



Remarks as Prepared for Delivery

EMBARGOED UNTIL 4:00 P.M. U.S. Eastern Time,
Tuesday, October 13, 2026 – OR UPON DELIVERY

Perspectives on the Economy and the Banking Landscape

Remarks at the 25th Annual Regional and Community Bankers Conference

Hosted by the Federal Reserve Bank of Boston

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Tuesday, October 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

1. Collins said “The U.S. economy has shown remarkable resilience despite significant adverse shocks from tariffs and energy.” GDP growth was somewhat stronger in the first half of this year than many forecasters had expected – and seems to have stepped-up further in the third quarter.

“A potential concern is that the acceleration in GDP might reflect an increase in demand that could strain supply and put upward pressure on prices. However, this is not my current expectation. Rather, I see [...] an increase in the economy’s productive capacity due to efficiency gains. That is, an economy that can now grow faster with the same number of workers [and] demand and supply remaining roughly balanced.”

2. In the labor market, “conditions are generally stable and broadly consistent with achieving the employment side of the Fed’s mandate. [...] I see the U.S. labor market as broadly balanced – though the aggregate data mask significant variation across place and sector.”

Collins sees risks to the labor market as two-sided. On the upside, there is potential for a more sustained acceleration in hiring, which could lead to growth in demand outpacing growth in labor supply. On the downside, widespread AI adoption could limit firms’ demand for workers.

3. Inflation is notably above the Fed’s 2% inflation target and has been for five and a half years. While recent inflation readings include some promising news, in the near-term pressures from the increase in refined petroleum product prices and the AI-buildout should keep inflation above target.

“It will be important to monitor whether elevated inflation remains largely confined to energy and AI-buildout-related categories, while price growth continues to moderate elsewhere – or whether evidence of price pressures broadens.”

4. On her outlook, Collins said her most likely scenario is healthy GDP growth, with the labor market remaining near full employment. In this scenario, inflation gradually returns to 2%, as continued efficiency gains support the balance between demand and supply, and contribute to disinflation.

“But several other scenarios are also plausible – and I see two as...almost as likely as my modal outlook, and each highlights the risk of inflation staying above target for longer.” One scenario involves stronger-than-expected demand from AI-related optimism. The other features additional inflationary pressures from tariffs, energy prices – or both.

5. Given elevated risks of persistently high inflation, but more limited downside risks to the real economy and labor market, Collins supported last month’s FOMC decision to raise the federal funds rate by 25 basis points.

“I also currently expect that it will be appropriate to raise rates a bit further before the end of the year to ensure a timely and durable return of inflation to the Committee’s 2 percent target. However, my view will depend on how the totality of incoming data shapes my outlook and the associated balance of risks.”

6. Turning to trends in New England banking conditions, Collins said “Banks in New England continue to strengthen their communities and successfully navigate a highly competitive market, both for loans and deposits. While loan growth remains subdued for community banks in the region, loan performance continues to be strong.”

“A vibrant economy that works for all – our vision at the Boston Fed – requires a safe, sound, resilient financial and banking system. One that is engaged with, and responsive to, its constituents and region.”

7. Collins noted the unique structure of the U.S. central bank and the regional identity and engagement of the Reserve Banks.

“We are fortunate in the U.S. to have a central bank with regional reserve banks that play a number of roles, including hearing from stakeholders to understand economic and financial conditions, rounding out the extensive data analysis we do.”

Good afternoon. I'm delighted to join you for the 25th annual Boston Fed conference for regional & community banks. Twenty-five years is a great milestone, and the constructive work of the Fed and regional and community banks extends back much further than that – and will continue, going forward.

Regional and community banks are key economic actors on the “Main Streets” of New England. With the Fed, you share a commitment to a safe and sound banking system, an ever-improving payments and financial infrastructure, and the region's economic vibrancy.

Those are fairly timeless notions – and may have been discussed at the *first* annual conference. The agenda for today's 25th conference underlines the ongoing evolution that the region's banks, and the central bank, are attuned to – with topics like fraud risk management in the age of A.I., new data resources illuminating banking trends, and forward-looking discussions around payments and emerging financial technologies. Important, complex issues such as these require constructive engagement and collaboration.

In our time today, I'll begin with some comments before sitting down for a discussion with Steven Fay. My remarks will include my views on the national economy and monetary policy, key aspects of banking trends and conditions in our region, and some brief perspective on the Boston Fed's regional engagement – an important dimension of our nation's central bank scope of responsibilities.

As I begin, let me note as always that these are my own views. I'm not speaking for any of my colleagues at other Federal Reserve Banks or the Board of Governors.

Perspectives On the National Economy and Monetary Policy

I'll turn now to the national economy, outlining my views on economic conditions before discussing my outlook, and implications for monetary policy. The big picture is that the U.S. economy has shown remarkable resilience despite significant adverse shocks from tariffs and energy.

Starting with the labor market, conditions are generally stable and broadly consistent with achieving the employment side of the Fed's Congressional mandate – that is, conditions are near maximum, or full, employment. In particular, the unemployment rate remains low, having fluctuated in a narrow range just above 4 percent for more than two years, a pattern consistent with overall balance between labor demand and supply.

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In addition, hiring has accelerated somewhat this year, relative to its sluggish pace in the second half of 2025. It is possible this pickup reflects some momentum that could prove sustained. For instance, the average work week, which can be a leading indicator of employment growth, has risen some. However, recent job gains could simply reflect headcounts normalizing in several sectors, after a period of weak hiring due to elevated economic uncertainty. Here, I'll note that we have not yet seen a sustained, broad-based increase in job openings that could signal an overheating labor market. Moreover, wage pressures remain subdued, and tighter conditions may only be emerging in a few sectors heavily exposed to the AI buildout, such as construction and durable goods manufacturing.

Taking these, and other, signals into account, I see the U.S. labor market as broadly balanced – though the aggregate data mask significant variation across place and sector. Most workers looking for a job are able to find one, although it may take time. The data do not suggest that job seekers are increasingly becoming discouraged, and the labor force participation rate is holding up well, despite an aging labor force.

Turning to the *risks* to the labor market, I see them as two-sided. On the upside, I have already mentioned the potential for a more sustained acceleration in hiring, which could lead to growth in labor demand outpacing growth in labor supply. And on the downside, amid much uncertainty, widespread AI adoption could limit firms' demand for workers.

But for now, a stable labor market near full employment is helping to sustain relatively robust consumer spending, with gains in household wealth from equity and housing valuations also providing important support. In addition, we are seeing considerable strength in firms' capital outlays, mostly related to the AI buildout. Given resilient consumer demand and strong business investment, GDP growth was somewhat stronger in the first half of this year than many forecasters had expected – and seems to have stepped-up further in the third quarter.

The recent GDP data could signal somewhat more buoyant underlying growth than the relative balance suggested by the labor market data. A potential concern is that the acceleration in GDP might reflect an increase in demand that could strain supply and put upward pressure on prices. However, this is not my current expectation. Rather, I see the strength in real economic activity as reflecting not just strong demand but also an increase in the economy's productive capacity due to efficiency gains. That is, an economy that can now grow faster with the same number of workers. Indeed, output per hour – or labor productivity – accelerated notably after the pandemic; and recent developments, including early efficiencies from AI adoption, remain consistent with an expansion in the economy's overall productive capacity. As a result, even with

stable labor market conditions, there can be faster GDP growth with demand and supply remaining roughly balanced. In this context, the implications for inflation would be more benign.

Turning to prices, inflation is notably above the Fed's 2 percent inflation target and has been for five and a half years. But while recent inflation readings include some promising news, other developments have been less favorable.

Over the 12 months ending in August, total PCE inflation – the Fed's preferred measure – was 3.4 percent. Core PCE inflation, which omits the important but volatile food and energy categories but can provide a better gauge of where inflation is headed, was a bit lower at 3 percent. Focusing on the more recent data, annualized *three-month* core PCE inflation was only about 2 percent in August. The improvement in short-term inflation measures partly reflects the waning effects from tariffs and from last spring's energy shock.

However, I expect both total and core inflation to again run above the Fed's 2 percent target in the coming months, given the recent jump in prices of refined energy products like jet and diesel fuel, and home heating oil. These price increases should keep inflation elevated in the transportation sector and in other sectors such as lodging and related services, where energy is an important input. We are also likely to see continued price pressures for items related to building out data centers.

Against this backdrop, it will be important to monitor whether elevated inflation remains largely confined to energy and AI-buildout-related categories, while price growth continues to moderate elsewhere – or whether evidence of price pressures broadens.

Taken together, what are the implications of all these developments for my outlook? My modal scenario – the one I see as most likely – continues to feature healthy GDP growth, with the labor market remaining near full employment. In this scenario, inflation gradually returns to 2 percent, as continued efficiency gains support the balance between demand and supply, and contribute to disinflation.

But several other scenarios are also plausible – and I see two as particularly salient. Each seems *almost* as likely as my modal outlook, and each highlights the risk of inflation staying above target for longer.

In one scenario, stronger-than-expected demand from AI generates even greater investment in data centers. The related prospect of higher productivity fosters continued stock price increases, further boosting household spending. As a result, even with additional efficiency gains, demand outpaces supply, the labor market overheats, and inflation remains persistently above target.

The other scenario includes additional pressures from tariffs, energy prices – or both – and inflation challenges that become even more acute. In particular, the lack of a resolution to the conflict in the Middle East reinforces this possibility. It is also important to note that continued elevated energy prices could boost domestic oil production. As a result, unlike energy shock episodes prior to the 2000s, higher inflation might *not* be accompanied by a significant decline in economic activity.

With elevated risks of persistently high inflation, but more limited downside risks to the real economy and labor market, I believe it is appropriate for the Federal Open Market Committee (the FOMC) to focus on the inflation side of the Fed's dual mandate. Therefore, I supported last month's FOMC decision to raise the federal funds rate by 25 basis points. I also currently expect that it will be appropriate to raise rates a bit further before the end of the year to ensure a timely and durable return of inflation to the Committee's 2 percent target. However, my view of the need for further policy action, and the appropriate timing, will depend importantly on how the totality of incoming data shapes my outlook and the associated balance of risks.

Banking Trends and Conditions in New England

I will turn now to some of the trends we see in First District community banking conditions. Banks in New England continue to strengthen their communities and successfully navigate a highly competitive market, both for loans and deposits. While loan growth remains subdued for community banks in the region, loan performance continues to be strong, with non-accruals to total loans below long-term averages. In a welcome sign and despite continued funding pressures, earnings at community banks in New England have also improved over the past year from long-term lows.

New England community banks have a distinct asset composition relative to their national counterparts, in large part due to the prevalence of mutual banks in the region. Community banks in the First District have a higher percentage of assets in the form of loans, in particular 1-4 family residential loans, as compared to their national peers. While this has the benefit of increased residential investment in the communities they serve, it also introduces trade-offs that need to be well managed, in particular trade-offs related to earnings and liquidity.

We continue to closely monitor how banks in the region manage their interest rate risk profiles, especially given the recent increase in the federal funds rate and a higher median funds rate path implied by the Summary of Economic Projections released in September. Over the past two years, funding costs for interest-bearing accounts at community banks have largely stabilized –

both in the region and across the nation, albeit at higher rates than over the preceding decade. In another positive development, local core deposit ratios have modestly improved as well.

On the lending side, yields have continued to increase from pandemic-period lows through new loans at higher rates and a high concentration of loans with 5-year rate terms that have begun to reprice. This has improved regional banks' profitability, as their net interest margins returned to levels closer to post-global-financial crisis norms. However, New England remains a highly competitive lending environment, and overall returns for community banks in the region remain below those of national peers, continuing a long-term pattern.

Competition and the need to spread the cost of operations have been cited as motivating factors in recent M&A activity in the region. However, mergers in the district have slowed from the recent high seen last year, at least partially driven by an improved earnings environment. At five mergers to this point in the year, the M&A trend looks more similar to the 2021-24 period than 2025, when we had fifteen community bank mergers in our region.

With respect to supervisory policy, over the past year, Federal Reserve Board of Governors' Vice Chair for Supervision Michelle Bowman has initiated impactful changes to modernize the regulatory and supervisory landscape.¹ Locally, we are applying the Board's Statement of Supervisory Operating Principles,² consistent with the delegated nature of banking supervision responsibilities at the Reserve Banks. We also continue to maintain strong partnerships with our state counterparts and want to thank the many leaders from New England state banking authorities who attended the conference today.

A final observation about regional and community banks. Often as I travel the region and hear from a wide range of stakeholders, they express appreciation for the engagement of banks in the economic "fabric" of their communities. I heard this recently from people involved in economic development efforts in New Hampshire, who mentioned partnering with community banks to reach small to "micro" business borrowers. And in Connecticut, I heard recently from entrepreneurs developing childcare facilities about the importance of relationships with trusted banks, who can provide business insights as well as credit.

¹ [Speech by Vice Chair for Supervision Bowman on modernizing regulation and supervision - Federal Reserve Board](#)

² <https://www.federalreserve.gov/supervisionreg/updated-statement-of-supervisory-operating-principles.htm>

Our Engagement as a Regional Reserve Bank

Today I've discussed the economy and the banking environment; I'll conclude with a brief observation on another thing worth valuing and leveraging – the unique structure of the U.S. central bank and the regional identity and engagement of the Reserve Banks.³

We are fortunate in the U.S. to have a central bank with regional reserve banks that play a number of roles, including hearing from stakeholders to understand economic and financial conditions, rounding out the extensive data analysis we do. Regional “rootedness” and engagement not only help us understand current conditions, but also people’s expectations about the future – especially around our mandated goals, stable prices and maximum employment. I and other regional Reserve Bank presidents bring these insights to the monetary policymaking table in Washington.

Research and analysis – with a rigorously empirical and nonpartisan mindset – allows the Reserve Banks to provide valuable insights on issues, challenges, and opportunities affecting the regional economy and labor markets – helping to further our vision of a vibrant economy that works for everyone. While we avoid veering into solutioning that should be left to elected fiscal policymakers, we contribute to economic vibrancy by serving as a researcher and resource. I will highlight three of many recent examples.

- This summer, we released a comprehensive survey of household wealth in Massachusetts (“MassECHOS”), which can help the public, private, philanthropic, and nonprofit sector understand opportunities to consider – and helps the Fed see more clearly the prevailing conditions of the households that our monetary policymaking impacts.⁴
- We also shared research on the availability and cost of childcare in New England. This impacts the ability of many to participate in the labor market – and thus relates directly to our achievement of the mandate goal Congress assigned the Fed, maximum employment.⁵

³ The Boston Fed represents the First Federal Reserve District, which has perhaps the most identifiable of regional footprints among the 12 Reserve Banks, given that essentially New England’s six states form the Boston Fed’s territory. (Our colleagues at the New York Fed get Fairfield County, CT).

⁴ See <https://www.bostonfed.org/publications/one-time-pubs/mass-echos.aspx>.

⁵ See <https://www.bostonfed.org/publications/community-development-issue-briefs/2026/employment-implications-child-care-access-new-england> and [How Do the Availability and Cost of Childcare Influence Women’s Labor Market Outcomes in New England? - Federal Reserve Bank of Boston](#)

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- The Boston Fed also provides data and analysis on regional economic trends and issues, including extensive data.⁶

Closing Observations

In closing, a vibrant economy that works for all – our vision at the Boston Fed – requires a safe, sound, resilient financial and banking system. One that is engaged with, and responsive to, its constituents and region.

In that spirit, I appreciate the work that New England bankers do – and your commitment to our region’s economy and providing services and credit to New Englanders. And I value the constructive way you engage with the Fed in our roles as regulator, supervisor, monetary policymaker, researcher, convener, and provider of financial infrastructure and payments services.

Thank you for being here. My best for the year ahead.

⁶ See <https://www.bostonfed.org/about-us/new-england>.