John C Williams: Uncertain times

Remarks by Mr John C Williams, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the Puerto Rico Chamber of Commerce, San Juan, Puerto Rico, 11 April 2025.

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As prepared for delivery

Introduction

I would like to begin by thanking the Puerto Rico Chamber of Commerce for co-hosting today's event. Visiting Puerto Rico is always a highlight for me, and yesterday I had the pleasure of seeing Ponce for the first time.

I'm on the island as part of the ongoing engagement the New York Fed has with communities across the Federal Reserve's Second District. In our discussions, business and community leaders have shared their perspectives on Puerto Rico's economy. In turn, I've been able to place what's happening here in the context of the broader U.S. economy.

I'd like to continue that conversation this morning. But before we get to the Q&A portion of the program, let me take some time to discuss the economy and monetary policy in the context of a changing and uncertain landscape. I'll talk about what the data are telling us and how the Federal Reserve is working to achieve its dual mandate of maximum employment and price stability. I'll also share some observations about Puerto Rico's economy.

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.

The Economy of Yesterday and Today

So, what can we expect for the economy? That question is top of mind for many-particularly those trying to plan for the future at a time of heightened uncertainty.

The answer is multifaceted, but I will do my best to address it over the next 10 minutes or so.

To start, I'll say that the economy entered the year on firm footing. This was a result of strong growth fueled by robust gains in the labor force and productivity. After a period of cooling, a wide range of labor market indicators, including the unemployment rate, have stabilized at levels consistent with a solid labor market.[1]

On the inflation front, the disinflationary process has been on a path toward the FOMC's longer-run inflation goal of 2 percent. Based on the 12-month change in the personal consumption expenditures price index, inflation was 2-1/2 percent in February, reflecting a broad-based deceleration over the past few years. This is tremendous progress given that in mid-2022, inflation reached a 40-year high of over 7 percent. But we are still not at our 2 percent goal, and I remain committed to bringing inflation back to that goal on a sustained basis.

Understanding Uncertainty

Despite this strong start, the future is highly uncertain. I am not alone in saying this. In fact, "uncertainty" was the overwhelming theme in the latest Federal Reserve Beige Book, a report about economic conditions across the 12 Federal Reserve Districts. Measures of policy uncertainty have increased sharply in recent months. For example, between October of last year and this March, the Economic Policy Uncertainty Index has nearly tripled, reaching the highest level recorded over the past 40 years, outside of 2020.[2] Unsurprisingly, the Trade Policy Uncertainty Index has skyrocketed to levels never before seen in data going back 65 years.[3]

This pervasive sense of uncertainty is becoming increasingly evident, especially in so-called soft data such as surveys and information from business contacts. There's been a sharp decline in consumer sentiment, and business sentiment measures have weakened, too.

Shifts in sentiment can occur for a multitude of reasons, so understanding their source is key. While uncertainty about the economic outlook reflects many factors, the effects of tariffs and trade policy on the economy are certainly at the top of the list. For example, my business and financial market contacts highlighted that this has made it more difficult to plan for investments and hiring.

This gives us insight into the reality that businesses and consumers are faced with, many of whom speak of taking a wait-and-see approach. It's a concept economists call the "option value of waiting." At times of great uncertainty, consumers may put off making big decisions like buying a home or car, and businesses may delay investing until they have a better sense of what the future holds. And when households and businesses cut back on spending, economic growth slows.

Inflation Expectations

In addition to the effects of uncertainty and trade policy on sentiment, we are seeing increasing signs of effects on near-term expectations of inflation. For example, market-based measures of inflation expectations-which reflect what investors are willing to pay to be protected against inflation-have risen at shorter horizons but have remained stable at longer horizons. New York Fed surveys indicate that Second District businesses expect higher cost increases, particularly among manufacturing firms and businesses that rely heavily on imported goods and products. While year-ahead inflation expectations of firms also moved up, their longer-term expectations remained stable.[4]

During times of turbulence and uncertainty such as these, well-anchored longer-run inflation expectations are critically important for ensuring sustained price stability.

An Eye on Puerto Rico

The story here in Puerto Rico is consistent with what we're seeing elsewhere. The island's economy has been doing quite well. Employment numbers are impressive, with private sector employment at an all-time high. There's been strong growth across industries. And, after decades of decline, the island's population appears to have stabilized. Despite this strength, Puerto Rico is not immune to the effects of uncertainty, as I've heard from business leaders here.

Monetary Policy Amid High Uncertainty

Considering the high degree of uncertainty about what the future holds, another question often asked is what this means for monetary policy.

The answer is that the current modestly restrictive stance of monetary policy is entirely appropriate given the solid labor market and inflation still above our 2 percent goal. Importantly, it gives us the opportunity to assess incoming data and developments, and ultimately positions us well to adjust to changing circumstances that affect the achievement of our dual mandate goals.

That's why, at its most recent meeting, the FOMC decided to leave the target range for the federal funds rate unchanged at 4-1/4 to 4-1/2 percent. In the accompanying statement, the Committee noted that uncertainty around the economic outlook has increased, and said it is attentive to risks to both sides of its dual mandate.[5] The Committee reaffirmed its strong commitment to supporting maximum employment and returning inflation to its 2 percent objective, and its policy decisions will be based on a careful assessment of the incoming data, the evolving outlook, and the balance of risks.

The Committee also decided to slow the pace of reduction in its holdings of securities, with a net effect of reducing the monthly pace of balance sheet runoff by about half. This is a natural next step to smooth the transition from abundant reserves to a level that is somewhat above ample. This action has no implications for our intended stance of monetary policy or for the ultimate size of our balance sheet.

The Economic Outlook

It's hard to know with any precision how the economy will evolve. Given the uncertain effects of recently announced tariffs and other policy changes, there is an unusually wide range of outcomes that could transpire. That said, the broad contours of the outlook are becoming a bit clearer.

Given the combination of the slowdown in labor force growth due to reduced immigration and the combined effects of uncertainty and tariffs, I now expect real GDP growth will slow considerably from last year's pace, likely to somewhat below 1 percent. With this downshift in the pace of growth, I expect the unemployment rate to rise from its current level of 4.2 percent to between 4-1/2 and 5 percent over the next year. I expect increased tariffs to boost inflation this year to somewhere between 3-1/2 and 4 percent.

Although the economic outlook for this year is coming into better focus, what happens after that remains unclear. A key question is the extent to which this year's higher inflation spills over into subsequent years and how that may affect expectations. Another question is how the global economy will respond to the change in trade policies. As I stressed in a recent speech, the world's economies are highly interconnected, and what happens in our country affects other countries and vice versa. [6]

Conclusion

Elevated uncertainty poses many questions about the future of the economy and the path of monetary policy. It is simply too early to know the answers. But as we learn more about the effects of tariffs and other policies, we'll continue to carefully assess the incoming data, the evolving outlook, and the balance of risks to our goals.

Monetary policy is in the right place to manage those risks as best we can. Despite the recent rise in short-term inflation expectations, longer-term expectations have remained well anchored. It is critically important to keep inflation expectations well anchored as we pursue our goals of maximum employment and returning inflation to our 2 percent longer-run objective.

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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.

[2] Scott R. Baker, Nick Bloom, and Steven J. Davis, Economic Policy Uncertainty Index.

[3] Trade Policy Uncertainty (TPU) Index as described in Dario Caldara, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo, 2020. "The Economic Effects of Trade Policy Uncertainty," *Journal of Monetary Economics*, 109, January, 38-59.

[4] Jaison R. Abel, Richard Deitz, and Ben Hyman, "Firms' Inflation Expectations Have Picked Up," Federal Reserve Bank of New York *Liberty Street Economics*, March 5, 2025.

[5] Board of Governors of the Federal Reserve System, Federal Reserve issues FOMC statement, March 19, 2025.

[6] John C. Williams, Certain Uncertainty, remarks at the Macroeconometric Caribbean Conference, Nassau, Bahamas, March 21, 2025.