Michelle W Bowman: Brief remarks - economy and monetary policy

Brief remarks by Ms Michelle W Bowman, Member of the Board of Governors of the Federal Reserve System, at the Independent Community Bankers of Colorado, Golden Jubilee, Vail, Colorado, 22 September 2023.

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Thank you for the invitation to join you today, and congratulations on 50 years of working together to better serve the people of Colorado.[1] As a former community banker, it is always great to be with community bankers and to recognize the importance of your work to strengthen economic opportunities for your communities and your customers. I look forward to hearing more about the issues affecting your institutions and your customers, including the impact of the Federal Reserve's regulation and supervision.

Before we turn to our conversation, I'd like to offer a few thoughts on the economy and monetary policy, since the members of the Federal Open Market Committee (FOMC) met earlier this week. As you know, at that meeting, my colleagues and I voted to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2 percent, after raising rates sharply over the past year and a half to reduce inflation. During that time, we have seen considerable progress on lowering inflation, warranting a more gradual pace of increases this year and supporting the decision this week to hold rates steady. However, inflation is still too high, and I expect it will likely be appropriate for the Committee to raise rates further and hold them at a restrictive level for some time to return inflation to our 2 percent goal in a timely way.

Most recently, the latest inflation reading based on the consumer price index showed that overall inflation rose, responding in part to higher oil prices. I see a continued risk that energy prices could rise further and reverse some of the progress we have seen on inflation in recent months.

At the same time, the economy has remained strong as the FOMC has tightened monetary policy. Real gross domestic product has been growing at a solid pace. Consumer spending has been robust, and the housing sector appears to be continuing to rebound. The most recent employment report showed a labor market with solid job gains. The average pace of job gains over the past year has slowed somewhat and the labor force participation rate has also improved over the same time frame, a sign that labor market supply and demand may be coming into better balance.

The banking system continues to be strong and resilient. Banks have tightened lending standards due to higher interest rates and funding costs and in anticipation of future regulatory requirements. Despite this tightening of bank lending standards, we have not seen signs of a sharp contraction in credit that would significantly slow economic activity. Though bank loan balance growth has slowed, the ongoing strong balance sheets of households and businesses combined with the growing importance of non-banks as sources of credit suggest that the effects of monetary policy on bank lending may have smaller effects on the economy than in the past.

Given the mixed data releases-strong spending data but a decline in inflation and downward revisions to jobs created in previous months-I supported the FOMC's decision to maintain the target range for the federal funds rate. But I continue to expect that further rate hikes will likely be needed to return inflation to 2 percent in a timely way. The Summary of Economic Projections released in connection with the September FOMC meeting showed that the median participant expects inflation to stay above 2 percent at least until the end of 2025. This, along with my own expectation that progress on inflation is likely to be slow given the current level of monetary policy restraint, suggests that further policy tightening will be needed to bring inflation down in a sustainable and timely manner.

It is important to reiterate that monetary policy is not on a pre-set course. My colleagues and I will make our decisions based on the incoming data and its implications for our economic outlook. We should remain willing to raise the federal funds rate at a future meeting if the incoming data indicates that progress on inflation has stalled or is too slow to bring inflation to 2 percent in a timely way. Returning inflation to our 2 percent goal is necessary to achieve a sustainably strong labor market and an economy that works for everyone.

Turning to bank regulation and supervision, I would also like to briefly address bank regulatory policy. With the bank failures and accompanying banking system stress earlier this year, it was clear that the Federal Reserve, and in some cases the other federal banking agencies, need to address supervisory shortcomings and potentially consider revision of some failure-related bank regulations.

In my view, any proposals considered by the Board and any others jointly proposed by the bank regulatory agencies should be

1. Focused on remediating identified issues and shortcomings;
2. Informed by data, analysis, and genuine debate and discussion among policymakers within each of the participating agencies; and
3. Developed through a transparent and open process that allows policymakers and the public to understand the context, data, and analysis underlying the proposed reforms. Of course, this process must also incorporate the opportunity to solicit meaningful public comment.

It is absolutely imperative that stakeholders-including bankers-share their views with policymakers on regulatory reform proposals. All of the comments, data, and analysis enable policymakers to make informed decisions throughout the rulemaking and proposal process. Information about the intended and unintended impacts of these initiatives is especially informative. If the Fed and other banking agencies have not provided sufficient context, data, and analysis to satisfy stakeholder questions or concerns, commenters should provide that perspective as well.

As you know, there are a number of regulatory rulemakings under consideration by the Board and the other bank regulatory agencies. Some have already been published for comment including the proposal to implement Basel III "endgame" by significantly expanding capital requirements and bringing the threshold for compliance down to include all banks over $100 billion in assets from only the largest GSIB banks, and the expansion of the long-term debt requirement from only the largest banks again to all

banks over $100 billion in assets. Still other proposals have not yet been published or moved to the next stage of the rulemaking process, including the Community Reinvestment Act rulemaking, the further consideration of climate guidance, and others. The Board has also publicly indicated it may propose additional revisions in the future to Regulation II.

I recognize that in some instances, multiple, interrelated proposals out for comment at the same time may complicate or even frustrate the ability to provide meaningful comment. Even so, I strongly encourage your participation to inform the rulemaking process. This audience is uniquely positioned to provide real-world feedback about the intended and unintended consequences of agency rulemakings. I look forward to all of the stakeholder comments and feedback throughout the current and upcoming regulatory rulemaking processes. I look forward to our conversation.

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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.