John C Williams: Finding balance in the economy

Remarks by Mr John C Williams, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the Economic Club of New York, New York City, 30 May 2024.

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As prepared for delivery

Introduction

I'm honored to be here today among so many Economic Club of New York members, fellows, students, and staff. The Club has the privilege of hosting incredible speakers, but it's our members who truly create the robust, dynamic environment for our discussions. Thank you for being part of this wonderful organization.

As I look ahead to the end of my term as Club chair, I'd like to thank my predecessor in this role, Marie-Josée Kravis; our board members; our tireless President and CEO, Barbara Van Allen; and the small yet remarkably productive staff of the Club. When I began my term as chair back in June of 2020, the ECNY was strong and vibrant, all thanks to their vision, commitment, and hard work.

At the same time, 2020 was a period of tremendous uncertainty for the ECNY. After all, our hallmark was in-person events. With the onset of the pandemic, we needed to reinvent what it meant to be the ECNY in very short order. We all quickly came together and innovated to an incredible degree so that we could reach our members in new ways. Zoom became our meeting room, and we later found success in hybrid events. We launched new programs, including a series focused on Diversity, Equity, and Inclusion, the Innovation and Social Impact Challenge, and the podcast. And we did it while maintaining the financial strength of the Club.

Here is one statistic that captures the dramatic evolution of the Club. Over the past four years, we held 100 events, or 25 per year, on average. That compares to 660 events in the prior 113 years, or about six per year. That's over a 300 percent increase in productivity! There are many exciting things planned for the future, and I look forward to watching the Club evolve and prosper in the years to come.

For today's discussion, I'll transition away from my role as ECNY chair and back to my job as president of the New York Fed. I'll spend some time focusing on how the Federal Reserve is working to achieve both maximum employment and price stability. I'll also discuss the progress we've seen in the economy in terms of getting supply and demand in better balance and bringing inflation back down to the Federal Open Market Committee's (FOMC's) 2 percent longer-run goal. Finally, I'll share my view on where the economy is headed.

Now I need to provide 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.

The Dual Mandate

As I never tire in saying, the Federal Reserve's monetary policy goals are clear: maximum employment and price stability. The overarching objective of monetary policy today is to bring inflation down to 2 percent over time while maintaining a strong labor market.

Economic Progress

The good news is that over the past two years, we have made considerable progress toward these objectives. After last year's strong GDP and job growth, incoming data point to a slowing, but still solid pace of growth in economic activity in the first half of this year. Demand-supply imbalances have diminished. Global supply chains, which were severely disrupted during the pandemic and early in the recovery, have mostly returned to normal. At the same time, inflation has come down considerably.

Let me dive deeper into the maximum employment side of our mandate. First and foremost, the labor market remains quite strong. Labor supply has been boosted by high levels of labor force participation among individuals aged 25-54 years, as well as by increased immigration flows. The unemployment rate has been under 4 percent for more than two years-the longest such stretch in over 50 years. This measure-now at 3.9 percent-is close to my estimate for the unemployment rate that is likely to prevail over the longer run.

Even as the economy and labor market remain strong, various labor market indicators show that demand-supply imbalances that emerged following the pandemic continue to recede. Most of these measures have returned to pre-pandemic levels. But two are still signaling a tighter labor market than before the pandemic: job vacancies and wage growth. After skyrocketing over the course of 2021 and early 2022, the rate of job openings has subsequently steadily declined, but still remains elevated relative to pre-pandemic levels. Wage growth has displayed a similar pattern, including for so-called job switchers for whom wage growth is highly sensitive to labor market conditions.[1] That said, wage growth has yet to fully return to levels consistent with 2 percent price inflation on a sustained basis.

That provides a nice segue to the topic of inflation, the other half of our mandate. Inflation has declined significantly since mid-2022. This drop has been broad-based, with inflation lower in all major categories-food, energy, goods, and services. The 12-month percent change in the personal consumption expenditures (PCE) price index has continued to decline, falling from its 40-year high of above 7 percent in mid-2022 to 2.7 percent in the latest reading. The decline in inflation has benefited from a reduction in demand and supply imbalances, both here in the U.S. and internationally.

Indeed, this phenomenon is not unique to the United States. Canada, the United Kingdom, and the European economies experienced historically high inflation and have similarly seen relatively rapid declines in inflation as well. In fact, based on the Harmonized Index of Consumer Prices, the inflation rates in the euro area, Sweden, the

United Kingdom, and the United States are all now nearly the same. While every region has its own set of conditions, global factors affected inflation in advanced economies around the world.[2]

Even with this good news, inflation in the United States remains too high, and in recent months there has been a lack of further progress toward our 2 percent goal. Extracting the signal from the noise when it comes to inflation readings is especially challenging now, since the economy is still feeling the aftershocks of the supply chain issues and high inflation following the pandemic and the war in Ukraine.

I'll point to a few areas of research developed by my colleagues at the New York Fed to better understand the data. The most recent reading of our Multivariate Core Trend (MCT) inflation measure was 2.6 percent in March, about the same level as it was in December, and down nearly 3 percentage points from its peak in June 2022.[3] Furthermore, measures of inflation expectations from our Survey of Consumer Expectations have remained broadly stable and are generally in line with their pre-Covid ranges at all horizons.[4] And global supply chain issues have mostly receded, according to both our Global Supply Chain Pressure Index and evidence from our regional surveys of businesses.[5],[6]

Overall, I see some of the recent inflation readings as representing mostly a reversal of the unusually low readings of the second half of last year, rather than a break in the overall downward direction of inflation. With the economy coming into better balance over time and the disinflation taking place in other economies reducing global inflationary pressures, I expect inflation to resume moderating in the second half of this year. But let me be clear: inflation is still above our 2 percent longer-run target, and I am very focused on ensuring we achieve both of our dual mandate goals.

Economic Outlook and Monetary Policy

So, what does this mean for monetary policy?

It's important to note that many factors beyond monetary policy influence the economy and financial markets. These include global drivers of supply and demand, as well as factors that are currently affecting the supply side of the U.S. economy that are driving up GDP and job growth. Therefore, the stance of monetary policy needs to be considered in this broader context, and cannot be understood simply by looking at the growth rate of the economy, or comparing the interest rate to its longer-run level or r-star.

Looking at this broader context, the behavior of the economy over the past year provides ample evidence that monetary policy is restrictive in a way that helps us achieve our goals. We are seeing clear and consistent signs that the imbalances between supply and demand in the economy are receding. And we have seen a broad-based decline in inflation. Overall, the risks to achieving our maximum employment and price stability goals have moved toward better balance over the past year.

At its May meeting, the FOMC kept the target range for the federal funds rate unchanged at 5-1/4 to 5-1/2 percent. In announcing that decision, the Committee said it "does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent."[7]

Additionally, the Committee said it will "continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities," and beginning in June, "will slow the pace of decline of its securities holdings." The decision to slow the pace is in no way indicating an imminent cessation of shrinking the balance sheet. Rather, by slowing the pace, we're better able to monitor conditions and facilitate a smooth transition to the appropriate level of ample reserves.

I see the current stance of monetary policy as being well positioned to continue the progress we've made toward achieving our objectives. In terms of my forecast for the economy, I expect GDP growth this year to be between 2 and 2-1/2 percent. I expect the unemployment rate to be about 4 percent at the end of this year, and then move gradually down to its longer-run level of 3-3/4 percent thereafter. As the growth of economic activity gradually slows and demand and supply continue to come into better balance, I expect overall PCE inflation to moderate to about 2-1/2 percent this year, before moving closer to 2 percent next year.

It goes without saying that the outlook is uncertain. The risks are two-sided, with geopolitical events and China's growth outlook prominent examples. Because of this, we will continue to keep an eye on the totality of the data, so that we make policy decisions that ensure that we get inflation sustainably back to 2 percent while maintaining a strong labor market.

Conclusion

I'll close with this. We have seen a great deal of progress toward our goals over the past two years. I am confident that we will restore price stability and set the stage for sustained economic prosperity. We are committed to getting the job done.

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[1] For a discussion of the importance of job switchers for aggregate wage dynamics see Fatih Karahan, Ryan Michaels, Benjamin Pugsley, Ayegül ahin, "Do Job-to-Job Transitions Drive Wage Fluctuations over the Business Cycle?," American Economic Review, 107:5 (May 2017): pp. 353–57.

[2] Martín Almuzara, Babur Kocaoglu, and Argia Sbordone, "Is the Recent Inflationary Spike a Global Phenomenon?," Federal Reserve Bank of New York Liberty Street Economics, May 16, 2024.

[3] Federal Reserve Bank of New York, Multivariate Core Trend Inflation (March 2024 update).

[4] Federal Reserve Bank of New York, Survey of Consumer Expectations (April 2024 Survey).

[5] Federal Reserve Bank of New York, Global Supply Chain Pressure Index (April 2024 update).

[6] Jaison R. Abel and Richard Deitz, "Supply Chain Disruptions Have Eased, But Remain a Concern," Federal Reserve Bank of New York Liberty Street Economics, May 20, 2024.

[7] Board of Governors of the Federal Reserve System, Federal Reserve Issues FOMC Statement, May 1, 2024.