John C Williams: Summer of '25 - the data

Remarks by Mr John C Williams, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the New York Association for Business Economics, New York City, 16 July 2025.

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As prepared for delivery

Introduction

Good evening. I'm pleased to see my fellow economists and colleagues enjoying a long summer evening in the city in the best way possible-indoors and prepared for a robust discussion on the economic outlook.

I've been looking forward to this conversation for some time. But before we turn to the discussion and Q&A, I'd like to take a few minutes at the start of the program to share my assessment of recent economic data and how it's informing my outlook for the economy. Particularly, I'll explain what the data are telling us in light of economic uncertainty, and how I expect the effects of tariffs to take shape.

Now is when I must 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.

Soft Data/Hard Data

You all read the news and are familiar with the facts and figures. The changing landscape around trade policy has heightened economic uncertainty among households, businesses, and financial market participants. The response to these developments and the associated uncertainty has led to interesting and sometimes contrasting dynamics in both the soft data and hard data.

Soft data, such as the regional business surveys conducted by the New York Fed, have highlighted an elevated degree of uncertainty about the economic outlook over the past few months. All told, concerns about tariffs have been widespread, resulting in a reported pullback on capital spending.

Similarly, our national Survey of Consumer Expectations (SCE) shows that consumers' uncertainty along a number of dimensions remains elevated as well, leading many households to scale back on their expected spending growth on nonessential items.[1] In addition, survey respondents report that their uncertainty about future inflation remains elevated.

But some soft data have provided more encouraging news. For example, in the SCE, longer-run inflation expectations have remained stable, while short- and medium-term inflation expectations have returned to their pre-pandemic ranges. This is critically important, because well-anchored inflation expectations are essential for sustained price stability.

Now I'll turn to some hard data. And by these measures, the U.S. economy remains in a good place.

Real GDP growth data have been unusually noisy, largely reflecting effects from the front-running of tariffs earlier this year. That said, the data are suggesting that economic growth has slowed relative to last year's pace.

All of this data-both hard and soft-feed into my assessment of how the economy is faring with regard to the Fed's dual mandate goals of maximum employment and price stability.

On the employment front, the most recent data show a solid labor market, as demonstrated by measures of unemployment, employment, vacancies, hiring, and quits. Job growth is slowing, but so is labor supply, owing to lower immigration. Overall, labor supply and demand are well balanced and there are no signs that the labor market is adding inflationary pressures.

With regard to price stability, inflation has continued on a gradual, albeit bumpy downward path toward our 2 percent longer-run goal. Based on my reading of the June CPI and PPI data, I estimate that the 12-month percent change in headline PCE inflation in June will be about 2-1/2 percent, and core inflation will be about 2-3/4 percent.

The Effects of Tariffs

I often say that I look at the totality of the data to track underlying trends and evolving conditions. So, in addition to closely watching the data and trends that I just mentioned, I've been keenly watching the effects of tariffs on the prices of goods and services.

One question comes up a lot these days: "All we hear about is tariffs, tariffs, tariffs. But then why hasn't inflation gone up?"

To answer this question, you need to dig into the details of how tariffs affect prices, and that means getting into the data at a more granular level.

We *are* seeing initial effects of tariff increases on core goods prices. Specifically, for items that are more exposed to higher tariffs-household appliances, musical instruments, luggage, tableware-price increases so far this year have been well above what one would expect based on past trends. Using granular import price data and linkages measured through input-output tables, we can see if these patterns occur broadly across categories of goods and services.[2] And in fact, there is a positive relationship between a category's exposure to tariffs and its price increase to date this year relative to its prior trend.

It's important to note that it's still early days for the effects of tariffs, which take time to come into full force. Combining enacted and announced tariffs, estimates of the resulting average effective tariff rate range somewhere between 15 and 20 percent. But actual tariffs in effect in recent months were much smaller than that, as seen by the amount of tariff revenue collected each month. Net tariff receipts as a share of imports rose from about 2-1/4 percent in the first three months of the year to about 8 percent in May.

On top of that, it takes time for the tariff increases to pass through to domestic prices. In particular, businesses and consumers bought imported goods in droves in anticipation of the higher tariff rates, likely delaying their effects on domestic prices.

Nonetheless, businesses are very focused on tariffs and say that they expect to respond by increasing prices. A special New York Fed survey of businesses indicates that firms passed on at least some of the higher tariffs to their customers, with nearly a third of manufacturers and about 45 percent of service firms fully passing along all tariff-induced cost increases by raising their prices.[3]

All in all, although we are only seeing relatively modest effects of tariffs in the hard aggregate data so far, I expect those effects to increase in coming months. Overall, I expect tariffs to boost inflation by about 1 percentage point over the second half of this year and the first part of next year.

Another element to the inflation outlook is that the lower foreign exchange value of the dollar we have seen this year likely will add somewhat to inflationary pressure going forward.

We won't know exactly the magnitude or timing of how these various factors will play out until we see more data. That's why I'll continue to be vigilant and monitor prices and broad movements over time to best assess evolving conditions.

Monetary Policy

The combination of continued uncertainty, a solid labor market, and inflation still above our 2 percent goal led the FOMC to decide to leave the target range for the federal funds rate unchanged at 4-1/4 to 4-1/2 percent at its most recent meeting last month.[4]

Maintaining this modestly restrictive stance of monetary policy is entirely appropriate to achieve our maximum employment and price stability goals. It allows for time to closely analyze incoming data, assess the evolving outlook, and evaluate the balance of risks to achieving our dual mandate goals.

In addition, the FOMC continues to reduce its holdings of Treasury securities and agency debt and agency mortgage-backed securities. That process continues to go very smoothly.

The Economic Outlook

I'll conclude my remarks with the question that likely brought you all here this evening. What is my outlook for the economy?

Given all the uncertainty, a number of outcomes are possible. But based on what the data tell us today, I expect uncertainty and tariffs to restrain spending and reduced immigration to slow labor force growth. As a result, I expect real GDP growth this year to be about 1 percent.

With this slowdown in growth, I expect the unemployment rate to rise to around 4-1/2 percent by the end of this year. I anticipate inflation will come in between 3 and 3-1/2 percent in 2025, and then fall back to about 2-1/2 percent next year before reaching 2 percent in 2027.

Conclusion

As the summer progresses and we look toward the remainder of the year and beyond, I'll remain focused on *all* of the data-the soft data from surveys, the hard data we see in the real GDP growth and consumer spending, and tariffs' effects on goods and services-and what it ultimately means for the achievement of our dual mandate goals.

There's definitively heightened uncertainty about the path of the economy, but it's too early to say what the trajectory of the hard data will be. No matter what the future holds, I am committed to supporting maximum employment and returning inflation to our 2 percent longer-run goal.

Thank you for hosting me this evening. I look forward to your questions.

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[1] Federal Reserve Bank of New York, Survey of Consumer Expectations (June 2025), and Survey of Consumer Expectations-Household Spending Survey (April 2025).

[2] Robbie Minton and Mariano Somale, "Detecting Tariff Effects on Consumer Prices in Real Time," FEDS Notes, Board of Governors of the Federal Reserve System, May 9, 2025.

[3] Jaison R. Abel, Richard Deitz, Sebastian Heise, Ben Hyman, and Nick Montalbano, "Are Businesses Absorbing the Tariffs or Passing Them On to Their Customers?," Federal Reserve Bank of New York *Liberty Street Economics*, June 4, 2025

[4] Board of Governors of the Federal Reserve System, Federal Reserve issues FOMC statement, June 18, 2025.