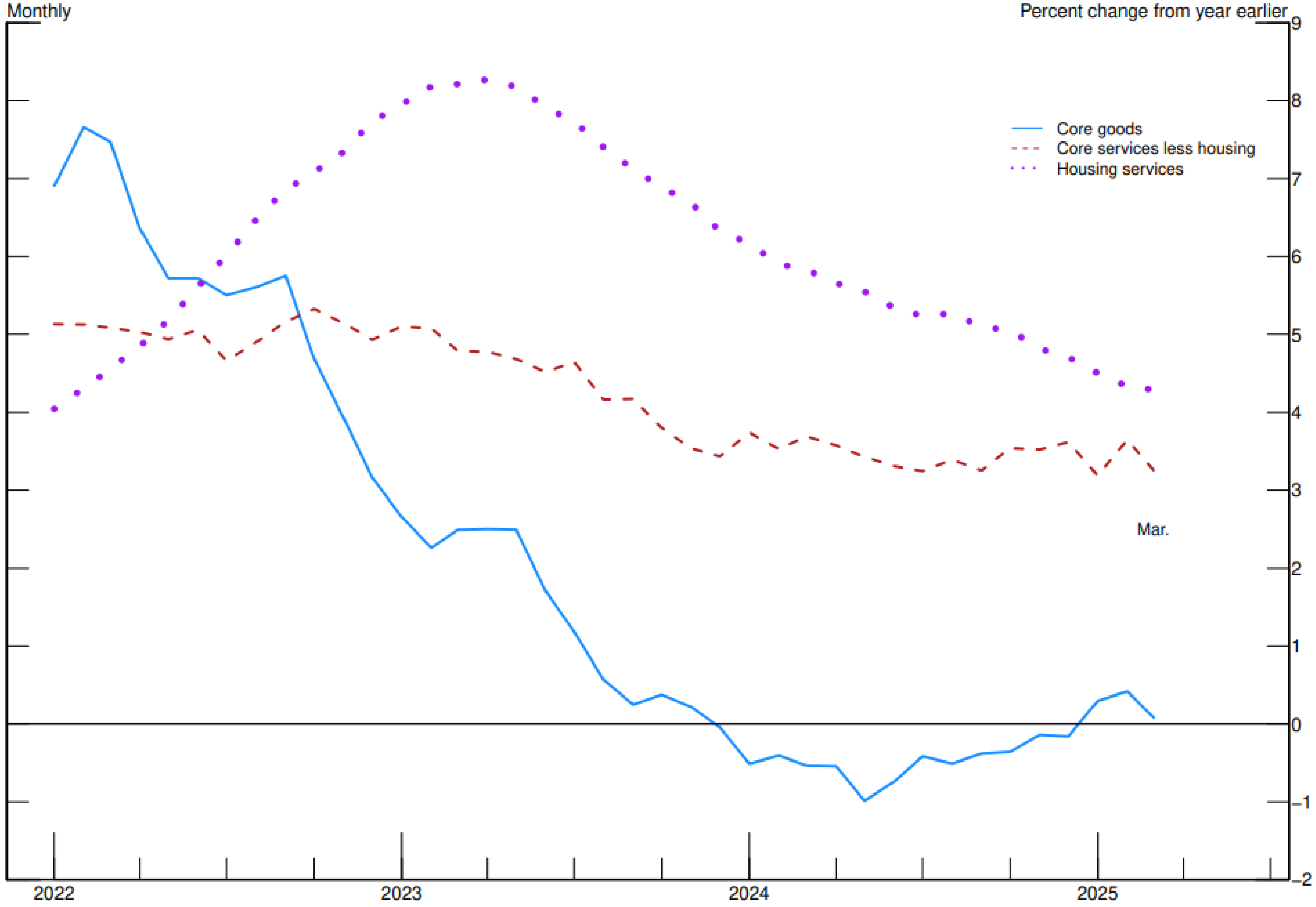
Figure 6: 12-Month PCE and Core PCE Inflation



Note: PCE inflation is the change in the personal consumption expenditures price index, and core PCE inflation is the change in PCE price index excluding food and energy. PCE and core PCE are 12-month inflation percentages calculated using seasonally adjusted annual rates.

Source: U.S. Bureau of Economic Analysis, Personal Consumption Expenditures: Chain-type Price Index and Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index), retrieved from FRED, Federal Reserve Bank of St. Louis.

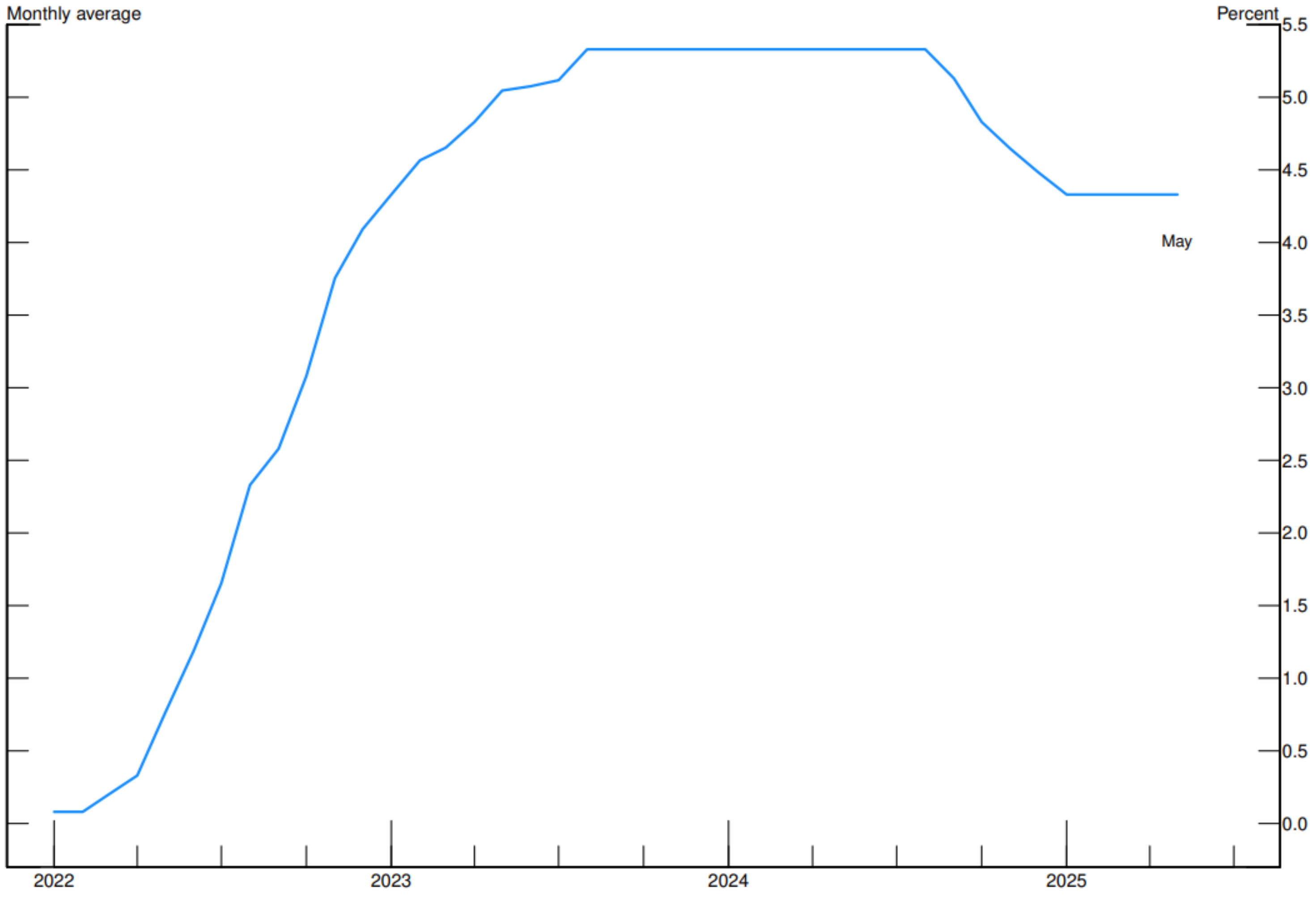
Figure 7: Components of Core PCE Inflation



Note: Core goods inflation is the change in the personal consumption expenditures (PCE) price index excluding energy and food. Core services inflation is the change in the PCE price index excluding energy services.

Source: U.S. Bureau of Economic Analysis.

Figure 8: Federal Funds Rate



Source: Federal Reserve Bank of New York.

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