Philip N Jefferson: Global economic developments and the US economy

Speech by Mr Philip N Jefferson, Vice Chair of the Board of Governors of the Federal Reserve System, at the 2026 Bank of Japan-Institute for Monetary and Economic Studies Conference "Monetary policy from new perspectives", hosted by IMES, Tokyo, 27 May 2026.

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Good morning. It is an honor to be here at the Bank of Japan, and I appreciate the opportunity to speak with you today.[1] I am looking forward to our discussion, but first I want to share some framing thoughts. I will briefly discuss three developments in the global economy that I am monitoring, and then I will update you on my outlook for the U. S. economy and the path of monetary policy.

The first global development I am tracking is the significant increase in energy prices due to the conflict in the Middle East. The rise in crude oil prices poses downside risks to growth and upside risks to inflation around the globe. Elevated energy prices are particularly challenging for countries like Japan that are net energy importers. While being a net energy exporter buffers the U.S. to an extent against energy shocks, it is not immune to the effects of disruption to global supply. Gasoline prices in the U.S. increased significantly since the onset of the conflict and remain notably elevated. I am watching whether higher energy prices will start to weigh on consumer spending.

The second development is the rapid advancement of artificial intelligence (AI) technology. As a central banker, I am optimistic about AI's promise to drive productivity and growth, though I am also monitoring its effects on the labor market and inflation.

And the third development is the effects of disrupted trade flows on the global economy. Since the pandemic, there have been multiple disruptions to global trade that have affected both supply and price levels.

Against this global backdrop, my focus, of course, is on the U.S. economy. Recent economic growth in the U.S. has been solid, though I expect a more modest pace of growth this year as households face high energy costs. The U.S. labor market is broadly stable, with both hiring and firing at relatively low levels. I see risks to the labor market as somewhat skewed to the downside. Disinflation in the U.S. stalled over the preceding year, largely because of increased tariffs. In recent months, inflation moved notably higher because of higher energy costs. I expect inflation to decline later this year as the effects of tariffs and the energy shock wane, but I view risks around my inflation outlook as tilted to the upside.

I am firmly committed to returning inflation to the Federal Open Market Committee's (FOMC) 2 percent target, aligned with our dual-mandate objectives of price stability and maximum employment given to us by Congress. At our last meeting, in late April, the FOMC decided to maintain the target range for the federal funds rate at 3-1/2 to 3-3/4 percent. I believe this policy stance leaves us well positioned to respond to economic developments based on the incoming data, the evolving outlook, and the balance of risks. I have not prejudged the next meeting and look forward to engaging with my colleagues about the policy necessary to best achieve our dual-mandate goals.

Thank you once again for the opportunity to speak with you today. I look forward to our discussion.

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[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.