



Remarks as Prepared for Delivery

EMBARGOED UNTIL 11:30 A.M U.S. Eastern Time,
Wednesday, May 13, 2026 – OR UPON DELIVERY

“The U.S. Economy: Resilience Amid Risks and Uncertainty”

Remarks at the Boston Economic Club

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May 13, 2026
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*

Key Takeaways

Resilience: Despite a series of supply shocks – including tariffs and energy – economic activity has remained resilient so far. The labor market has clearly softened from the overheated conditions of 2023 and 2024, but the unemployment rate remains low by historical standards.

Uncertainty: Factors contributing to heightened uncertainty include the conflict in the Middle East, the extent and timing of productivity gains from adoption of new technologies, and the ultimate impact of supply-side developments such as tariffs and immigration changes.

Energy: The U.S. economy's oil intensity (oil and petroleum products consumed per units of real GDP) has declined significantly, and the U.S. has recently become a net energy exporter. These changes have implications for how the energy shock is likely to transmit through the economy. Relative to the past, there will be potentially less adverse effects – but a prolonged conflict in the Middle East could weigh on global supply chains, leading to inflationary pressures and negative spillovers to the real economy.

Inflation: While down from its peak, inflation has been above target for over five years – and has increased recently, due mostly to energy prices. Above-target inflation is partly the result of the ongoing effects of tariffs, especially on goods prices. But it also reflects firms' pricing power given resilient demand, and recent productivity gains taking time to lower price pressures.

The labor market: The unemployment rate has been relatively stable since last July, despite slow job growth. This unusual balance reflects a slowdown in labor demand with a mostly offsetting decline in labor supply, linked to significantly reduced immigration. An important question going forward is how efficiency gains from the adoption of new technologies will affect businesses' demand for workers.

The outlook: The energy shock has increased uncertainty, and tilted risks to activity to the downside and risks to inflation to the upside. Assuming the Middle East conflict is resolved relatively soon, I expect solid economic growth to continue this year, with only a modest rise in the unemployment rate. However, I expect inflation to remain elevated with the disinflation process gaining more traction only next year. But the possibility of less benign scenarios has increased, and I am particularly concerned about the upside risks to inflation.

Monetary policy: It will likely be necessary to maintain the current, slightly restrictive monetary policy stance for some time. More than five years of above-target inflation has reduced my patience for "looking through" another supply shock. While I hope policy normalization can resume late this year, I can also envision a scenario that requires some policy tightening to ensure that inflation returns durably to 2 percent. But at the moment, I see monetary policy as well positioned to adjust as needed to evolving economic conditions.

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Good morning, and a warm welcome to all of you. It is a pleasure to welcome members of the Boston Economic Club to the Boston Fed today. We appreciate our relationship with the Economic Club, and its role in the vibrant economic and financial “ecosystem” of Greater Boston.¹

I’m looking forward to sharing some thoughts on economic conditions. But first, as always, my standard disclaimer. These comments reflect my own views, not necessarily those of my colleagues at the Board of Governors in Washington, D.C., or at the other Federal Reserve Banks.

Introductory Observations

I’ll preface my remarks about the economy with a few opening observations.

It has become a welcome tradition for the Club to invite Federal Reserve Bank staff to attend when Boston Fed presidents speak. And today, in addition to Club members, the audience includes many Bank employees. So, in the context of all the recent discussion about the Fed’s roles, independence from political pressures, and opportunities to be more effective and efficient, I’d like to say a few words about our people.

At his final press conference, outgoing Fed Chair Jay Powell said that “This institution is resilient, capable, and staffed by professionals of extraordinary talent and exceptional dedication.” Earlier this year, he also said “I will tell [the next Chair that] you’re about to meet the most qualified group of people you not only *have* ever worked with, [but] you *will* ever work with ... There isn’t a better cadre of professionals more dedicated to the public wellbeing than those who work at the Fed.” Having been at the Boston Fed for almost four years, and seeing it in action, I wholeheartedly agree with his sentiments.

Many people do not realize the breadth of work the Fed does – not because of so-called mission creep, but because the central bank plays vital roles in a range of activities that underpin healthy functioning of the U.S. economy and financial system. The Fed staff here today include:

- economic researchers who support our role in making monetary policy by analyzing domestic and global economic and financial conditions;
- staff involved in supervising some of the region’s financial institutions to ensure safety, soundness, and fair access to credit, as well as their access to central bank liquidity;
- staff working to support payments services and platforms that safely and securely move trillions of dollars each day;

¹ Greater Boston benefits from leading economic scholarship, deep involvement in markets and financial services, and from being home to innovative organizations and thinkers that help shape public policy. So, it is no surprise that we have a strong, vibrant Economic Club.

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- staff who build and support the IT infrastructure and platforms allowing these functions to operate;
- staff focused on ensuring the Fed engages, hears from, and is responsive to the public we serve; and
- staff who perform essential corporate functions – from human resources to finance – enabling all our work.

These people support our Congressional mandates and a resilient financial system, and our pursuit of a vibrant economy that works for everyone. We are committed to serving the American people and will continue to hone and improve the ways we do so. Over its history, the Fed has continuously evolved to meet new opportunities and challenges while seeking greater effectiveness and efficiency. We've always adapted, and embraced innovation – whether modernizing our payments infrastructure, upgrading supervisory approaches, or streamlining operations to be even better stewards of public resources.

Economic Conditions

With that, let me turn to the economy and share my assessment of current conditions, my outlook, and implications for policy. A lot has happened since I last spoke at the Economic Club. In particular, the Middle East conflict has increased economic uncertainty; and much depends on when and how the hostilities are resolved. But other factors are also contributing to heightened uncertainty. These include the extent and timing of productivity gains from adoption of new technologies, as well as the ultimate impact of supply-side developments such as tariffs and immigration changes.

Starting with current economic conditions, the left panel of **Figure 1** shows real GDP, which grew 2 percent at an annual rate in the first quarter of 2026 after advancing at a similar pace last year. Despite a series of still-unfolding supply shocks – including tariffs in 2025 and the oil shock more recently – economic growth has remained resilient. And while the labor market has clearly softened from the overheated conditions of 2023 and 2024, the unemployment rate, shown in the right panel, remains low by historical standards. At 4.3 percent through April, it has also been relatively stable since mid-2025 despite slow hiring. I'll have more to say in a moment about this rather unusual balance in the labor market.

Turning to the price-stability side of the Federal Reserve's Congressional mandate, **Figure 2's** left panel shows personal consumption expenditures (or PCE) inflation – the metric the Federal Open Market Committee (FOMC) targets at 2 percent. While way down from its 2023 peak, inflation

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has been above target for over five years – and has increased recently due to the jump in energy prices. Notably, the post-pandemic period of high rates of inflation has resulted in a surge in the *level* of prices, as shown in the right panel. In my travels around New England, concerns about high prices are ubiquitous, especially for lower- and middle-income households. In this context, I believe it is important to durably return inflation to the FOMC’s 2 percent target in a reasonable amount of time.

The Energy Shock

One important factor shaping the outlook is the conflict in the Middle East. Even if efforts to resolve hostilities and reopen the Strait of Hormuz succeed relatively soon, it will likely take some time to rebuild infrastructure and replenish inventories. So, supply disruptions could persist, possibly inducing lasting changes to some global linkages.

To assess the impact of higher energy prices on inflation and economic activity, it is instructive to consider U.S. oil dependence. The left panel of **Figure 3** highlights that the U.S. economy’s oil intensity, measured in barrels of oil consumed per thousand dollars of real GDP, has declined significantly. And the right panel shows that the amount of net U.S. imports of oil and petroleum products, measured on the same basis, has also decreased notably over the past two decades. In fact, the U.S. has recently become a net energy exporter.

These structural changes have important implications for how the current energy shock is likely to transmit through the U.S. economy. First, lower oil intensity implies that a given oil price rise will have less adverse effects on inflation, real activity, and employment. And second, becoming a net energy exporter should result in even smaller negative effects on real activity and employment because higher oil prices boost revenues of domestic oil producers, which in turn stimulates demand. At the same time, this positive demand effect could add to inflationary pressures.

Given these changes, the positive correlation between oil shocks and future consumer price inflation, while still present, has diminished since the 1990s. This is especially true for core inflation, which excludes volatile food and energy prices. In other words, the “second-round” effects of an oil shock on non-energy prices are now less pronounced than in the 1970s and 1980s. And the negative correlation between oil shocks and future employment growth that prevailed before the mid-1990s has weakened significantly. Of course, these simple correlations should be interpreted with caution, but they suggest the current oil shock will likely have a modest impact on the domestic economy overall, with perhaps somewhat more adverse effects on inflation than on the labor market.

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However, this relatively benign assessment is not without substantial downside risks. A prolonged conflict would put even more pressure on already-strained global oil supplies. The current supply contraction is quite large by historical standards; although so far, the shortage has been partly offset by countries running down their inventories. But if shipments through the Strait do not resume soon, global economic strains – which are already high, especially in Asia – will intensify. This would increase knock-on effects on global supply chains and exacerbate inflationary pressures and adverse effects on domestic economic activity.

As shown by the blue line in **Figure 4**, there are already signs of delivery-time increases among U.S. trading partners. These typically lead to increases in domestic delivery times, shown by the yellow line. And longer domestic delays are often associated with a subsequent increase in U.S. producer prices.²

In sum, the ultimate economic impact of the oil shock remains to be seen. Although the U.S. economy is relatively insulated, the longer the conflict persists the greater the likelihood of more substantial negative spillovers.

Productivity Gains and Other Possible Offsets

I see the U.S. outlook as also depending on whether offsets could lessen the energy shock's impact on real activity. This seems to have happened last year with the tariff shock that, so far, has had a smaller impact on activity than most forecasters expected. If firms continue to invest and households continue to draw on their financial wealth to help finance spending, the pace of economic activity should remain solid.

In this respect, underlying fundamentals remain healthy overall, despite some pockets of stress. Firms' cash holdings are elevated. And households' financial asset holdings remain high. So, the dynamics supporting the economy that were at play in 2025 could continue.

But the extent to which this happens will partly depend on the persistence of recent productivity gains. As shown in **Figure 5**, output per hour, or labor productivity, has accelerated notably since 2019. The current average growth in productivity of about 2.5 percent (the yellow dashed line) is about *double* the average growth that prevailed in the decade and a half before the pandemic (the blue dashed line). Faster growth is not just due to AI adoption, but also reflects firms' broader efficiency gains, driven in part by necessity. Facing challenges in hiring when the labor market was especially tight in the aftermath of the pandemic, many firms found ways to boost the productivity of existing workers.

² Not shown in the figure.

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So far, large productivity gains have contributed to historically high firm profitability, which in turn has significantly boosted capital spending, especially on high-tech equipment and data centers. Strong profits, together with the promise of new AI-related technologies and future productivity gains, have also led to high equity valuations. Together with elevated housing prices, this has increased household net worth relative to disposable income – which, as shown in **Figure 6**, is very high by historical standards. While not shown, I will note that net worth for the bottom 40 percent of the income distribution is also elevated, although these holdings are small overall. And I frequently hear of lower-income households facing financial strain that has been exacerbated by high energy prices.

Although it is notoriously difficult to forecast productivity growth, I see the current healthy pace as likely to persist over the medium term – as technology-related investments continue, and AI is increasingly adopted. But it may take some time for these investments to be more fully reflected in expanded productive capacity. In the meantime, the positive demand effects already at work could persist, with implications for inflation.

The Labor Market

Productivity dynamics have important implications for the labor market – and are likely a key reason for the “unusual balance” I mentioned earlier. The blue line in **Figure 7** highlights the recent relative stability of the unemployment rate. At the same time, job growth – shown on a 12-month average basis by the yellow line – has been slow. Hiring has averaged only about 22,000 jobs a month since last July, when the unemployment rate was at 4.3 percent, the same level as now. This situation – low job creation but a stable unemployment rate – largely reflects a slowdown in labor demand and a commensurate decline in labor supply growth, linked to the significant reduction in immigration.

Other indicators are also consistent with a labor market in balance. In particular, labor force participation among the prime-age population (those aged 25 to 54) is holding up well, as shown by the blue line in **Figure 8**. And while total labor force participation – which includes people older than 16 (the yellow line) – is trending lower, this largely reflects population aging. In fact, after accounting for this aging effect, the overall participation rate remains healthy, suggesting that workers are not becoming discouraged and leaving the labor force at a particularly high rate.³

³ The downward pressure on total labor force participation from an aging population is being partially offset by greater labor force attachment from increased educational attainment. So, on balance, demographic factors are imparting a negative trend on labor force participation. When taking into account the age and education

But a key question is how productivity improvements will affect the demand for workers going forward.⁴ In this respect, it is worth noting that the unemployment rate has increased notably for college graduates, and the duration of their associated unemployment spells has risen. This is especially the case for those aged 25 to 34, the green line in **Figure 9**. This suggests that more educated workers who are early in their careers are having particular difficulty finding jobs – which is an atypical pattern that could reflect a shift in employers’ desired skill mix.

At the moment, potential skill mismatches due to ongoing technological change seem manageable, although the additional time it takes to find a job can place significant strain on individuals and their families. But there is a risk that job-finding challenges could become more widespread. And a weakening of labor market conditions could offset some of the positive demand effects from higher productivity growth that I mentioned earlier.

Inflation Implications

So, what does all this imply for the inflation outlook? The blue line in the left panel of **Figure 10** shows the same 12-month PCE inflation measure discussed before, with the most recent data point highlighting the March increase in energy prices. The yellow line depicts core PCE inflation, which excludes the important but volatile food and energy categories, and provides one indicator of underlying inflation. Core inflation has also remained above 2 percent for more than five years, with no progress since 2024. The longer and more disruptive the conflict in the Middle East, the larger the inflationary impact – not only on energy, but also on food and on many of the categories of goods and services in the core basket.

I do want to emphasize that continued high inflation does not appear to be driven by labor market pressures. The red line in the right panel of **Figure 10** shows that wage growth, adjusted for productivity, has returned to the range that before the pandemic was consistent with 2 percent

structure of the population, the current participation rate is close to – if not slightly better than – what one would expect given the prevailing unemployment rate.

⁴ Historically, sustained productivity gains have led to a pickup in hiring over time. But employment growth has been stagnant in several sectors where hiring increases first occurred after previous productivity accelerations – such as IT, financial activities, and professional and business services. The extent to which we might see a pickup this time around is therefore more uncertain because some of the technological changes underway may substitute for labor rather than complement it. In conversations around the region, I’ve heard examples of both. Some business leaders do anticipate downsizing their workforces – as coders, back-office and other employees become more productive (and to pay for AI-related investments). By contrast, given strong demand, some firms expect to leverage AI-related productivity gains to expand their workforces – though perhaps shifting their skill-mix. But heightened uncertainty, related to the economic outlook as well as technology, may delay hiring plans, and many business leaders I have talked to are back in “wait-and-see” mode.

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inflation. At the same time, core PCE inflation, shown again by the yellow line for comparison, remains elevated.⁵

Above-target inflation is partly due to the effects of tariffs, especially on prices of goods. The left panel of **Figure 11** provides two measures of core goods inflation, which excludes energy goods. The blue line averages the data over a 12-month window, while the yellow line shows annualized three-month core goods inflation, giving a more recent, if volatile, picture. The data show that core goods inflation rose notably in recent months, after returning to its pre-pandemic range in 2024. However, my staff estimates that much of the pass-through of tariffs into total inflation, perhaps about 70 percent, has already taken place. This is illustrated by the blue line in the right panel, with the shaded band showing the uncertainty around these estimates.

The estimates indicate that tariff pass-through to consumer prices has also stabilized recently, suggesting that the tariff effects on inflation should wane going forward. But in the near-term, we could see some additional tariff-related price increases if tariff rates revert to levels that prevailed before the Supreme Court ruling.

The other two components of inflation, which are less impacted by tariffs, are shown in **Figure 12**. Housing (or shelter) price inflation, shown in the left panel, has come down noticeably and is back to its pre-pandemic range.

However, services inflation excluding housing prices, shown in the right panel, remains above levels consistent with 2 percent inflation. I find this pattern notable because a considerable portion of the labor productivity improvements have accrued to the services sector. To me, this suggests that, with relatively solid demand, firms retain pricing power and have less incentive to fully pass efficiency gains on to consumers.

The Outlook, Risks, and Policy

Overall, amid heightened uncertainty, the energy shock has negatively affected my outlook for both real activity and inflation. Moreover, the shock has tilted risks to real activity somewhat further to the downside and risks to inflation further to the upside. I am always focused on both sides of our mandate from Congress, but at this point, am particularly concerned about inflation.

The supports to demand from favorable financial conditions and AI-related investment projects, in addition to the fact that the U.S. is now a significant energy producer, should limit the

⁵ For an analysis of the relationship between wages, productivity, and prices and estimates of the range of wage growth consistent with the 2 percent inflation target, see: [Is Post-pandemic Wage Growth Fueling Inflation? - Federal Reserve Bank of Boston](#).

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downside risks to economic activity. But by sustaining demand, these offsets could potentially generate continued inflationary pressures, in addition to those directly related to the energy shock. In contrast, the disinflationary impetus from recent productivity gains, as firms build up new productive capacity, may take time to materialize.

With underlying fundamentals remaining solid, my most likely or modal outlook continues to feature resilient demand. If the Middle East conflict is resolved relatively soon, I expect continued solid economic growth over the remainder of this year, with possibly a modest rise in the unemployment rate. However, I expect little to no reduction in inflation this year, with the disinflation process gaining more traction next year. But the likelihood of other scenarios – with higher and more persistent inflation, more adverse labor market outcomes, or both – has increased.

Given this outlook and the balance of risks, I believe it will likely be important to maintain the current slightly restrictive monetary policy stance for some time. More than five years of above-target inflation has reduced my patience for “looking through” another supply shock. And it puts a spotlight on inflation expectations remaining anchored, as they are a key indicator of the Fed’s credibility to restore – and maintain – price stability.

The left panel of **Figure 13** highlights that short-term inflation expectations are elevated and volatile. Not surprisingly, surveys find that respondents expect inflation will still be above 2 percent a year from now. More concerning would be evidence of *longer-term* inflation expectations becoming unmoored from levels consistent with 2 percent inflation. But as shown in the right panel, most longer-term indicators do continue to be consistent with price stability.

However, we cannot take such anchoring for granted. This is particularly true in the current environment, with price increases already affecting fuel and perhaps soon food – items that are top-of-mind for consumers. Historically, such shocks have been key drivers of households’ near-term inflation expectations. And the association between movements in households’ near-term and longer-term inflation expectations has recently increased somewhat.⁶ It is therefore essential for the Fed to continue demonstrating its commitment to price stability through its rate decisions and communications.

In sum, I certainly hope for a relatively benign outcome where policy normalization could resume later this year. However, the range of possible outcomes is wide, with risks to both the

⁶ This observation is based on individual-level responses in the University of Michigan’s Surveys of Consumers, with recent data showing an increase in the correlation between individuals’ short- and longer-term inflation expectations.

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employment and inflation sides of our mandate. Of particular concern is the possibility of a prolonged Middle East conflict that gives rise to more challenging policy tradeoffs. And while it is not in my most likely outlook, I could envision a scenario in which some policy tightening is needed to ensure that inflation returns durably to 2 percent in a timely manner. At the moment, though, I see the stance of monetary policy as well positioned to adjust to the evolving outlook and balance of risks.

In conclusion, I thank the Boston Economic Club for your engagement in these issues and your time and attention today. I look forward to exploring some additional questions with Juhi Dahwan, and then the audience.