Michelle W Bowman: Welcoming remarks - "Fed Listens"

Welcoming remarks by Ms Michelle W Bowman, Member of the Board of Governors of the Federal Reserve System, at the "Fed Listens: Community Listening Session", hosted by the Federal Reserve Bank of Atlanta, Atlanta, Georgia, 7 August 2023.

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Thank you, President Bostic.[1] When the Board began the *Fed Listens* initiative, our purpose was to engage directly with the public to discuss issues related to our monetary policy decision-making framework and our efforts to pursue the congressionally-mandated monetary policy goals of price stability and maximum employment. Since that time, and as a recognition of the importance of engaging with people across the country from a wide range of geographies and perspectives, we broadened the scope to become an ongoing process of consultation with the public. Through *Fed Listens* and other Board and System convenings, we can learn directly from those experiencing the economy about how households and businesses are faring, and how they are affected by Federal Reserve decisions.

In the latest of those decisions, on July 26 the Federal Open Market Committee (FOMC) raised the target range for the federal funds rate by 25 basis points and decided to continue reducing the Fed's securities holdings, both actions aimed at bringing down inflation. I look forward to hearing from today's participants about how inflation and higher interest rates are affecting their day-to-day decision making. But first, I will briefly share my thinking on, and why I supported, the FOMC's latest decision.

As many of you know, since March of last year the FOMC has significantly increased the federal funds rate, which is our primary monetary policy tool. The goal is to raise interest rates throughout the economy to bring demand into better balance with supply and reduce upward pricing pressures.

We have made progress in lowering inflation over the past year, but inflation is still significantly above the FOMC's two percent target, and the labor market continues to be tight, with job openings still far exceeding the number of available workers. Economic activity has grown at a moderate pace, and even as banks have been tightening their lending standards in response to higher interest rates and funding costs, lending to businesses and households has continued to expand.

Given these developments, I supported raising the federal funds rate at our July meeting, and I expect that additional increases will likely be needed to lower inflation to the FOMC's goal. Of course, monetary policy is not on a pre-set path, and I will be closely monitoring the incoming data and their implications for the economic outlook. I will be looking for evidence that inflation is on a consistent and meaningful downward path as I consider whether further increases in the federal funds rate will be needed, and how long the federal funds rate will need to remain at a sufficiently restrictive level.

I know that high inflation has been a hardship, especially for lower- and middle-income families, who spend the majority of their income on necessities. Returning inflation to two percent will help American families focus on important decisions other than inflation. Addressing high inflation will ensure that it is no longer a factor for spending and investment decisions and will help put the U.S. economy on a course of ongoing economic growth and rising standards of living. But I also know that higher interest rates have made it more difficult for many to get a loan, to buy a home or a car, and for businesses to invest and expand. I am interested to hear the ways in which inflation and higher interest rates are affecting the day-to-day lives of our participants today.

I am also looking forward to learning about how the economy and the Fed's policies are affecting lower-income workers and small businesses, the two subjects of today's *Fed Listens* event. Over the past few years, for many, wage and salary increases have not kept up with inflation, and while that general pattern has improved recently, most workers still have not seen wage increases equal to price increases. For workers at the lower end of the wage spectrum, wage gains have been the strongest seen in decades. However, because necessities like groceries and gasoline make up a large share of their household expenses, lower-wage workers have been experiencing the effects of higher prices more acutely than others. We also know from history that a slower economy, with higher unemployment, tends to hit lower-income workers the hardest, so we must remain attuned to the fact that our efforts to reduce inflation have the potential to undermine wage gains and job security for lower-wage workers. Should inflation remain at today's level, or increase again, lower-wage workers would continue to bear the brunt of these effects.

Small businesses are also more vulnerable in an economic slowdown than larger businesses, and I am watching carefully to see how they are dealing with both inflation and higher interest rates. Despite high inflation and significant challenges finding workers in a tight labor market, the past few years have been relatively good for small businesses and for new business formation. One noteworthy development is the remarkable surge in entrepreneurship, as evidenced by a significant number of new business start-ups. Rates of new business creation jumped beginning in mid-2020 after lagging for more than a decade. And recent indicators, like applications for new tax identification numbers, suggest the pace remained elevated through the middle of this year.

New businesses have also been responsible for a surprising amount of job growth, with an average of one million jobs created each quarter from early 2021 through the end of last year, which is a significantly higher pace than was typical prior to the pandemic.[2] This extended period of elevated start-up activity has been good for workers, and in a larger sense, good for entrepreneurship. While it may seem hard to believe, many of today's largest businesses began as small businesses. It is entirely possible that the next wealth-creating, world-beating business got its start during the depths of the pandemic.

I think I will leave it there, and say thank you again, for the opportunity to be part of this important conversation today.

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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 or the Board of Governors.

[2] In particular, Bureau of Labor Statistics data on jobs created by new establishments averaged 980,000 per quarter from 2020:Q3 to 2022:Q4 (the latest observation), compared with 810,000 per quarter from 2009 to 2019.