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Economic Outlook

Remarks by

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Chair

Board of Governors of the Federal Reserve System

at

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Thank you, Anil. I appreciate the opportunity to speak at this forum and look forward to our discussion. I will start with some brief remarks about the economy and the path of policy.

Despite elevated levels of uncertainty, the U.S. economy continues to be in a good place. The labor market is solid, and inflation has moved closer to our 2 percent longer-run goal. At the Federal Reserve, we are intently focused on the dual-mandate goals given to us by Congress: maximum employment and stable prices.

Recent Economic Data

Economic growth

The economy has been growing at a solid pace. GDP expanded at a 2.3 percent annual rate in the fourth quarter of last year, extending a period of consistent growth that has been supported by resilient consumer spending. Recent indicators point to a possible moderation in consumer spending relative to the rapid growth rate over the second half of 2024. Further, recent surveys of households and businesses point to heightened uncertainty about the economic outlook. It remains to be seen how these developments might affect future spending and investment. Sentiment readings have not been a good predictor of consumption growth in recent years. We continue to carefully monitor a variety of indicators of household and business spending.

The labor market

Many indicators show that the labor market is solid and broadly in balance. The jobs report released this morning showed employers added 151,000 jobs to payrolls in February and the unemployment rate was 4.1 percent last month. Smoothing over the month-to-month volatility, since September, employers have added a solid 191,000 jobs a

month on average. The unemployment rate remains low and has held in a narrow range between 3.9 and 4.2 percent for the past year. The jobs-to-workers gap has narrowed, and the quits rate has moved below pre-pandemic levels. Wages are growing faster than inflation, and at a more sustainable pace than earlier in the pandemic recovery. With wage growth moderating and labor supply and demand having moved into better balance, the labor market is not a significant source of inflationary pressure.

Inflation

Inflation has come down a long way from its mid-2022 peak above 7 percent without a sharp increase in unemployment—a historically unusual and most welcome outcome. While progress in reducing inflation has been broad based, recent readings remain somewhat above our 2 percent objective. The path to sustainably returning inflation to our target has been bumpy, and we expect that to continue. We see ongoing progress in categories that remain elevated, such as housing services and the market-based components of non-housing services. Inflation can be volatile month-to-month, and we do not overreact to one or two readings that are higher or lower than anticipated. Data released last week showed that total PCE prices rose 2.5 percent over the 12 months ending in January and that, excluding the volatile food and energy categories, core PCE prices rose 2.6 percent. We pay close attention to a broad range of measures of inflation expectations, and some near-term measures have recently moved up. We see this in both market- and survey-based measures, and survey respondents, both consumers and businesses, are mentioning tariffs as a driving factor. Beyond the next year or so, however, most measures of longer-term expectations remain stable and consistent with our 2 percent inflation goal.

Monetary Policy

Looking ahead, the new Administration is in the process of implementing significant policy changes in four distinct areas: trade, immigration, fiscal policy, and regulation. It is the net effect of these policy changes that will matter for the economy and for the path of monetary policy. While there have been recent developments in some of these areas, especially trade policy, uncertainty around the changes and their likely effects remains high. As we parse the incoming information, we are focused on separating the signal from the noise as the outlook evolves. We do not need to be in a hurry, and are well positioned to wait for greater clarity.

Policy is not on a preset course. If the economy remains strong but inflation does not continue to move sustainably toward 2 percent, we can maintain policy restraint for longer. If the labor market were to weaken unexpectedly or inflation were to fall more quickly than anticipated, we can ease policy accordingly. Our current policy stance is well positioned to deal with the risks and uncertainties that we face in pursuing both sides of our dual mandate.

Conclusion

Before I conclude, I will note that at our last FOMC meeting, we began our second five-year review of our monetary policy framework. We will consider changes to our consensus statement (Statement on Longer-Run Goals and Monetary Policy Strategy) and to our communications as part of this review. The consensus statement articulates our framework for the conduct of monetary policy in pursuit of the goals assigned to us by Congress. We will consider lessons of the past five years and adapt our approach,

where appropriate, to best serve the American people, to whom we are accountable. The 2 percent longer-run inflation goal will be retained and is not a focus of the review.

This public review will be familiar to those who followed our process five years ago. We will hold outreach events around the country involving a wide range of parties, including *Fed Listens* events. We are open to new ideas and critical feedback. We will host a research conference in Washington in May. Our intent is to wrap up the review by late summer.

Thank you. I look forward to your questions.