John C Williams: From where we are now

Remarks by Mr John C Williams, President and Chief Executive Officer of the Federal Reserve Bank of New York, at Pace University, New York City, 11 February 2025.

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As prepared for delivery

Introduction

It's great to be back at Pace University-particularly here at 15 Beekman. I've watched this building rise from the ground, and it's been wonderful to see it develop as a new focal point for the school.

The New York Fed has a number of connections to Pace. We're close neighbors and anchor institutions here in Lower Manhattan. More than 100 of our employees are proud Pace alumni. And through the years, Pace students have represented the Second District well in the College Fed Challenge competitions.

I'm sure the members of the Economics Society who are here today have come armed with thought-provoking questions about the economy and monetary policy. And I look forward to answering them. But first, I'm going to take this opportunity to talk about where the economy's been, where it is today, and where it's going. I'll discuss how the Fed is working to achieve its dual mandate of maximum employment and price stability. And I'll give my economic outlook.

Before I go further, I must give the standard Fed disclaimer that the views I express today are mine alone and do not necessarily reflect those of the Federal Open Market Committee (FOMC) or others in the Federal Reserve System.

Where We've Been

Now that most economic data for 2024 have come in, it's a good time to talk about the key developments of the past year and what they mean going forward. In a nutshell, what the data tell us is that 2024 is the year the economy returned to balance, or "equipoise" as I like to say.

The FOMC defines price stability as 2 percent inflation over the longer run. And the 12-month percent change in the personal consumption expenditures price index-the measure the FOMC uses to gauge inflation against its goal-ended 2024 at just above 2-1/2 percent.

While inflation remains somewhat elevated, and the path to 2 percent has been bumpy at times, we have made significant strides since June of 2022, when inflation reached a 40-year high of 7-1/4 percent. And the disinflation process has been broad-based, across all the major categories of goods and services.

We've also made great progress on the employment side of our mandate. The labor market-red hot in 2021 and 2022-has cooled considerably and is back to more normal levels. And over the past six months, several labor market indicators are showing signs of stabilizing. For example, at 4 percent, the unemployment rate is little changed from the middle of last year.

Despite the cooling of the labor market, the economy has continued to grow at a solid rate. Real GDP increased 2-1/2 percent in 2024, on the heels of more than 3 percent growth in 2023. This strong growth has been powered by robust gains in the labor force and productivity.

Since the Federal Reserve's mandate is to achieve maximum employment and price stability, we want to see demand in line with supply and keep the risks to achieving our goals in balance. Now that balance has been achieved, our job is to ensure the risks *remain* in balance.

Against this backdrop, the FOMC began moving its monetary policy stance from one that tightly constrains demand to one that is less restrictive. Over the course of three meetings in the latter part of 2024, the Committee lowered the target range for the federal funds rate by a total of 100 basis points.

We are not alone in this. Other central banks around the world have made similar policy moves. In many countries, inflation rose in 2021 and 2022 and has since come down. Central banks have responded to the global disinflationary process by shifting monetary policy to a less restrictive posture.

Where We Are Now

As we enter 2025, the economy is in a good place. Growth has remained solid, supported by robust consumer spending.

And from where we are now, a number of signs indicate that inflation will continue to move toward our 2 percent longer-run goal-although it will take time before we can achieve that target on a sustained basis.

First, with the labor market now in balance, we have seen wage growth slow to levels broadly consistent with productivity trends and 2 percent inflation. Based on the latest reading of the New York Fed's Heise-Pearce-Weber Tightness Index, the labor market is now about as tight as it was in in the first half of 2017, a period when wage growth and price inflation were low.[1] In short, the labor market is not a source of inflationary pressure today.

Second, measures of underlying persistent inflation have moved in the right direction. For example, the New York Fed's Multivariate Core Trend inflation estimate has fallen to about 2-1/4 percent.[2] Although the decline has been choppy at times and has slowed over the past year and a half, this measure is well below the high of 5-1/2 percent that it reached in the summer of 2022.

And third, inflation expectations remain well anchored. Well-anchored expectations are a bedrock of modern central banking and are important to ensuring low and stable inflation. Survey- and market-based measures currently show that longer-term expectations remain at levels consistent with our 2 percent target. In particular, the New York Fed's Survey of Consumer Expectations shows inflation expectations are within their pre-pandemic ranges across all horizons.[3]

That's where things stand in terms of our price stability mandate. On the employment side of our mandate, as I said earlier, the labor market is in a good balance. Importantly, the cooling from unsustainably tight conditions a few years back appears to have mostly run its course. Overall, the labor market looks solid, although some indicators, such as the rates of hires and quits, are a touch below where they were in the final years before the pandemic.

With the labor market in balance and inflation moving toward our price stability goal, the FOMC decided at its most recent meeting in January to leave the target range for the federal funds rate unchanged at 4-1/4 to 4-1/2 percent.[4] In terms of the Fed's balance sheet, the process of gradually reducing our securities holdings is proceeding smoothly.

Where We're Going

So, where do I expect the economy will go in 2025 and beyond?

Based on the data we have today, I anticipate the growth rates of supply and demand will continue to slow while staying in balance. I expect real GDP growth to move to around 2 percent in 2025 and 2026, which is near my estimate of its long-run potential rate.

With growth in supply and demand well balanced, I anticipate the unemployment rate to remain essentially flat at around 4 to 4-1/4 percent.

And I expect overall inflation to remain around 2-1/2 percent this year, and then decline to our 2 percent goal in the coming years.

Monetary policy is well positioned to achieve maximum employment and price stability. The modestly restrictive stance of policy should support the return to 2 percent inflation while sustaining solid economic growth and labor market conditions. But it's important to note that the economic outlook remains highly uncertain, particularly around potential fiscal, trade, immigration, and regulatory policies.

Conclusion

From where the economy has been to where it's going, one commonality is that it's faced tremendous uncertainties. From where we are now, the economy is in a very good place. The labor market is in balance. And inflation is on a path to reach our 2 percent longer-run goal over the next few years.

The Committee's decisions on future monetary policy actions will continue to be based on the totality of the data, the evolution of the economic outlook, and the risks to achieving our goals.

I remain strongly committed to bringing inflation back to our 2 percent target on a sustained basis, while being watchful to risks to both sides of our dual mandate.

With that, I look forward to taking your questions.

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[1] Sebastian Heise, Jeremy Pearce, and Jacob P. Weber, "A New Indicator of Labor Market Tightness for Predicting Wage Inflation," Federal Reserve Bank of New York *Liberty Street Economics*, October 9, 2024; and Sebastian Heise, Jeremy Pearce, and Jacob P. Weber, "Wage Growth and Labor Market Tightness," Federal Reserve Bank of New York Staff Report Number 1128, October 2024.

[2] Federal Reserve Bank of New York, Multivariate Core Trend Inflation (December 2024 Update).

[3] Federal Reserve Bank of New York, Survey of Consumer Expectations (January 2025).

[4] Board of Governors of the Federal Reserve System, Federal Reserve issues FOMC statement, January 29, 2025.