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“Perspectives on the Economy, and on the Opportunities Ahead”

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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. Policymaking in the public interest: My Fed colleagues and I are committed to price stability and maximum employment, our core mandates. We are tightening monetary policy, to bring supply and demand into better balance and reduce inflation to the 2% target before high inflation rate becomes entrenched in expectations – for the long-term good.

2. How I'll lead: I'm committed to following data without presumption or bias as we study the economy. I'll complement data with outreach, to gather insights from stakeholders in different regions and sectors throughout New England. I embrace the breadth of our work at the Boston Fed, all of it rooted in helping to support an economy and financial system that works for everyone.

3. Behind the scenes: There is exciting work at the Fed to ensure the country's payments infrastructure can meet the public's needs. Reserve Banks underpin many of the ways Americans make and receive payment, and the Fed is in the process of launching a new, real-time payments "rail" that will improve payments for all – called the FedNow^{SM} Service.

4. In the region: In support of a strong, resilient inclusive economy for New England, the Boston Fed makes a unique impact through our "Working Places" initiatives, now in 30 communities in five states. The Fed does not direct this research-informed work; it is truly local. Collaboration across sectors and working toward a common long-term vision generated at the local level, is the key.

5. A unique role and opportunity: I am excited to be back in New England and working to help the region's economy flourish. Many challenges are not for the Fed to solve, given our toolkit and roles. But our commitment to a vibrant, inclusive economy and financial system mean we contribute as nonpartisan, data-driven researchers, and as conveners helping cross-sector efforts.

Good morning, and welcome to everyone joining us. It is wonderful to be with you for my first public talk as president of the Boston Fed. My thanks to Jim Rooney for his kind introduction, for inviting me to speak, and for opening the event to all who wished to attend or tune in.

Before we begin, my warmest wishes to those who are observing Rosh Hashanah, and reflecting on the year past and the new year ahead. We have made sure the video will be available online for any who could not attend today.

I'd also like to congratulate the Greater Boston Chamber for its focus on long-term issues related to our economic environment, such as expanding opportunities for people in our region to contribute and prosper, regardless of gender, race, age, or background. Such opportunities are key elements of a vibrant economy. And we appreciate the Chamber, and others, participating in the work underway to assess, and address, barriers to creation of generational wealth in communities of color.

My comments today will touch on monetary policy and the national and regional economy. I'll also share some early observations about this very special organization with a public mission – the many ways we help foster a vibrant, inclusive economy that works for all. After my remarks, I'll look forward to Jim's questions and those from the audience.

By Way of Introduction

First, I'll say a little more about me, by way of introduction. My parents were both from Jamaica; however, I was born in Scotland and grew up in New York City. So perhaps it's no surprise that I became an international macroeconomist.

After grad school, I worked as a professor, researcher, and policy advisor – both here in Boston and in Washington, D.C. As Jim mentioned, I then spent ten years as dean of the Ford School of Public Policy at the University of

Michigan, eventually becoming provost, the chief academic and budget officer for the University.

I had the opportunity to serve on the Chicago Fed's boards for nine years. This really broadened my understanding of the Federal Reserve and the many ways it can help improve people's lives.

This role at the Boston Fed combines three things about me – my background as a policy-focused macroeconomist, my commitment to education, and my experience leading complex organizations with a public purpose.

I also recognize that I am the first Black woman to lead one of the Federal Reserve Banks. I see that as a privilege, a responsibility, and an opportunity. In particular, it is an opportunity to engage even more broadly with constituents – to expand understanding of how our economy works, and how it could work better.

I am excited to continue the Bank's work, including with groups that have been under-represented in leadership and policy roles. Our economy needs the best ideas, energy, and effort from everyone.

Perspectives on the Economy, and Monetary Policy

Now I'll turn to some high-level perspectives on current economic conditions and monetary policy. These views are my own; I'm not speaking for my colleagues at other Reserve Banks or the Board in Washington.

Congress has charged the Federal Reserve with a dual mandate of price stability and maximum employment. We define price stability as 2% inflation – a low level, where consumers and businesses do not have to focus on protecting themselves from eroding purchasing power. Maximum employment, while less specifically defined, refers to the broad inclusive goal of job opportunities for all Americans. History has shown that price stability is a precondition to achieving maximum employment over the medium and long run. The two dimensions of our mandate are intertwined.

But at the moment, inflation remains too high. Rapidly rising prices for necessities like food, housing, and transportation are also disproportionately affecting the most vulnerable. And rising input costs, and wage pressures, complicate investment and planning decisions for firms, as well.

It is the Fed's mandate to bring inflation back down to the 2% target. The Fed's monetary policymaking committee is called the Federal Open Market Committee, or FOMC. Actions taken by the FOMC since March, together with the guidance provided in its most recent projections, illustrate policymakers' resolve to address high inflation expeditiously, and prevent it from becoming entrenched in expectations.

The rise in the overall inflation rate after the early stages of the pandemic stems from supply bottlenecks caused by the pandemic, and the food and energy disruptions related to the war in Ukraine – as well as from the very rapid economic recovery from the COVID outbreak, which has resulted in an extremely tight domestic labor market.

There is little the Fed can do to alleviate pandemic-related bottlenecks in the global supply chain and increases in energy and commodity prices related to the war in Ukraine. Some of the global supply chain problems that contributed to temporarily high inflation are beginning to fade. But of course, we don't know when the war will end, or when effects of the pandemic will fully abate.

Furthermore, domestic labor *supply* developments are also beyond the Fed's control – though of course, we study these trends to understand their implications. An aging population, lower immigration, pandemic-related health concerns, and early retirements have all contributed to a shortage of workers.

Monetary policy does, however, play an active role in affecting *demand*. And demand for goods and services clearly exceeds the economy's productive capacity right now, which is being manifested in a very hot labor market. The excessive labor market tightness is illustrated by an historically high level of job vacancies – currently around two vacancies for every unemployed worker – and by the inflationary push associated with rapidly rising wages.

To address this situation, the Fed is raising interest rates, which slows the interest-sensitive components of demand. Returning the markets for goods, services and labor to a more stable balance is how monetary policy lowers inflation back to the 2% target. I do anticipate that accomplishing price stability will require slower employment growth and a somewhat higher unemployment rate. And I take very seriously that unemployment is painful, and that its costs have been disproportionately concentrated among groups that have traditionally been marginalized.

Hence it is no surprise that, as monetary policy moves to a restrictive stance to transition the economy to more sustainable labor market conditions, there is apprehension about the possibility of a significant downturn. I do believe the goal of a more modest slowdown, while challenging, is achievable.

There are reasons to be somewhat more optimistic about the ability to achieve the necessary slowing of demand without leading to a significant downturn, this time around. Household and business balance sheets are considerably stronger than in previous tightening cycles, reducing the risk of a significant retrenchment in spending and investment as interest rates rise.

Labor market conditions also differ from past cycles. Firms seem to have too *few* workers, not an excess, suggesting that this time a slowdown in activity may have a smaller impact on employment.

Despite these potentially more favorable conditions, there are of course also downside risks to the outlook. A significant economic or geopolitical event could push our economy into a recession as policy tightens further. Moreover, calibrating policy in these circumstances will be complicated by the fact that some effects of monetary policy work with a lag.

I'll end this part of my remarks by reiterating my commitment to bring inflation back to the 2 percent target, recognizing the toll that high inflation is already taking, noting that it will be harder to bring inflation down if high expected inflation were to become entrenched, and reiterating that price stability sets the foundation for *sustainable* maximum employment.

Returning inflation to target will require further tightening of monetary policy, as signaled in the recent FOMC projections. It will be important to see clear and convincing signs that inflation is falling, and I will continue to assess the range of incoming data, both quantitative and qualitative, as inputs to my future policy determinations.

A Focus on New England

Turning briefly to New England's economy, the mix of cutting-edge work being done here, and the smart people who do it, make the region a national treasure and an international powerhouse. Of course, it does have challenges.

Let me say a bit more about the regional economy – building both from statistical analyses and what we hear from stakeholders. I'm sure some of these themes will be familiar to you.

Among the strengths, I'll highlight:

- The region's collective brainpower, diverse and skilled workforce, and ecosystem of innovation.
- The world-class institutions and organizations – in many fields, but notably in education, health, technology, and finance.
- Our vibrant nonprofit, cultural, and public-policy sectors.
- The geography and physical features that make New England such an appealing place to live, locate a business, or visit.
- And last but not least, job opportunities have historically been plentiful in this region – though with some variation by area. Of course, high unfilled job openings factor into the region's economic challenges, too.

Let me summarize some key challenges and opportunities:

- I repeatedly hear about the cost and availability of housing. House-price and rent increases have been substantial. Housing affordability endangers our ability to attract and retain the workers needed in the region's economy.
- In addition, pockets of the region face persistent social and economic challenges.
- Concerns about the reliability of key services essential to participating in the job market (such as dependent care, and transportation).

- New England, like many parts of our country, is challenged by reduced labor force participation.
- And demographic factors, including net aging of the population, contribute to lower labor-market participation and have implications for the demand and supply of goods and services.

Thoughts on the Boston Fed, as its New Leader

Many of these challenges are the purview of elected leaders and fiscal policymakers. At the Fed, our commitment to a vibrant, inclusive economy and financial system leads us to contribute as objective researchers; and at times as conveners, bringing attention to cross-sector opportunities.

With the fresh eyes of someone immersed in this organization for just a few months, I'll share some early observations about the Boston Fed and its roles, and what I would like us to prioritize and build on, going forward.

One is our tradition of analytical rigor, as we study the economy. Nonpartisan, unbiased research can be a public service, we hope, to anyone – and particularly those whose decisions impact others. With a commitment to pursuing our dual mandate, I will focus on the data and analysis as I participate on the FOMC, as a voting member in the rotation this year, and going forward.

To me, statistical data is complemented by qualitative information – insights that stakeholders from different regions and sectors provide. I've started engaging with a range of stakeholders, to better understand the challenges and strengths of the economy from their perspectives.

I'm also very committed to the *breadth* of our work at the Boston Fed. What we do is much more extensive and varied than most people realize.

The roles we play are broad, but they all have a strong link to supporting a healthy economy and financial system characterized by price stability and maximum employment, our mandate. Today, let me mention two areas.

First, there is exciting work underway to ensure our country's payments infrastructure meets the public's needs. Reserve Banks underpin many of the ways Americans make and receive payment – supporting coins and currency, checks, and electronic payments (like the automated clearing house which supports services like direct deposit, and systems that support wire transfers).

The Fed is building a new, real-time payments "rail" that will change the future of payments – called the FedNow**SM** service. Our C.O.O. Ken Montgomery, and many others at the Boston Fed, are leading the execution of this work.

The FedNow service will provide a new clearing and settlement infrastructure, enabling participating financial institutions to provide instant payment services in real-time – 24/7, 365. The Fed's connections with more than 10,000 financial institutions mean this instant-payments infrastructure really will be nationwide.

For businesses, it will mean the ability to make just-in-time payments to workers or suppliers, or receive an immediate payment at the time of sale. For individuals, instant payments can be used to facilitate time-sensitive bill payments or reduce high-cost "bridge" borrowing. We recently announced that FedNow's release is planned for mid-2023.

Second, I'd like to mention work to support community economic development, expanding opportunities for everyone to participate in the economy.

The Boston Fed is making a unique impact on economies of smaller cities, regions, and rural areas through our "Working Places" initiatives. The work builds on the lessons from formerly industrial areas that adapted well to the loss of manufacturing jobs some decades ago. Research showed that for resurgence, the key seems to be collaboration across sectors, and working toward a common long-term vision at the local level.

So Working Places, which began in 2013, has helped foster increases in that collaboration among state government, the private sector, philanthropy, local organizations, and residents. The Fed does not direct this work; it is truly local. We help convene, catalyze, and connect – and it makes a difference.

Communities participating in Working Places report solving problems, making changes that create opportunities and jobs, and enlisting new voices and partners to shape progress. Local teams develop goals and strategies, which commonly include workforce development, poverty reduction, affordable housing, and removing barriers to entrepreneurship. Working Places has expanded to 30 communities in 5 New England states.

Concluding Observations

In conclusion, at the Boston Fed our focus will always be on serving the public interest. We'll work in ways both well-known and "under the hood" to support a vibrant economy and financial system that all can depend on.

The challenges in our region, some of which I mentioned, clearly require cross-sector collaboration. If sectors work together, there are opportunities to secure a regional economy that flourishes for generations to come. Like so many of you, I am energized and inspired by that prospect.

Thank you for the opportunity to share some of my views. I look forward to speaking with you, Jim, and answering some questions. Indeed, I appreciate talking with people around the region, in many different ways – including through forums like this.

Thank you.