

Philip N Jefferson: Economic outlook and monetary policy

Speech by Mr Philip N Jefferson, Vice Chair of the Board of Governors of the Federal Reserve System, at the Federal Reserve Bank of Kansas City, Kansas City, Missouri, 17 November 2025.

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Thank you, President Schmid, for the kind introduction and for the invitation to speak here today.¹ It is an honor to be in Kansas City and in the beautiful 10th District. I welcome the opportunity to attend events like this one because I believe it is essential for Federal Reserve policymakers to share their views with the public and, just as important, to hear directly from business leaders, workers, and families about how they are experiencing the economy.

In many ways, the Kansas City region is a perfect place to make those connections. Sitting at the confluence of the Kansas and Missouri rivers, this area has been a place where people met and shared ideas long before the United States existed. And that tradition of making connections has continued to present day. The Pony Express was founded just north of here in St. Joseph, this is the greeting card capital, and, next year, this area will bring people together from around the globe for soccer's World Cup. I am happy to have the opportunity to continue the tradition of making connections in Kansas City with all of you.

Today I would like to share my economic outlook. I will discuss how I see recent economic activity and talk about developments pertaining to both sides of our dual mandate of maximum employment and price stability. I will then offer my current view of monetary policy including the Fed's balance sheet before turning to our discussion.

Economic Outlook

In shaping my economic outlook, I consider a wide variety of government, administrative, and private-sector data, including data collected by the Kansas City Fed and fellow Reserve Banks across the country. Casting a wide net for information on the economy is especially important at this moment because the recent federal government shutdown has delayed the release of key economic indicators that I typically refer to in speeches like this one, including the monthly jobs report and the personal consumption expenditures price index. While I consider federal data to be the gold standard, other sources of information are also available for policymakers to do our jobs. And part of that information comes from meetings like this one and hearing from contacts around the country. For example, ahead of our next policy meeting, I look forward to reviewing the Beige Book, a report on economic conditions in each of the twelve Reserve Bank districts, which will be released next week.

Economic Activity

Before the government shutdown, available data indicated that the U.S. economy was on a trajectory of moderate growth this year. The shutdown has likely curtailed economic activity this quarter, reflecting furloughed federal workers and the suspension of government purchases of goods and services, including payments to contractors.

There may also have been spillover effects to the private sector stemming from delays in federal payments, approvals, and other government activity. I see those effects as largely temporary and likely to reverse in the coming months. Thinking more broadly, I see the balance of risks in the economy as having shifted in recent months with increased downside risks to employment compared to the upside risks to inflation, which have likely declined somewhat recently.

Labor market

In the labor market, information available in recent weeks appears to be consistent with a gradual cooling in both labor demand and labor supply. For instance, unemployment insurance claims received from states have largely moved sideways in recent weeks. Anecdotal reports about the state of the labor market have been mixed, with some firms announcing a slower pace of hiring or cutbacks and others indicating they are ready to move forward with previously delayed hiring and investment.

I expect that the unemployment rate is likely to inch up slightly by the end of the year from the relatively low 4.3 percent rate recorded in August. While still solid, I continue to view the risk to my employment forecast as skewed to the downside.

Inflation

The latest available readings show that inflation is running at a rate similar to that of a year ago, a bit below 3 percent, indicating that progress toward our 2 percent target has stalled. This lack of progress appears to be due to tariff effects, with signs that inflation excluding the effects of tariffs may be continuing to make progress toward 2 percent. Some firms have indicated that they expect pass-through of pricing pressure from tariffs to pick up in the fourth quarter as the inventory of non-tariffed merchandise is depleted.

A reasonable base case is that tariffs result in a one-time shift in the price level, not an ongoing inflation problem. That view is reinforced by inflation expectations readings. Most measures of near-term inflation expectations have retraced their spring rise, and market-based long-term inflation expectations continue to be well anchored. Several factors will influence the size and persistence of the rise in inflation. Those include the final tariff rates that are implemented, the extent and timing of pass-through to consumer prices, the reaction of supply chains and domestic manufacturing, and overall economic conditions. I will continue to monitor these factors closely. I remain firmly committed to returning inflation to the Fed's 2 percent target.

Monetary Policy

Given that outlook, I supported last month's decision to reduce our policy rate by 1/4 percentage point. That step was appropriate because I see the balance of risks as having shifted in recent months as downside risks to employment have increased. The current policy stance is still somewhat restrictive, but we have moved it closer to its neutral level that neither restricts nor stimulates the economy. The evolving balance of risks underscores the need to proceed slowly as we approach the neutral rate.

At our past Federal Open Market Committee meeting, I also supported the decision to conclude the reduction of our aggregate securities holdings as of December 1. Over the course of balance sheet runoff that started in June 2022, we shrank our securities holdings by about \$2.2 trillion. The Committee's long-stated plan had been to stop

balance sheet runoff when reserves were somewhat above the level judged as consistent with ample reserve conditions. Signs emerged ahead of the October meeting indicating that such a standard had been reached. In money markets, repurchase agreement (repo) rates moved up persistently relative to the interest on reserve balances (IORB) rate. In addition, more notable pressures on repo rates started to emerge on tax payment dates and on Treasury issuance days along with more frequent use of our standing repo facility. With repo rates trending up, the effective federal funds rate also began to move up steadily relative to the IORB rate. Those developments were what was expected to be seen as the size of the balance sheet declined and led me to support the decision to end runoff.

Starting in December, we intend to hold the size of our balance sheet steady for a time as reserve balances continue to decline passively even as other non-reserve liabilities, such as currency, rise. We will continue to allow agency securities to run off our balance sheet and will reinvest these proceeds in Treasury bills, furthering progress toward a portfolio consisting primarily of Treasury securities. Over the coming years, this reinvestment strategy will help move the weighted average maturity of our portfolio closer to that of the outstanding stock of Treasury securities.

I will also note that, heading into our next meeting, it remains unclear how much official data we will see before then. With respect to the path of the policy rate going forward, I will continue to determine policy based on the incoming data, the evolving outlook, and the balance of risks. I always take a meeting-by-meeting approach. This is an especially prudent approach at this time.

Thank you again to the Kansas City Fed for hosting me today. I look forward to our discussion.

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.