Lisa D Cook: Economic outlook

Speech by Ms Lisa D Cook, Member of the Board of Governors of the Federal Reserve System, at the Economic Club of Miami, Miami, Florida, 4 February 2026.

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Thank you, Francisco, for the kind introduction, and many thanks to the Economic Club of Miami for the opportunity to speak with you today.[1] It is wonderful to see firsthand the vibrant and growing South Florida economy. The Miami region's unemployment rate is below the national average, and consumers in Florida have been among the country's most resilient. I am happy to have the opportunity to engage with all of you who are central to that dynamism.

I am especially glad to have the chance to update you on my economic outlook shortly after the Federal Open Market Committee's (FOMC's) first meeting of the year. As always, I am focused on achieving the dual mandate of maximum employment and stable prices given to us by Congress. This evening, I will discuss both parts of that mandate and give you my view of how the economy is evolving. I will then share some thoughts about the apparent disconnect between sentiment and activity readings before discussing implications for monetary policy.

Economic Outlook

Broadly, I see the U.S. economy as continuing to be resilient, with recent data indicating that growth in the second half of 2025 was even stronger than previously forecast. Inflation appears to have stalled stubbornly above our 2 percent goal, while at the same time the labor market appears to have stabilized in recent months. While the overall condition of the economy is solid, I am carefully watching sentiment, delinquencies, and other indicators that show a worsening outlook for low- and moderate-income households.

Inflation

Allow me to start with inflation. While some data are delayed because of last year's government shutdown, we have a good sense of inflation's direction. Based on the latest available data, it is estimated that the personal consumption expenditures price index rose 2.9 percent for the 12 months ending in December, still above our 2 percent target. Core inflation, which excludes the volatile food and energy categories, was estimated to be 3 percent at the end of last year. Those readings indicate that progress on inflation essentially stalled in 2025. I have long discussed how important it is to return inflation to our target.[2] Such a plateau is frustrating after seeing significant disinflation in the preceding few years.

To understand why inflation leveled off in 2025, I find it instructive to look at the subcomponents. The disinflationary trend has continued for housing services, an expected outcome as cooling new tenant rents flow through to overall shelter prices. Inflation for nonhousing services has also eased, consistent with a less tight labor market. Conversely, when looking at core goods prices, we have seen a notable uptick in inflation. That primarily reflects an increase in tariffs last year on a wide variety of imported products.

With anchored inflation expectations, it is anticipated that tariff increases should only lead to a one-time rise in the price level. That raises the likelihood that the recent disinflationary trend could resume once tariffs effects recede into the rearview mirror. However, much uncertainty remains. The future direction of tariff policy is unclear. And, even when tariff levels are settled, uncertainty remains with respect to how long it will take for that price rise to be complete and whether it will take hold in inflation expectations.

I would note that measures of short-run inflation expectations have fallen since last spring and longer-run inflation expectations measures have been stable. However, I am watching the clock here-the longer inflation remains above target, the greater the probability that higher inflation will become entrenched in expectations.

Labor market

With respect to the labor market, data available through the end of last year suggest that the labor market stabilized after having softened through 2024 and earlier in 2025. In December, the unemployment rate was 4.4 percent. While up from the cyclical trough, the rate was little changed over the second half of last year and remains relatively low. To put 4.4 percent in perspective, consider that the average unemployment rate over the 50-year period preceding the pandemic was 6.2 percent.

Meanwhile, layoffs remain low, and new applications for unemployment benefits have held steady for several years. The number of available jobs relative to unemployed workers seeking work is just below 1. This reading is historically consistent with a solid labor market, although it is appreciably down from a few years ago, when the labor market was considerably tighter.

Risks to the labor market persist. Individuals who report working part time for economic reasons as a share of employment jumped at the end of 2025 after gradually moving higher over the past few years. Furthermore, job creation has slowed. Nonfarm payrolls rose by only 50,000 jobs each in November and December after declining in October as a result of a substantial decline in federal government employment. This low payroll growth does not necessarily indicate a weakening labor market, as it is likely connected to the fall in the supply of workers due to immigration policies and underlying demographics. However, it does suggest that the low unemployment rate is not driven by strong labor demand. Instead, labor demand has eased roughly in line with the fall in labor supply.

Overall, these readings indicate to me that the labor market is roughly in balance, but I am highly attentive to developments, knowing it can shift quickly.

Looking ahead, as I have discussed in several speeches, I see the continued proliferation of artificial intelligence (AI) as likely to have a significant effect on the labor market and the economy.[3] Growing evidence shows that AI has the power to significantly boost productivity. Better productivity gains would support economic output and allow real wages to increase. I also see AI accelerating the generation of ideas, which could lead to the creation of new products, businesses, and jobs. Nonetheless, I am aware that job destruction may precede job creation, such that the unemployment rate might rise as the economy transitions, causing hardship for many workers and their families. I am concerned that there is a dynamic inconsistency problem such that there could be a mismatch between the arrival of costs related to AI investment and the arrival of benefits, including higher productivity that is noninflationary.

Economic activity

The overall economy is solid. GDP rose at a 4.4 percent annual rate in the third quarter of 2025, the most recent period for which data are available. That marked the second straight quarter of strong growth after a first-quarter downturn. The third quarter's gain was driven by consumer spending, which broadly remains highly resilient, as well as an increase in net exports, which is a volatile category. Fourth-quarter growth readings will be somewhat constrained by the effects of the federal government shutdown, which should unwind in the current quarter. For all of 2025, I estimate the economy grew a bit better than 2 percent, and I see a similar rate of growth being maintained this year.

Recent strong overall growth likely masks a challenging situation facing many families, particularly low- and moderate-income households. For example, youth and Black unemployment rates, both of which tend to be more cyclical than overall unemployment, have risen since last spring. The deteriorating labor market experienced by these two groups mirrors other emerging strains in some households' financial health and balance sheets. Among these households, I have observed large increases in delinquencies and see some evidence that their spending has stagnated when compared to the robust spending growth of their higher-income counterparts. This divergence is sometimes called a "two speed" or "K-shaped" economy, in which the well-off are doing well, while vulnerable households are not.

A View on Sentiment

I think about this two-speed or K-shaped economy when I attempt to take signal from various sentiment readings. Consumer sentiment, by many measures, is lower than one would expect in a solid economy, and perceptions of job availability have continued to worsen. Outreach calls I have with business and labor leaders, as well as with members of various communities and organizations, similarly suggest a dissatisfaction with the economy-and a worsening one-particularly among vulnerable households.

Typically, weak sentiment indicators are associated with a downturn in the economy and the labor market. However, there is reason to approach them differently at this time. I find it important to try to understand what is driving that discrepancy to ensure that I am not putting too little weight on what are called softer indicators. I have come to the view that there are four main reasons households are reporting low sentiment.

First, households are worse off relative to recent history. Though the economy is solid now, it has clearly softened in the past year or two, when it was running hot. It is natural that households would compare to their near past when assessing the economy's health and their prospects.

Second, the introduction of AI has raised uncertainty about the job market. Even Americans who see the benefits of AI can also be concerned about the labor-market transition and wonder whether, in coming years, jobs will be available for themselves and their families.

Third, there are decades-long structural changes that present challenges for today's middle-class families. Most notably, housing costs have increased sharply for both homebuyers and renters and have far surpassed wage gains in almost every region of the country. Moreover, the cost of education, health care, elder care, and childcare has risen by more than wages; household debt has also risen; and intergenerational mobility has declined. I conjecture that the growing pains of these trends may not be felt by American households linearly over time but, rather, that they interact with other macroeconomic trends such that they become especially painful at times, including in recent years. For instance, I think the age distribution of our workforce may make these trends more salient now with young adults competing for housing and jobs with older, wealthier baby boomers.

Finally, the fourth reason I will point to as an explanation for weak sentiment is the high inflation experienced, not just today, but over the past five years. This reason also interacts with the long-standing trends I just mentioned: The recent bout of inflation would have called attention to the corrosive rise in real prices of housing, childcare, and education that occurred over decades.

In summary, the reasons for low sentiment are real and are deeply concerning. But they do not, in my view, reveal a signal about increased slack that we can tackle with our typical demand-side monetary policy. In fact, for the part of households' concerns related to the pain of inflation, the best thing we can do in our roles is to ensure that inflation returns to and stays at target.

Monetary Policy

When considering the proper stance of monetary policy, I see risks to both parts of our dual mandate. Inflation remains persistently above our 2 percent target, and there is considerable uncertainty about when the tariff effects will recede. While the unemployment rate has shown signs of stabilization, the lack of dynamism in the labor market likely makes it susceptible to downside shocks. Overall, uncertainty about the outlook remains elevated, although I believe the labor market will continue to be supported by the three rate cuts last year.

At this time, I see risks as tilted toward higher inflation. As a result, I supported the FOMC's decision to hold the policy rate steady at our meeting last week. As I described, there is an argument for being optimistic about the path of inflation, but, until I see stronger evidence that inflation is moving sustainably back down to target, that is where my focus will be, in the absence of unexpected changes in the labor market. As I have said before but cannot repeat too many times, the FOMC's firm commitment to its inflation mandate is imperative.[4] After nearly five years of above-target inflation, it is essential that we maintain our credibility by returning to a disinflationary path and achieving our target in the relatively near future. At the height of the recent bout of high inflation, we promised that we would return to target, and it was this promise that kept inflation expectations anchored and allowed us to see the sharp disinflation from 2022 through 2024. If we were to lose credibility, the cost may not be immediately felt, but it would be resoundingly and painfully felt when we need it the most, in an inflation crisis such as the one we experienced three years ago.

Conclusion

As I have laid out, I remain optimistic that inflation will soon return to a path toward our target, that the labor market is stabilizing, and that sustainable growth lies ahead. My optimism is tempered with caution. This is why I will remain vigilant in studying a wide range of incoming information so that I can pursue the best policy to achieve our dual-mandate goals. My future policy decisions will be guided by incoming data, my economic outlook, and the evolving balance of risks.

Thank you, again, to the Economic Club of Miami for this opportunity. I look forward to your questions.

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

[2] See Lisa D. Cook (2023), "Thoughts on Inflation in a Supply-Constrained Economy," speech delivered at the 2023 Allied Social Science Associations (ASSA) Annual Meeting, New Orleans, La., January 6; and Lisa D. Cook (2024), "Moving Toward Better Balance and Implications for Monetary Policy," speech delivered at the Economic Club of New York, New York, June 25.

[3] For example, see Lisa D. Cook (2025), "AI: A Fed Policymaker's View," speech delivered at the National Bureau of Economic Research, Summer Institute 2025: Digital Economics and Artificial Intelligence, Cambridge, Mass., July 17; Lisa D. Cook (2024) "Artificial Intelligence, Big Data, and the Path Ahead for Productivity," speech delivered at "Technology-Enabled Disruption: Implications of AI, Big Data, and Remote Work," a conference organized by the Federal Reserve Banks of Atlanta, Boston, and Richmond, Atlanta, Ga., October 1; and Lisa D. Cook (2024), "What Will Artificial Intelligence Mean for America's Workers?" speech delivered at Ohio State University, Columbus, Ohio, September 26.

[4] See Lisa D. Cook (2025), "The Economic Outlook and Monetary Policy" speech delivered at the Brookings Institution, Washington, November 3.