

Philip N Jefferson: Economic outlook and the Fed's monetary policy framework

Speech by Mr Philip N Jefferson, Vice Chair of the Board of Governors of the Federal Reserve System, at the Drexel Economic Forum, Drexel University LeBow College of Business, Philadelphia, Pennsylvania, 3 October 2025.

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Thank you, Dean Madan. I appreciate the opportunity to speak here at Drexel University and to visit Philadelphia, an area where I have spent much of my personal and professional life.¹ I will not go on too much about the City of Brotherly Love other than to say I am considering jogging up the steps of the art museum before I catch my train home.

It is an honor to take part in the inaugural Drexel Economic Forum and to meet some of the students, researchers, and business leaders who are here. It is an important time for these groups to hold this event because there is much to discuss about the quickly evolving economy. For my part, as a Federal Reserve policymaker, I am committed to achieving the dual mandate given to us by Congress of promoting maximum employment and stable prices. Delivering on these goals matters to communities, families, and businesses across the country, including right here in Philadelphia.

To inform our [discussion](#) today, I will share with you my economic outlook and offer my current view of monetary policy before sharing with you some highlights from the Federal Reserve's newly revised monetary policy framework. After my remarks I look forward to answering a few questions.

Economic Outlook

Looking broadly across the U.S. economy, I see that growth has moderated this year, and the risks to both sides of our dual mandate have shifted. Employment growth has slowed because of weaker growth in labor supply and a softening in labor demand. The uptick in the unemployment rate relative to the start of the year suggests that demand has fallen by a bit more than supply and that the downside risks to employment are rising. Meanwhile, higher tariffs are showing through to higher inflation for some goods. I expect that the effects of tariffs on inflation, employment, and economic activity will further show through in coming months.

In the first half of 2025, U.S. [GDP](#) grew at a 1.6 percent annual rate, which reflects a marked cooling from last year's 2.4 percent growth rate. The slowdown in economic activity in the first half of this year was primarily driven by weaker consumer spending. That said, U.S. retail spending picked up over the summer. Overall, I expect the U.S. economy to maintain the first half's rate of growth through the remainder of the year.

In terms of the labor market, we did not receive the September jobs report this morning because of a lapse in federal government funding. While this is less than ideal, I never focus on a single report; rather, I look across an array of indicators to assess the labor market and the economy.

The available data from both government and private-sector sources point out that labor supply and demand are slowing together, as reflected in the ratio of [job openings to unemployed](#) Americans seeking work. A few years ago, available jobs well exceeded the unemployment level. That came back into balance over the past year or so. Data released earlier this week showed the unemployment level slightly exceeded openings this summer, but what economists call the V/U ratio remains near 1. Similarly, last week the Labor Department reported that initial jobless claims continue to mostly trend sideways. Net immigration into the U.S., an important contributor to workforce growth, has dropped sharply, and that is a factor restraining a more significant increase in unemployment.

Turning to the other side of our dual mandate, it is notable that [inflation](#) has slowed considerably from the highs that occurred when the economy reopened after pandemic disruptions. Inflation, however, remains somewhat above our 2 percent target, and the tariffs that have been announced and implemented so far are showing up in some goods prices. Overall, personal consumption expenditures (PCE) prices rose 2.7 percent over the 12 months ending in August. Core PCE inflation-which removes volatile food and energy prices-was 2.9 percent in August.

Often, it is helpful to study the three major [components of core PCE inflation](#) to better understand what is driving overall price measures. Currently, core goods prices, which declined modestly last year, have been rising, reflecting tariff effects, although it is also notable that the increase so far has been smaller than what many forecasters predicted this spring. Meanwhile, core services inflation, outside of housing, has generally trended sideways this year, while housing inflation appears to be on a gradual downward trend.

I view the uncertainty around my baseline outlook as especially high, mainly due to the changes in government policies and the challenges around assessing their net effects on employment and inflation. As the changes in these policies are finalized and we have more time to judge how they are affecting the economy, I expect some of the broader uncertainty around the U.S. economy to diminish.

Monetary Policy

Considering the outlook I described, I see the risks to employment as tilted to the downside and risks to inflation to the upside. It follows that both sides of our mandate are under pressure.

While tariff-related inflation is apparent in the prices of goods, tariff increases typically represent a one-time change in the price level. The scope and persistence of the related rise in inflation will be determined by several factors-including the final tariff rates, the extent of pass-through to consumer prices, the effects on supply chains, overall economic conditions, and what happens to longer-run inflation expectations. Short-term inflation expectations have come down from the peaks reached in the second quarter, and most measures of longer-term inflation expectations have been largely stable, suggesting that the American people understand our commitment to returning inflation to our 2 percent target. As such, I expect the disinflation process to resume after this year and inflation to return to the 2 percent target in the coming years.

As I noted above, trends across several data series indicate that the labor market is softening, which suggests that, left unsupported, it could experience stress. To balance the risk of persistent above-target inflation and the risk of a deteriorating labor market, I supported a 25 basis point cut in our target range at the last FOMC meeting. This change moved our [policy rate](#) closer to a more neutral stance while maintaining a balanced approach to promoting our dual-mandate objectives.

With respect to the path of the policy rate going forward, I will continue to evaluate the appropriate stance of monetary policy based on the incoming data, the evolving outlook, and the balance of risks. I will also consider and assess information about government policies and their effects on the economy.

The Fed's Revised Framework

Now that I have discussed my outlook and the latest policy decision, I want to turn to an important document that I use to guide those decisions: the [Statement on Longer-Run Goals and Monetary Policy Strategy](#). This statement is designed to give the public a clear sense of how we think about monetary policy. As Chair Powell discussed at his Jackson Hole speech, a revised version of that document was issued in August.²

The framework document, often called the consensus statement, was first issued in 2012, under Chair Ben Bernanke's leadership. The Fed's dual mandate, established by Congress, to foster maximum employment and stable prices underpins this framework. Our commitment to delivering on our dual mandate is unwavering. The revisions to our framework will support that mission across a broad range of economic conditions.

The FOMC revised its consensus statement after conducting a public review. That review consisted of three elements: first, Reserve Banks hosted *Fed Listens* events; second, the Board hosted a research conference; and third, we convened a series of policymaker discussions at FOMC meetings this year, supported by staff analysis. The changes implemented as a result of this review were a logical progression, not a change in course, grounded in our ever-evolving understanding of our economy. I will make note of [four adjustments](#) to the consensus statement and discuss each in turn.

First, the revised consensus statement removed language emphasizing the effective lower bound (ELB) as a defining feature of the economic landscape. Instead, it states that our monetary policy strategy is designed to promote maximum employment and stable prices across a broad range of economic conditions. This revision, reflecting a move away from the post-financial crisis era of historically low interest rates, makes our framework more robust. It is useful to recall that at the time of the FOMC's previous framework review, during 2019 and 2020, policymakers were considering an economy that had for many years demonstrated low growth, low inflation, and a very flat Phillips curve—meaning that inflation was not very responsive to slack in the economy. The overarching concern for central bankers at that time was how to operate when short-term interest rates are near the ELB. Today, of course, we are operating in a very different environment, at least in part brought on by the economic consequences of the COVID-19 pandemic.

Second, the revised framework embraces a flexible inflation-targeting approach at all times and eliminates a "makeup" strategy that would be employed in certain

circumstances. The experience of the U.S. economy since the pandemic highlights different challenges to achieving our inflation mandate—such as supply shocks, sectoral developments, and nonlinear inflation dynamics. The flexible inflation-targeting strategy outlined in our revised framework allows us to take a balanced approach in promoting our goals by considering the extent of departures from them. The revised framework appropriately emphasizes the Committee's commitment to ensuring that longer-term inflation expectations remain well anchored.

Third, the revised consensus statement provides clarity on how the Committee thinks about its legislated goal of maximum employment. The 2020 version of the statement indicated that the Fed would mitigate "shortfalls" from maximum employment. This shortfalls strategy was partly motivated by our recognition that real-time assessments of the natural rate of unemployment—and hence of "maximum employment"—are highly uncertain. However, the use of the word "shortfalls" created some communications challenges, as it was not intended to be a commitment that the Committee would never follow preemptive policy actions or ignore tight labor market conditions. As a result, we have removed it from the consensus statement. Instead, the revised document more precisely states that "the Committee recognizes that employment may at times run above real-time assessments of maximum employment without necessarily creating risks to price stability."³ As Chair Powell pointed out, preemptive action could well be warranted if tightness in the labor market or other factors pose risks to price stability. The revised statement defines maximum employment as "the highest level of employment that can be achieved on a sustained basis in a context of price stability."

Fourth, and closely aligned with the change I just discussed, the FOMC clarified the approach that it would take to monetary policy in times when the employment and inflation sides of our mandate may be at odds. The revised statement says that, in such periods, the Committee will follow "a balanced approach in promoting them, taking into account the extent of departures from its goals and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate." The revised language more closely aligns with the original 2012 statement. It is also consistent with the Committee's actions during the 2022–24 period, when the departure from our 2 percent inflation target was the overriding concern.

I have just highlighted a series of changes that we made to the framework statement, but it is also important to note the [continuity](#) with past versions of our statement. The document continues to explain how we interpret the mandate Congress has given us and describes the policy framework that we believe will best promote maximum employment and price stability. We also continue to believe that monetary policy must be forward looking and consider the lags in its effects on the economy. We have never set a numerical goal for employment because the maximum level of employment is not directly measurable and changes over time for reasons unrelated to policy. Likewise, we maintained our commitment to a 2 percent inflation objective because that is a key factor helping keep longer-term inflation expectations well anchored, thus supporting both sides of our dual mandate. And we remain committed to conducting a public review roughly every five years.

Conclusion

The FOMC remains fully committed to fulfilling its statutory mandate, and the revisions to the framework will support that mission across a broad range of economic conditions. Thank you for allowing me to share with you details of the revised monetary policy framework and my views on the current economic outlook. I hope both will serve as jumping-off points for your discussions over the rest of the afternoon. Once again, I am honored to take part in this inaugural event and look forward to our conversation.

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

² Jerome Powell (2025), "[Monetary Policy and the Fed's Framework Review](#)," speech delivered at "Labor Markets in Transition: Demographics, Productivity, and Macroeconomic Policy," a symposium sponsored by the Federal Reserve Bank of Kansas City, held in Jackson Hole, Wyo., August 22.

³ The consensus statement is available on the Federal Reserve Board's website at <https://www.federalreserve.gov/monetarypolicy/monetary-policy-strategy-tools-and-communications-statement-on-longer-run-goals-monetary-policy-strategy-2025.htm>.