



Remarks as Prepared for Delivery

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Wednesday, November 12, 2025 – OR UPON DELIVERY

Perspectives on the Economy and Financial Landscape

Remarks at the 24th Annual Regional & Community
Bankers Conference hosted by the Federal Reserve Bank
of Boston

Susan M. Collins

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Boston, Massachusetts

*The views expressed today are my own, not necessarily those of my colleagues on
the Federal Reserve Board of Governors or the Federal Open Market Committee*

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Key Takeaways

1. Boston Fed President Susan M. Collins summed up the national economy as one where economic activity remains favorable overall, based on available information. But the labor market has clearly softened. At the same time, inflation remains elevated, driven by rising goods prices (largely due to tariffs).

"Hiring has slowed markedly," she said, noting slower growth in both labor supply and labor demand. The net result is an unemployment rate that still appears to be relatively low. However, this unusual balance with low net hiring bears watching.

2. So far, tariffs have had a smaller impact on economic activity and on inflation than many had expected. Firms are seeking ways to reduce the tariff-induced cost increases, including by substituting away from highly-tariffed production inputs, and by increasing productivity (through automation, changes in production process, and investments in A.I.)

Collins noted that an increased "efficiency mindset, which began during the worker-shortage period following the pandemic, is a near-constant in my conversations with business leaders. These cost-saving measures are, in turn, offsetting to some extent the impact of tariffs on consumer prices."

3. Collins' baseline outlook for the economy "remains relatively benign," but she sees upside risks to inflation and downside risks to the labor market.

"The broad-based decline in job growth we have seen this year raises the risk of labor demand falling persistently short of labor supply." "Inflation has now been above the Fed's 2 percent target for nearly five years, which carries the risk of inflation becoming entrenched above target" – so it is essential to restore price stability in a reasonable amount of time.

4. Upside risks to inflation call for more policy restraint, while downside risks to the labor market call for less. Assessing the *balance* of these risks, Collins decided at the last FOMC meeting that "dialing the restrictiveness of our policy stance down another notch (25 basis points) was prudent to provide a bit more support to the employment side of our mandate." Importantly, the current policy stance remains mildly restrictive, which should help ensure the disinflation process resumes next year.

Looking ahead, Collins has "a relatively high bar for additional easing in the near term," as "providing additional monetary support to economic activity runs the risk of slowing – or possibly even stalling – the return of inflation to target." She says, "absent evidence of a notable labor-market deterioration, I would be hesitant to ease policy further ... it seems prudent to ensure that inflation is durably on a trajectory back to 2 percent before making any further adjustments to our policy stance."

5. Speaking to community bankers, Collins observed that their banks remain resilient amid some challenges. Loan portfolio performance and metrics are favorable; reserves and capital are appropriate. Challenges include deposit competition, elevated funding costs, subdued loan growth, and resulting pressure on net interest margins.

"As we at the Fed continue to refine our supervisory program and approach, we will of course focus on material financial risks and support responsible innovation. We want to ensure that the District's financial institutions are thriving, safe, and sound; and able to be vital parts of the economic and financial 'fabric.'"

6. Collins ended by observing that change, driven by technology and innovation in the financial sector and payments, brings opportunities and challenges. After mentioning the potential benefits and importance of guardrails for stablecoins, she touched on instant payments, notably the FedNow Service, which has had a strong year of growth with over 1,500 banking participants, and counting.

"Banking is certainly experiencing technological change and shifts in the expectations of customers; but some things are not changing – notably the importance of safe and sound regional and community banks in the economic and financial landscape."

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It is a pleasure to join you today for the Boston Fed's 24th annual Regional and Community Bankers Conference. I want to thank all of you for attending, and for the constructive engagement that you have with the Federal Reserve.

The "North Star" for us at the Boston Fed is a vibrant economy that works for everyone. That requires a resilient financial and banking system. The Federal Reserve supports that in a number of ways – and constructive engagement, with banks and many other stakeholders, is a key ingredient.

I believe it is essential for us at the Federal Reserve to *listen well* to the stakeholders in all of our work, and to *explain well* our policy decisions. So, I'll share my perspectives on the economy and monetary policy. I'll then shift to describing some of the trends in community banking that we at the Fed are following. And I'll comment briefly on innovation in finance and payments.

First let me note, as always, that these remarks today are my own views; I am not speaking for any of my colleagues at the other Federal Reserve Banks or the Board of Governors.

The Economy and Monetary Policy

Two weeks ago, the Federal Open Market Committee (FOMC) decided to lower the target range for the federal funds rate by a quarter of a percentage point "in support of its goals and in light of the shift in the balance of risks."¹ In my remarks today, I'll explain why I supported this decision, by discussing my assessment of national economic conditions, the outlook and the associated risks, as well as my perspectives on policy going forward.

National Economic Conditions

Despite the lack of recent official data due to the government shutdown, available information² suggests that economic activity remains solid. However, the labor market has clearly softened. In particular, hiring has slowed markedly, reflecting slower growth in both labor demand and labor supply. While these trends are difficult to disentangle,³ the unemployment rate still appears to be relatively low. This suggests that the labor market remains roughly in balance, though an unusual one with low net hiring that bears watching.

At the same time, inflation remains elevated. In the three months ending in August – the latest available government data – prices rose at an annual rate of almost 3 percent, as measured by the core PCE price

¹ <https://www.federalreserve.gov/newsevents/pressreleases/monetary20251029a.htm>

² While we are not currently receiving official statistical releases, I continue to review a wide range of information, including data from private sector sources and the qualitative information from extensive engagements across the First District. Like my FOMC colleagues, I use these data to update the more comprehensive picture of economic conditions from before the government shutdown.

³ In recent remarks, I discuss reasons why hiring may be so low despite solid economic growth. (See [Assessing the Balance of Risks in the Economy - Federal Reserve Bank of Boston](#)) On the demand side, at least two factors seem to be making firms more hesitant to hire despite solid demand for their products. One is continued uncertainty, especially about the ultimate level and breadth of tariffs. The other is robust productivity growth. The supply side, on the other hand, is constrained by sharply reduced immigration. With many fewer workers entering the workforce, fewer jobs need to be created each month to keep the unemployment rate from rising.

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index. This increase has been driven by rising goods prices – largely due to tariffs – and has more than offset the gradual decline in housing price inflation.

However, at least so far, tariffs have had a smaller impact on economic activity and on inflation than many had expected. This seems to reflect several factors. First, firms are seeking ways to reduce the tariff-induced cost increases. One way is by substituting away from highly-tariffed production inputs and claiming tariff exemptions. Another is by increasing productivity. Through automation, changes in production process, and investments in AI, firms – especially larger ones – are finding ways to reduce costs. Indeed, this efficiency mindset, which began during the worker-shortage period that followed the pandemic, is a near-constant in my conversations with business leaders around the First District. These cost-saving measures are, in turn, offsetting to some extent the impact of tariffs on consumer prices.

In addition, the expected slowdown in activity from higher tariffs has been tempered by resilient demand from households and businesses. This resilience has been supported by balance sheets which remain solid overall – though there are signs of stress among lower-income households and some smaller firms.

Assessment of the Outlook and Risks

Looking ahead, the ultimate magnitude of the tariffs remains highly uncertain. It is also unclear to what extent firms will be able to continue offsetting higher input costs through cost-saving measures. Several other factors, including immigration and changes in the fiscal and regulatory environment, are still evolving and will also influence the trajectory of economic activity and inflation.

Against this backdrop, formulating an economic outlook is challenging – and the limited data compounds the difficulty. However, based on available information, my baseline forecast remains relatively benign. Given that firms and households appear to have pulled forward some expenditures earlier this year, to get ahead of tariffs, I expect a temporary slowdown in real activity over the near term, with the unemployment rate moving up modestly. Tariffs are also likely to keep inflation elevated into early 2026. But in the medium term, as the tariff effects work their way through the economy, activity should pick up, supported by solid business and household fundamentals. And the pre-tariff disinflation process should resume.⁴

That said, I do not rule out other scenarios with higher and more persistent inflation, more adverse employment outcomes, or both. As concerns inflation, resilient demand could keep inflation elevated even after the tariff effects wane. And I am very mindful that inflation has now been above the Fed's 2 percent target for nearly five years, which carries the risk of inflation becoming entrenched above target. Indeed, in all of my conversations with contacts across New England, I hear concerns about elevated prices – an environment that could affect firms' price-setting decisions and workers' wage demands. In this context, it is essential to restore price stability in a reasonable amount of time.

As concerns employment, the broad-based decline in job growth we have seen this year raises the risk of labor demand falling persistently short of labor supply, leading to a more notable rise in the unemployment rate. Moreover, continued productivity improvements may not bolster labor demand, at least in the near term, even if they support economic activity.

⁴ In principle, higher tariffs generate a one-time increase in the price level, which raises inflation temporarily. But once tariffs have worked their way through prices, their inflationary impact should end.

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Policy Perspectives

Let me now turn to monetary policy. As I have noted before, monetary policy decisions need to be forward-looking, based on rigorous data-driven assessments of where the economy is headed and the associated balance of risks. In the absence of high-quality government data and with upside risks to inflation calling for more policy restraint, while downside risks to the labor market call for less, determining appropriate policy is challenging.

As I noted at the outset, I supported the additional 25 basis point cut at the last FOMC meeting. With downside risks to employment increasing relative to the upside risks to inflation this past summer, I decided that dialing the restrictiveness of our policy stance down another notch was prudent because it provides a bit more support to the employment side of our mandate. Importantly, the current policy stance remains restrictive, if only mildly so, which should help ensure the disinflation process resumes next year.

But given my baseline outlook, it will likely be appropriate to keep policy rates at the current level for some time to balance the inflation and employment risks in this highly uncertain environment.

I see several reasons to have a relatively high bar for additional easing in the near term. Although monetary policy is still mildly restrictive, broad financial conditions are a tailwind, not a headwind, for economic growth.⁵ Given this tailwind, economic activity has been holding up quite well, with both household and business demand remaining resilient overall.

Against this backdrop, providing additional monetary support to economic activity runs the risk of slowing – or possibly even stalling – the return of inflation to target. And with resilient demand, the downside risks to employment, while present, do not seem to have increased further since the summer. Absent evidence of a notable labor market deterioration, I would be hesitant to ease policy further, especially given the limited information on inflation due to the government shutdown. Until we can assess some of the effects of the cumulative policy easing since September, it seems prudent to ensure that inflation is durably on a trajectory back to 2 percent before making any further adjustments to our policy stance. The current level of policy rates, in my view, leaves policy well positioned to address a range of potential outcomes and balance risks on both sides of our mandate.

Regional Economic Conditions

Let me end this segment with brief comments about economic conditions here in New England.⁶ As in the nation, economic activity in the region seems to have remained favorable overall. The labor market, though, has clearly softened this year, with job growth declining to its slowest pace since 2011, excluding the COVID-19 pandemic period. This slowdown can be attributed primarily to much more muted hiring in health, education, and government – the sectors that were key to job growth last year. In my conversations with contacts around New England, I hear that most firms can find qualified workers, but the current uncertain environment has raised the bar for filling open positions. Still, hiring remains difficult in some skilled trades and some contacts are concerned about the ongoing implications of immigration restrictions for labor supply.

⁵ High equity valuations and housing prices play a crucial role here, though receptive credit markets and the modest dollar depreciation this year also factor importantly into this assessment.

⁶ See [New England Economic Conditions - Federal Reserve Bank of Boston](#).

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With respect to prices, data through August show that inflation in New England has continued to exceed the national rate,⁷ with shelter costs contributing importantly to the region's elevated inflation. In this context of still-elevated prices, I continue to hear about pockets of stress among lower-income communities.

Outreach to people on the "front lines" is crucial for understanding how the New England economy is evolving. Challenges frequently mentioned include the cost of living, housing supply and affordability, and childcare shortages constraining participation in the labor market. In terms of opportunities, I've seen many innovative, cross-sector initiatives that are enhancing economic vibrancy. To name a few, during a visit to Northeastern University's Roux Institute in Maine I learned about some of the 130 startups incubated. In Northern New England, I also heard about a lumber mill using AI to help sort wood, given chronic labor shortages linked to an aging workforce. And in cities like Lawrence, I've seen "win-win" partnerships across sectors grow the local economy by nurturing small businesses and supporting workforce skill development.⁸

Banking Trends in New England

I'll turn now to some of the trends we see in First District community banking conditions. The region's community banks remain resilient and continue to serve customer needs. While they do have exposure to commercial real estate, their loan portfolios have benefited from the continued resilience of the lower-density cities and suburban areas in which they operate and lend. Their exposure to central business district office space or lab space, where there are more challenges, is limited.

As a result, loan portfolio performance and metrics for community banks in our District have remained favorable – with only a modest increase in nonperforming loans, which remain low relative to historical norms. Furthermore, to date, we have not observed any discernable trends in terms of credit issues, either by property type, industry, or location. And community banks in the region continue to have appropriate levels of reserves and capital.

Despite the generally positive credit performance, First District community banks *do* continue to experience some pressures. First, significant deposit competition in the region continues, resulting in elevated funding costs. Community banks compete with larger banks, online banks, and other entities for funding – especially as technology and customer preferences evolve. Second, loan growth over the first half of 2025 has been subdued – although loan growth outpaced deposit growth during this period. As a result, net interest margins remain under pressure – which, of course, is how most community bank income is generated.

Simultaneously, liquidity has become somewhat more constrained, with loans expanding more rapidly than core deposits. Net interest margins have improved a bit recently, due to modest reductions in funding costs and higher loan yields. We will continue to monitor changes in funding cost and composition, as well as community banks' liquidity profiles, as the ratio of net loans and leases to core deposits remains at elevated levels relative to historical averages.

Given the competitive operating environment for community banking, I'll also mention that there has been an uptick in merger and acquisition activity in the First District, particularly among mutual banks.⁹ We at the Fed

⁷ Year-over-year CPI inflation in New England reached 3.7 percent in August 2025, surpassing the national rate for the 16th consecutive month.

⁸ For additional information, visit <https://www.lawrencepartnership.org/>.

⁹ Regarding M&A activity, one notable trend has been the leveraging of multi-bank holding companies – with the banks continuing to run as separate legal entities, but combining risk management and other common operations, to share costs. We at the Fed are agnostic regarding this banking structure and can see the potential appeal for managing business functions efficiently.

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continue to evaluate each individual banking organization to ensure it is operating in a safe and sound manner.

Let me say a bit about Federal Reserve supervisory policy. In June, Governor Michelle Bowman was confirmed as Vice Chair for Supervision of the Federal Reserve Board of Governors. Community bankers are getting familiar with the Vice Chair's areas of focus in leading the Fed's Supervision and Regulation. She has set out her guiding principles in a number of recent speeches, emphasizing "pragmatism"¹⁰ and a regulatory system "tailored to the size, risk, complexity, and business model" of institutions.¹¹ In a recent speech,¹² she also highlighted efforts to clarify the process for mutual banking organizations to issue capital instruments that qualify as regulatory capital – an important topic to many of you here today.¹³ Also, with the uptick in mergers and acquisitions in the region, we have prioritized the timely, efficient, and effective processing of applications.

In terms of the Boston Fed's supervisory program, as many of you know, Chris Haley, our head of supervision, has announced his intention to retire early next year. Chris has recognized the critical role of community banks throughout his career, which started as a field examiner. While we will certainly miss his insights and perspective, our supervisory program will remain in a very strong place given the talent Chris helped nurture here. Our commitment to safety and soundness and to constructive engagement with banks will not change.

Our regional and community supervision team remains positioned to engage with you, particularly as you navigate some of the technological and other changes discussed at today's conference. And as we at the Fed continue to refine our supervisory program and approach, we will of course focus on material financial risks and support responsible innovation.

Innovation in Finance and Payments

Before concluding, I'd like to say a bit about the evolving landscape for innovation in finance and payments. It's a big topic, with many facets, and I'll just touch on a few. Clearly, we are in the midst of significant change driven by technology and innovation in the financial sector and payments ecosystem, bringing both opportunities and challenges for banks.

One payment innovation is stablecoins, which are digital assets that seek to maintain a stable price. As with other innovations, stablecoins could have wide-ranging benefits, such as reduced transaction costs for businesses and households, 24/7/365 access, instant transfer of value, and a high degree of transparency.¹⁴

¹⁰ [Speech by Governor Bowman on a fresh look at supervision and regulation - Federal Reserve Board](#)

¹¹ [Opening remarks by Vice Chair for Supervision Bowman at the Economic Growth and Regulatory Paperwork Reduction Act Outreach Meeting - Federal Reserve Board.](#)

¹² [Speech by Vice Chair for Supervision Bowman on looking toward the future - Federal Reserve Board](#)

¹³ A noteworthy element for mutual banks I would highlight is the October 22 SR Letter entitled Regulatory Capital Instrument Issuance by Mutual Banking Organizations. It was intended to raise awareness of recently issued Frequently Asked Questions (FAQs) in the Legal Interpretations of Regulation Q and Regulation MM, which clarify the process for mutual banking organizations to issue capital instruments that qualify as regulatory capital. The FAQs include template term sheets that a mutual banking organization can reference when considering the issuance of qualifying regulatory capital instruments.

¹⁴ Fed Governor Chris Waller has described stablecoins as another payment option for the industry to innovate with. For reference: [Speech by Governor Waller on payments - Federal Reserve Board](#). Broadly speaking, optionality for the industry is good, and we'll continue to watch how the payments ecosystem evolves (for example, in May, we co-organized, with the New York Fed, a virtual Conference on Stablecoins and Tokenization. The conference convened researchers and industry participants to discuss the potential impact of stablecoins on the financial system. [Second Conference on Stablecoins and Tokenization - Federal Reserve Bank of Boston.](#))

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Of course, it is important that guardrails are in place to ensure that they are developed in a manner that does not pose material safety and soundness risks to banks, harm consumers, or negatively impact the financial system. To that end, in July, Congress passed the GENIUS Act, which establishes a federal regulatory framework for payments stablecoins. Banking regulators are currently working on implementing the Act.

Instant payments are another important innovation. The FedNow Service allows eligible depository institutions of different sizes across the U.S. to provide near real-time payment services at any time. This has been a strong year of growth for the service, now with over 1,500 participants and counting. New features have been added, including enhancements related to fraud prevention and monitoring. Multiple use cases are driving up volume. Many community banks see customers switching to non-bank products and services to move money quickly, and as a result have been exploring the FedNow service. Additionally, over 40 service providers are ready to support payment processing and have been enabling downstream customers.

The pace and breadth of change in finance and payments can seem a bit daunting, but I reflect on New England's rich history of leading change at the intersection of technology, finance, and the focus on services that benefit customers. I'm thinking of things like insurance products, the first modern mutual fund, digital imaging and electronic clearing of checks, and yes, instant payments services – to name a few.

One of the roles the Fed can play involves convening, because progress often relies on cross-functional collaboration.¹⁵ This brings me back to a notion I mentioned earlier – the Fed's commitment to constructive engagement with banks and other stakeholders.

Concluding Observations

In conclusion, I'll just say that banking is certainly experiencing technological change and shifts in the expectations of customers; but some things are *not* changing – notably the importance of safe and sound regional and community banks in the economic and financial landscape.

To that end, I'll conclude by sharing an anecdote from the visits I make around the region to hear about economic conditions. When I was in New Bedford this summer¹⁶ hearing from a group of business, nonprofit, and civic leaders, they brought up unsolicited how important community banks are to their efforts. That's a theme I've heard many times in my journeys around New England. It only underlines our commitment, at the Fed, to ensuring that the District's financial institutions are thriving, safe and sound, and able to be vital parts of the economic and financial "fabric" of communities. We believe community banks are well positioned to innovate on opportunities, weather challenges, and continue as essential components of the New England economy.

Thank you, and now I look forward to some questions with Steve.

¹⁵ Governor Waller noted that the roles that the Federal Reserve plays to support the private sector's payments innovation include "serving as a convener to solve coordination problems and operating core payment and settlement infrastructure. We are also looking ahead, conducting hands-on research on tokenization, smart contracts, and the intersection of AI and payments for use in our own payment systems. We do this to understand the innovation happening within the payment system as well as to evaluate whether these technologies could provide opportunities to upgrade our own payment infrastructures and to enable us to have deeper conversations with the industry on these new technologies." [Opening remarks by Governor Waller at the Payments Innovation Conference - Federal Reserve Board](#).

¹⁶ <https://www.bostonfed.org/news-and-events/news/2025/06/south-coast-rail-susan-collins-mbta-cape-cod-air-aviation-maintenance-affordable-housing.aspx>