

John C Williams: A few words for the New Year

Remarks by Mr John C Williams, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the Council on Foreign Relations, New York City, 12 January 2026.

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As prepared for delivery

Introduction

Good evening, everyone, and happy new year to all. I always appreciate the opportunity to speak here at the Council on Foreign Relations.¹ I'm looking forward to a robust discussion this evening.

You may have read that the words of the year for 2025 were phrases like "rage-bait," "AI slop," and, of course, "6-7." I'd add a word of my own. In December, I gave a speech titled "Resilience."² I said then that despite all the uncertainty posed by trade policy and geopolitical events, the U.S. and global economies showed considerable resilience, continued to grow, and were poised to gain steam in 2026.

I'd like to pick up where I left off and talk about what I expect to see this year for the U.S. economy and for monetary policy.

Before I continue, allow me to 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.

2026 at a Glance

Let me begin by sharing a snapshot of the current state of the economy. While we haven't had the normal flow of official data in recent months due to the government shutdown, these data are now slowly coming in. And many other alternative indicators have augmented the overall picture.

Based on the totality of the data, the economic outlook is favorable. GDP growth looks to have been somewhat above 2 percent last year, and it will likely pick up some this year. Although the labor market cooled over the past couple of years, I expect that we'll see it stabilize this year and then strengthen somewhat thereafter. Inflation appears likely to peak sometime in the first half of this year as the full effects of tariffs are felt and then will be poised to move back toward the FOMC's 2 percent longer-run goal.

Clearer View

Since I mentioned often used words in 2025, allow me to dive further into a discussion of another word that defined the year: tariffs. As trade policy has evolved and details

have become clearer in recent months, estimates of effective tariff rates today are considerably lower than they were last spring. At the same time, the data are providing a clearer picture of the likely effects of tariffs on inflation.

Based on granular analysis of the data in hand, we can draw a few conclusions. First, the tariffs have been overwhelmingly borne by domestic businesses and consumers, rather than by foreign producers. Second, the tariffs have already meaningfully increased U.S. prices of imported goods, although the full effects have likely not yet been felt. My current estimate is that the increase in tariffs to date has contributed around one half of a percentage point to the current inflation rate of about 2-3/4 percent.

Tariffs aside, underlying inflation trends have been pretty favorable, and we're seeing no signs of broader inflationary pressures. In particular, shelter inflation has continued to decline steadily, no significant supply chain bottlenecks have emerged, and measures of wage growth have moved to levels consistent with low inflation.

In addition, inflation expectations remain well anchored. The New York Fed's Survey of Consumer Expectations (SCE) shows that although short-term expectations have moved up somewhat, medium- and longer-term expectations remain well within their pre-Covid ranges.³ Most other measures of longer-run inflation expectations tell the same story. This is something I watch closely, because well-anchored expectations are critical to ensuring low and stable inflation.

Cooling Labor Market

When it comes to employment, the labor market continued to cool during 2025, with labor demand not keeping up with supply. Over the course of last year, the unemployment rate moved up, and ended the year at 4.4 percent. Other survey-based measures of the balance between demand and supply—including from the Conference Board and the National Federation of Independent Business, as well as the New York Fed's SCE—also show increasing slack in the labor market.

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

International Similarities

We're seeing broadly similar patterns of resilience in many economies around the world, which likewise have navigated the effects of U.S. trade policy uncertainty reasonably well. Because most other countries have not instituted reciprocal tariffs, they have not experienced increased import prices in the same way as in the U.S.

Monetary Policy and the Economic Outlook

With this in mind, I'll now explain how monetary policy is positioned for this year and beyond. I'll also share my outlook for the U.S. economy.

It is imperative that we restore inflation to the FOMC's 2 percent longer-run goal on a sustained basis. It is equally important to do so without creating undue risks to the Federal Reserve's maximum employment goal. In recent months, the downside risks to employment have increased as the labor market cooled, while the upside risks to inflation have lessened somewhat for the reasons that I have already discussed.

The actions taken by the FOMC in the latter part of last year have brought these risks into better balance. By reducing the target range for the federal funds rate by a cumulative 75 basis points last year, the FOMC has moved the modestly restrictive stance of monetary policy closer to neutral. Monetary policy is now well positioned to support the stabilization of the labor market and the return of inflation to the FOMC's longer-run goal of 2 percent.

My base case for the economic outlook is quite favorable. Looking ahead, I expect tariffs will have a largely one-off effect on prices that will be fully realized this year. As a result, I anticipate inflation will peak at around 2-3/4 to 3 percent sometime during the first half of this year, before starting to fall back. I expect inflation will be just under 2-1/2 percent for this year as a whole, before reaching the FOMC's longer-run 2 percent goal in 2027.

I expect the economy to grow above trend this year, with real GDP growth between 2-1/2 and 2-3/4 percent. This pickup from last year's pace is in part due to a first-quarter rebound from 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.

With my forecast of above-trend GDP growth, I expect the unemployment rate to stabilize this year and then gradually come down over the next few years.

Of course, there is always uncertainty when looking into the future, so I'll remain data dependent as the year takes shape. As the December FOMC statement said: "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."⁴

Balance Sheet

Before I close, I'd like to briefly comment on the Fed's balance sheet. The FOMC stopped reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities at the start of December.⁵ With the level of bank reserves deemed to have reached ample levels, the FOMC decided at its December meeting to initiate reserve management purchases to maintain an ample supply of reserves on an ongoing basis. This is the natural next step in the implementation of our ample reserves framework to ensure effective interest rate control, and it in no way reflects a shift in the stance of monetary policy.⁶

With the steady decline in the level of reserves, we have observed upward pressure on repo rates at times in recent months.⁷ 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.⁸ I fully expect that standing repo operations will continue to be actively used in this way and function exactly as designed. In fact, we just saw this in action over year-end when some of the usual market pressures arose.

Conclusion

It's only January, so I won't speculate about the word of the year for 2026. But the resilience we have been seeing means the economy is poised for solid growth and a return to price stability.

That said, it's important not to forget another word frequently heard in 2025: uncertainty. In assessing the future path of monetary policy, my view, 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.

Thank you.

¹ John C. Williams, ['E' Is for Equipoise](#), remarks at the Council on Foreign Relations, New York City, September 6, 2024.

² John C. Williams, [Resilience](#), remarks at the New Jersey Bankers Association, Jersey City, New Jersey, December 15, 2025.

³ Federal Reserve Bank of New York, [Survey of Consumer Expectations](#) (December 2025).

⁴ Board of Governors of the Federal Reserve System, [Federal Reserve issues FOMC statement](#), December 10, 2025.

⁵ Board of Governors of the Federal Reserve System, [Federal Reserve issues FOMC statement](#), October 29, 2025.

⁶ 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.

⁷ 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.

⁸ 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.

