John C Williams: Resilience

Remarks by Mr John C Williams, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the New Jersey Bankers Association, Jersey City, New Jersey, 15 December 2025.

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As prepared for delivery

Introduction

Good morning, everyone. It's great to be here at the Liberty Science Center, home of the largest planetarium in the Western Hemisphere. Typically, this would be the perfect opportunity for me to discuss the star variables in economics. Alas, I'll save that for the Q&A.

Instead, I'm going to talk to you today about the U.S. economy and how the Federal Reserve is working to achieve its dual mandate of maximum employment and price stability. I'll also discuss recent actions by the Federal Open Market Committee (FOMC), and I'll give my economic outlook.

Before I go further, I must give the standard Fed disclaimer that the views I express today are mine alone and do not necessarily reflect those of the FOMC or others in the Federal Reserve System.

Turning the Corner

One of the important parts of my job is to travel throughout the Federal Reserve's Second District. It gives me the opportunity to meet with business, community, and government leaders and get a firsthand and in-depth look at the challenges and opportunities facing our region.

In recent years, North Jersey has largely followed the trajectory of the broader U.S. economy: It was hit hard by the pandemic, rebounded quickly, grappled with inflation, and then, over the past year, faced heightened uncertainty stemming from geopolitical events and changes in trade policy.

In fact, if I had to choose one word to describe 2025, it is uncertainty. What's striking is that despite all the uncertainty, the U.S. economy has shown considerable resilience and looks poised to pick up steam next year.

In other words, after navigating through the challenges of 2025, we now appear to be turning the corner. Of course, there's always uncertainty about the road ahead-or, as we say in Jersey, about what's coming down the Turnpike. But over the past year, our local, national, and even global economies have proven to be resilient. Here, that resilience is called "Jersey Strong."

Temporarily Stalled

Before I talk about what I expect for the economy, I want to take a few minutes to tell you more about its current state. I'll focus on the two sides of the Fed's dual mandate: maximum employment and price stability.

I'll start with price stability, which the FOMC defines as 2 percent inflation[1] over the longer run. In monetary policy, we rely on the totality of the data-and there is a lot of data. While we haven't had the normal flow of official data in recent months due to the government shutdown, we are able to use a wide array of indicators to monitor how the economy is doing.

What the data tell me is that the effects of trade policies have boosted inflation this year, but these effects have been more muted and drawn out than I originally anticipated. As a result of the tariffs, progress toward the FOMC's 2 percent longer-run inflation goal has temporarily stalled, with the most recent inflation reading of about 2-3/4 percent roughly unchanged from a year ago. While it is not possible to precisely measure the effects of trade policy actions, my estimate is that they have contributed around one half of a percentage point to the current inflation rate.

I do not see any signs of tariffs contributing to second-round or other spillover effects on inflation. In particular, no broad-based supply chain bottlenecks have emerged, shelter inflation has declined steadily, and measures of wage growth point to a continued gradual slowing. This is consistent with reports from around the Second District, where several of my business contacts have noted that, while tariffs continue to drive up their input costs, the pace of price increases has eased slightly.

Most importantly, inflation expectations remain well anchored. The New York Fed's Survey of Consumer Expectations (SCE) continues to show that inflation expectations remain well within their pre-Covid ranges.[2] This is something I watch closely, because well-anchored expectations are critical to ensuring low and stable inflation.

Gradual Cooling

Turning to the employment side of our mandate, the data show that the labor market has continued to cool, with labor demand softening more than supply. Job growth has been anemic, and the unemployment rate has moved up steadily in recent months. These trends are also occurring in North Jersey, where we've seen slight declines in employment since January, and where many of our regional contacts, including those responding to our business surveys, are reporting job losses.

In addition, survey-based measures of the balance between demand and supply show increasing slack in the labor market. In the Conference Board's consumer confidence survey, a measure of the difference between the share of respondents who think jobs are plentiful and the share of those who think jobs are hard to get has declined throughout 2025. We have seen a similar pattern with the National Federation of Independent Business's survey measure of the difficulty in filling jobs. And the SCE's "job security gap" measure-defined as respondents' job-finding expectations minus their job-loss expectations-has fallen considerably this year.

Many labor market indicators are now at levels we saw prior to the pandemic, a time when the market was not overheated. And although the labor market is clearly cooling, I should emphasize that this has been an ongoing, gradual process, without signs of a sharp rise in layoffs or other indications of rapid deterioration.

Monetary Policy and the Road Ahead

Looking ahead, it is imperative that we restore inflation to our 2 percent longer-run goal on a sustained basis. It is equally important to do so without creating undue risks to our maximum employment goal. My assessment is that in recent months, the downside risks to employment have increased as the labor market has cooled, while the upside risks to inflation have lessened somewhat.

Monetary policy is very focused on bringing these risks into balance. To that end, the FOMC has moved the modestly restrictive stance of monetary policy toward neutral. At its meeting last week, the FOMC decided to lower the target range for the federal funds rate by 1/4 percentage point to 3-1/2 to 3-3/4 percent. The accompanying FOMC statement said that "in considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks."[3] With these actions, monetary policy is well positioned as we head into 2026.

Looking ahead, I expect tariffs will have a largely one-off price level effect that will be fully realized in 2026. I anticipate inflation to decline to just under 2-1/2 percent next year before reaching the FOMC's longer-run 2 percent goal in 2027.

I expect real GDP growth to be about 2-1/4 percent in 2026, well above my forecast for this year's pace of around 1-1/2 percent. This pickup is in part due to the effects of the government shutdown, but it's also fueled by tailwinds from fiscal policy, favorable financial conditions, and increased investments in artificial intelligence.

And I expect the unemployment rate to rise to around 4-1/2 percent at the end of this year, reflecting some additional effects from the government shutdown. With my forecast of above-trend GDP growth, I expect the unemployment rate to gradually come down over the next few years.

Balance Sheet

Before I conclude, I'd like to briefly comment on the Fed's balance sheet. On December 1, the FOMC stopped reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities.[4] With the level of bank reserves now deemed to be ample, the FOMC decided to initiate reserve management purchases to maintain an ample level of reserves. This is the natural next step in the implementation of our ample reserves framework to ensure effective interest rate control.[5]

With the steady decline in the level of reserves, we have observed upward pressure on repo rates at times in recent months.[6] When this occurs, the Fed's standing repo operations can act as a shock absorber by capping pressures on money market rates resulting from strong liquidity demand or market stress.[7] I fully expect that standing repo operations will continue to be actively used in this way.

Conclusion

So, after a year of uncertainty, we will be starting 2026 from a place of resilience. The economy is poised to return to solid growth and price stability.

But, as 2025 has shown, the road may shift in unpredictable ways. In assessing the future path of monetary policy, my views, as always, will be based on the evolution of the totality of the data, the economic outlook, and the balance of risks to the achievement of our maximum employment and price stability goals. We must be ready to adjust our route as needed to reach our destination.

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[1] As measured by the Personal Consumption Expenditures (PCE) Price Index (Bureau of Economic Analysis).

[2] Federal Reserve Bank of New York, Survey of Consumer Expectations (November 2025).

[3] Board of Governors of the Federal Reserve System, Federal Reserve issues FOMC statement, December 10, 2025.

[4] Board of Governors of the Federal Reserve System, Federal Reserve issues FOMC statement, October 29, 2025.

[5] Board of Governors of the Federal Reserve System, Statement Regarding Monetary Policy Implementation and Balance Sheet Normalization, January 30, 2019; Principles for Reducing the Size of the Federal Reserve's Balance Sheet, January 26, 2022; and Plans for Reducing the Size of the Federal Reserve's Balance Sheet, May 4, 2022.

[6] Roberto Perli, Money Market Conditions and the Federal Reserve's Balance Sheet, Remarks at 2025 U.S. Treasury Market Conference, Federal Reserve Bank of New York, New York City, November 12, 2025.

[7] John C. Williams, Theory and Practice of Monetary Policy Implementation, Remarks at the ECB Conference on Money Markets 2025, European Central Bank, Frankfurt, Germany, November 7, 2025.