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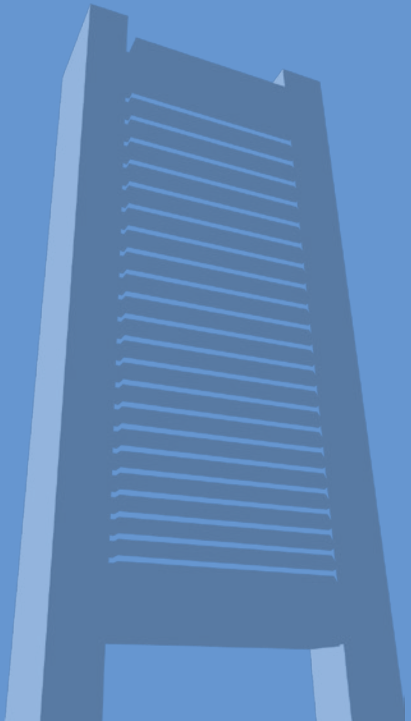

Perspectives on the Economy and Fed Policy: Why Continuing to Remove Monetary Accommodation is Appropriate

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Springfield, Massachusetts

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Recent Data

- Labor markets continue to tighten
  - Payroll employment strong enough to lower unemployment rate over time
  - Unemployment rate below even the lowest estimates that members of the FOMC view as sustainable in the longer run
- Wages have continued to increase gradually
- More confident that we will soon reach Fed's 2 percent inflation goal

Volatility in Financial Markets

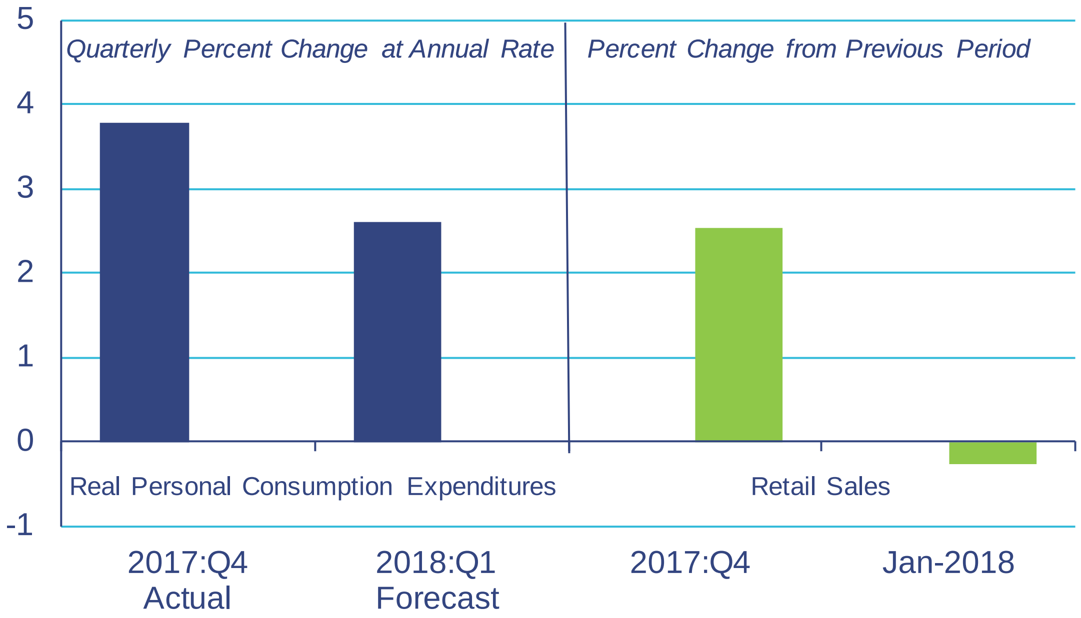
- Greater stock and bond market volatility recently
- Likely reflects financial markets factoring in the risk that wages and prices could grow *too* quickly
  - Fiscal stimulus and accommodative monetary policy
  - Already below estimates of full employment
- Healthy realization that the risks are two-sided: unsustainably strong growth that leads to excessive inflation or imbalances is now as much a risk as growth that falls short

Policy Implications

- As inflation approaches Fed’s 2 percent target, it is appropriate to remove monetary accommodation by gradually raising interest rates
  - At the December FOMC meeting, the median of Fed policymakers’ estimates of “appropriate monetary policy” called for 75 basis points of additional rate increases over the course of 2018
  - Since December – a mix of news – more fiscal spending, a large tax cut, and continued strengthening of economies around the world
- Recent data and developments reinforce my view of the need for somewhat more removal of accommodation than was reflected in the December median Summary of Economic Projections (SEP)

Figure 1: Recent Data on Consumer Spending

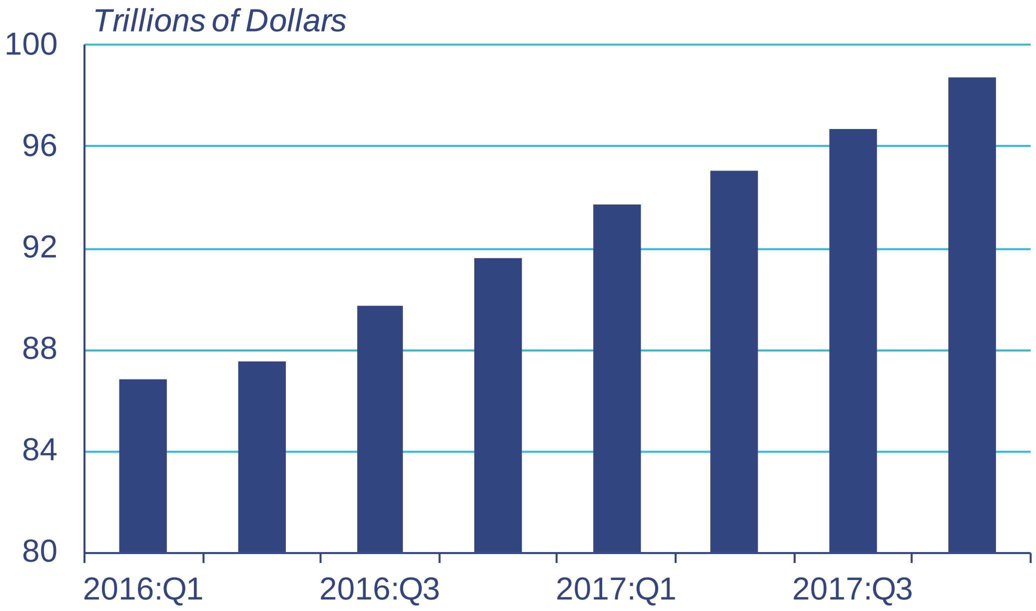
2017:Q4 - 2018:Q1



Source: BEA; Census Bureau; Blue Chip Economic Indicators, February 10, 2018; Haver Analytics

Figure 2: Household Wealth

2016:Q1 - 2017:Q4



Source: Federal Reserve Board, Haver Analytics

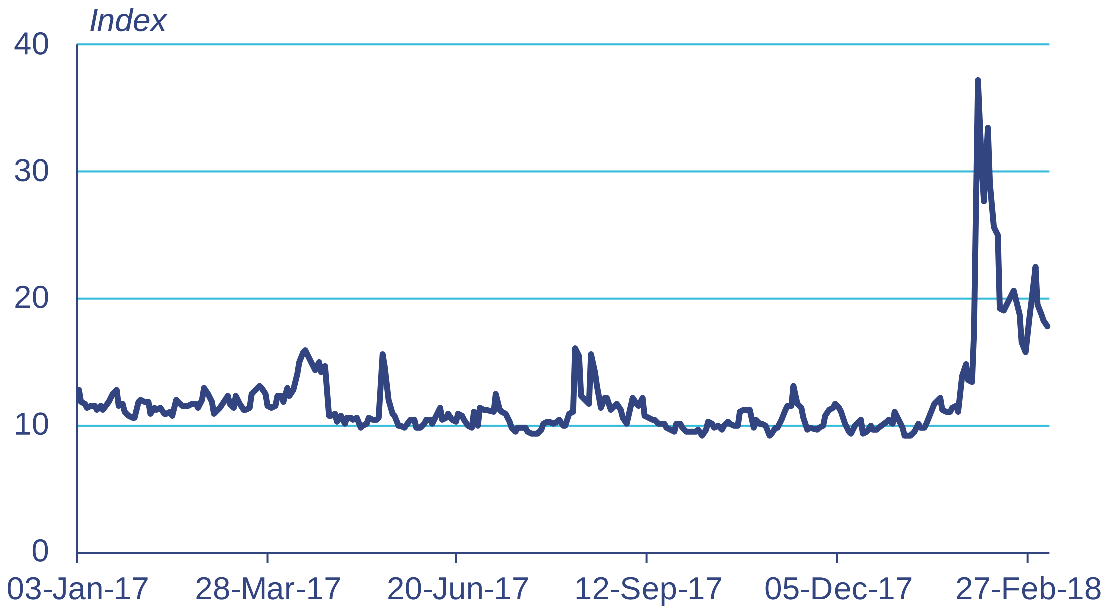
Figure 3: S&P 500 Stock Price Index

January 3, 2017 - March 7, 2018

Source: S&P, WSJ, Haver Analytics

Figure 4: CBOE Market Volatility Index (VIX)

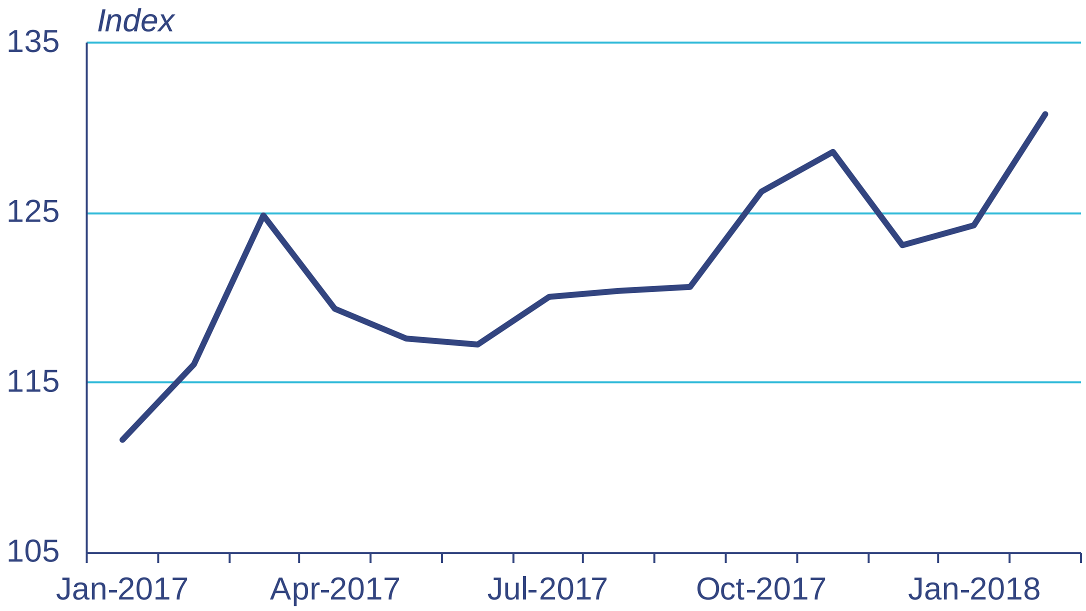
January 3, 2017 - March 7, 2018



Source: CBOE, WSJ, Haver Analytics

Figure 5: Consumer Confidence

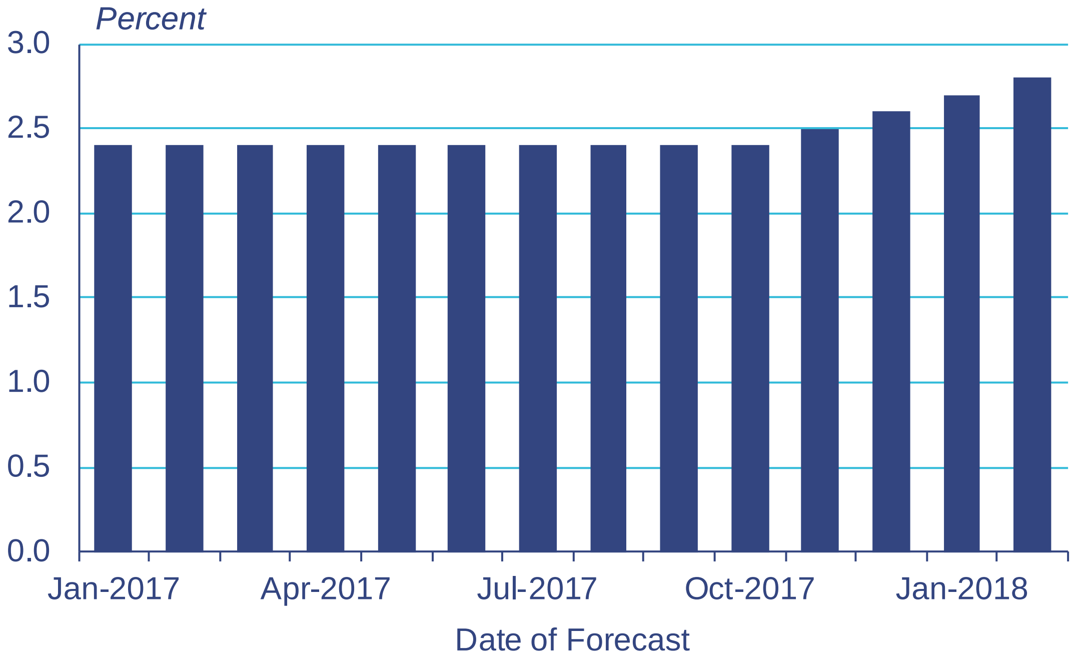
January 2017 - February 2018



Source: The Conference Board, Haver Analytics

Figure 6: Blue Chip Consensus Forecast for Real GDP Growth in 2018

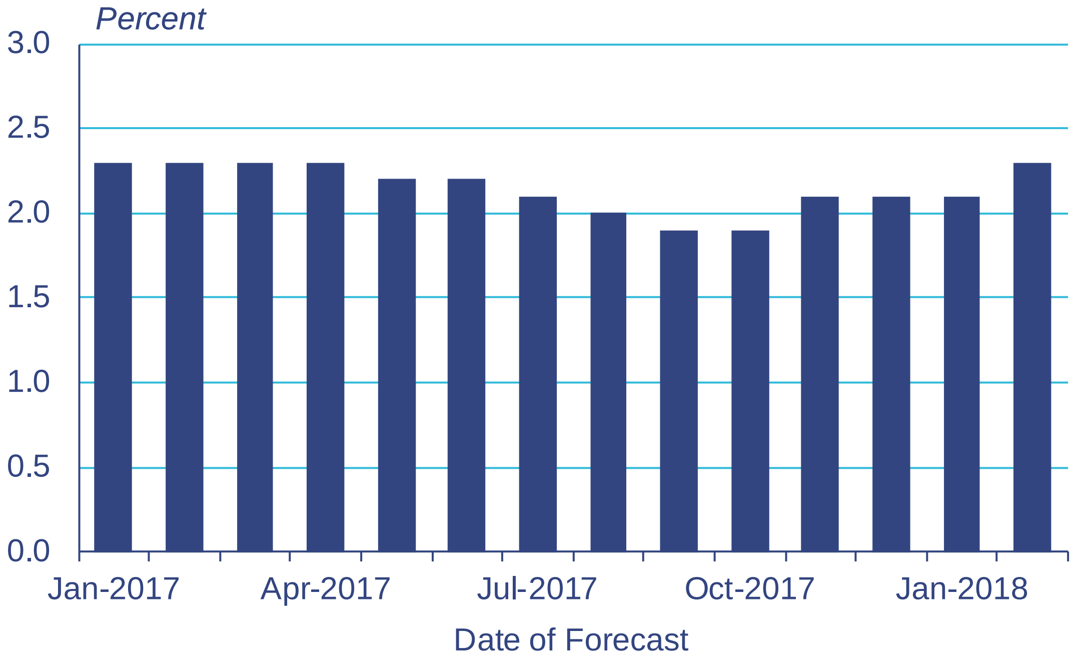
January 2017 - February 2018



Source: Blue Chip Economic Indicators

Figure 7: Blue Chip Consensus Forecast for the Change in the Consumer Price Index in 2018

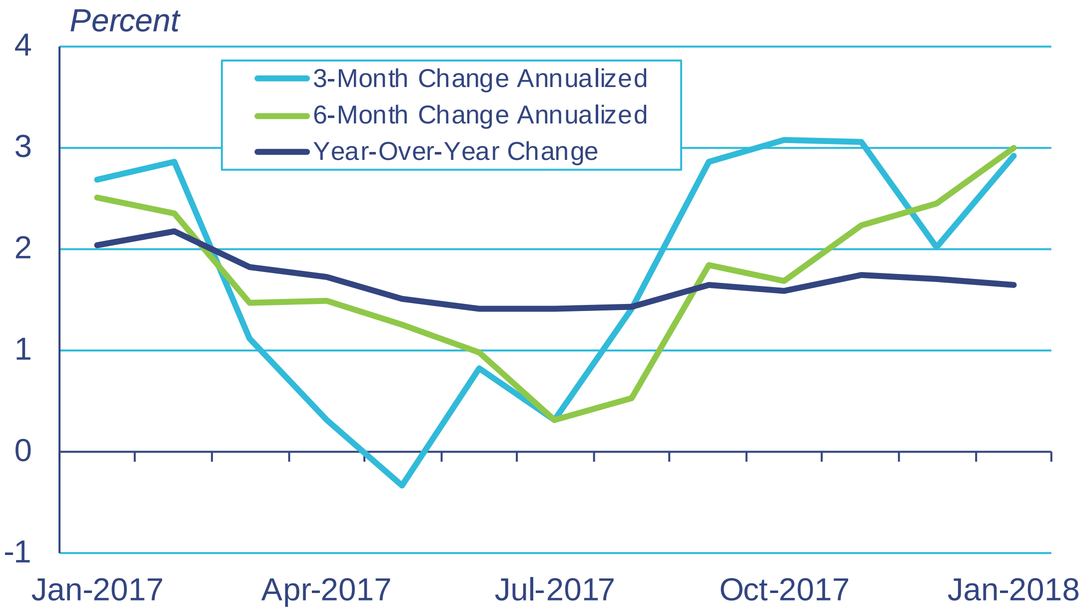
January 2017 - February 2018



Source: Blue Chip Economic Indicators

Figure 8: Inflation Rate: Change in Personal Consumption Expenditures (PCE) Price Index

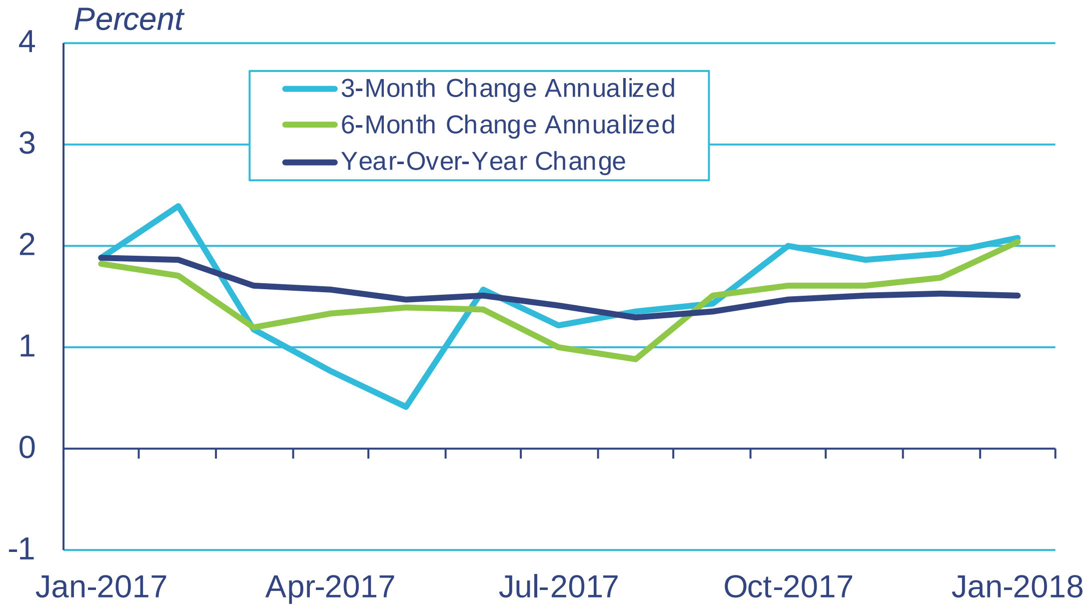
January 2017 - January 2018



Source: BEA, Haver Analytics

Figure 9: Core Inflation Rate: Change in Core Personal Consumption Expenditures (PCE) Price Index

January 2017 - January 2018



Note: Core PCE excludes food and energy.

Source: BEA, Haver Analytics

Figure 10: Initial Claims for Unemployment Insurance

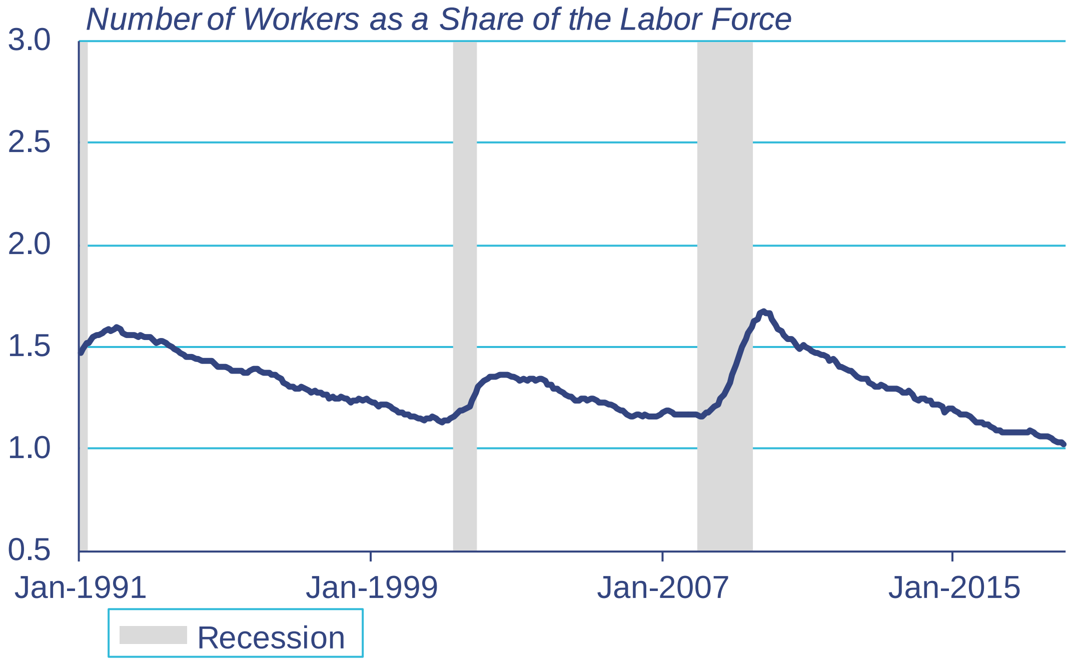
January 28, 1967 - March 3, 2018

Note: Four-week moving average

Source: U.S. Department of Labor, NBER, Haver Analytics

Figure 11: Flow from Employed to Unemployed, Measured Relative to the Labor Force

January 1991 - January 2018



Note: Twelve-month moving average

Source: BLS, NBER, Haver Analytics

Figure 12: Flow from Not in the Labor Force to Unemployed, Measured Relative to the Labor Force

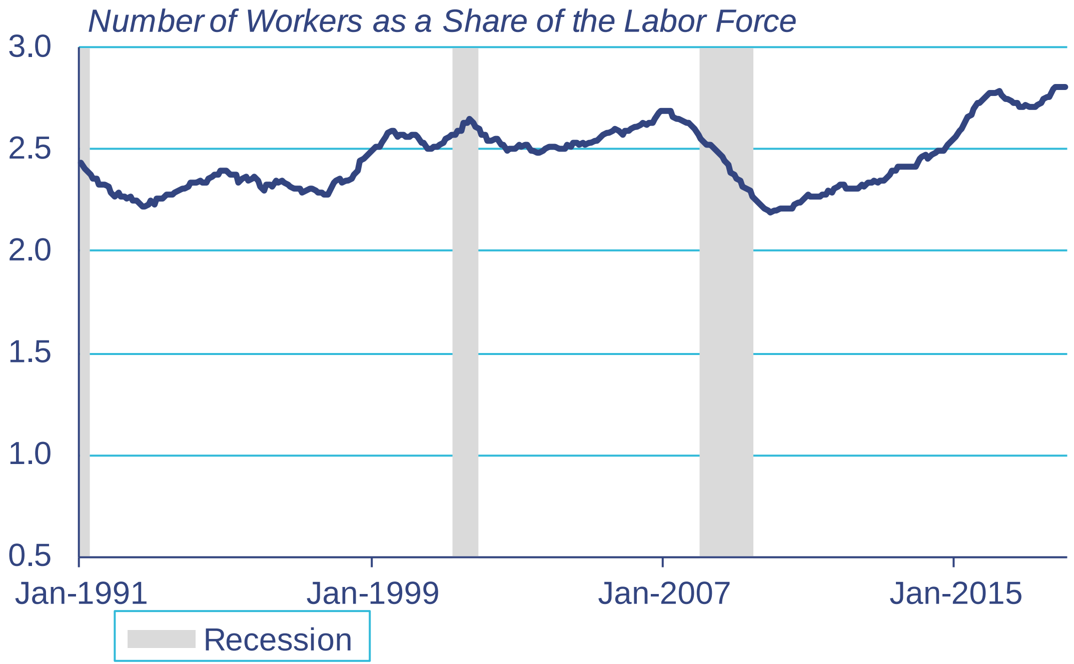
January 1991 - January 2018

Note: Twelve-month moving average

Source: BLS, NBER, Haver Analytics

Figure 13: Flow from Not in the Labor Force to Employed, Measured Relative to the Labor Force

January 1991 - January 2018

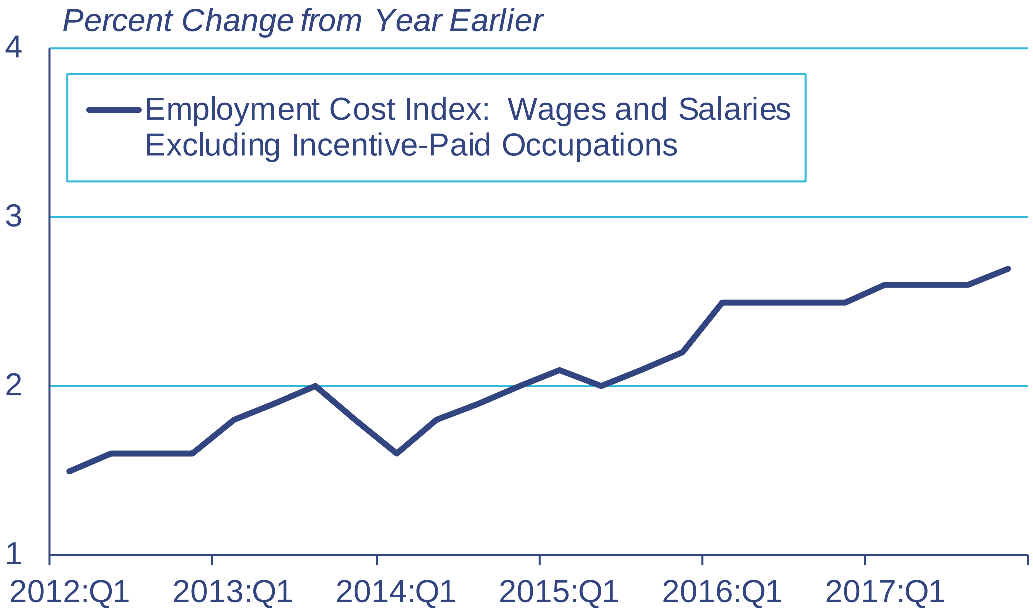


Note: Twelve-month moving average

Source: BLS, NBER, Haver Analytics

Figure 14: Wage Growth for Private Industry Workers

2012:Q1 - 2017:Q4



Source: BLS, Haver Analytics

Concluding Observations

- Economic forecast quite positive
  - Monetary policy remains accommodative
  - Fiscal policy has just become quite a bit more stimulative
- Need to avoid too much stimulus, keep economy on a sustainable path
- Regular but gradual pace of increases is appropriate
- Perhaps a bit faster than the three, one-quarter point increases envisioned for this year in the assessment of appropriate policy from the December 2017 FOMC meeting
  - Assuming data come in consistent with the outlook