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Economic Outlook

Remarks by

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Chair

Board of Governors of the Federal Reserve System

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Thank you for having me here today. Monetary policy is more effective when the public understands what we are doing and why. Through your work, journalists like you help promote that greater understanding. I am sure this room full of reporters does not lack for questions to ask. Before addressing a few of those, I will briefly summarize the outlook for the economy and monetary policy.

At the Fed, we are squarely focused on achieving the dual-mandate goals Congress has given us of maximum employment and stable prices. While uncertainty is high and downside risks have risen, the economy is still in a good place. The incoming data show solid growth, a labor market in balance, and inflation running much closer to, but still above, our 2 percent objective.

Recent Economic Data

After a couple of years of solid growth, many forecasters have anticipated somewhat slower growth this year. The initial reading for first-quarter GDP will be released later this month. The limited hard data are consistent with a slower but still solid growth outlook. At the same time, surveys of households and businesses report dimming expectations and higher uncertainty about the outlook. Survey respondents point to the effects of new federal policies, especially related to trade. We are closely watching this tension between the hard and soft data. As the new policies and their likely economic effects become clearer, we will have a better sense of their implications for the economy and for monetary policy.

Looking across many indicators, the labor market appears to be broadly in balance and is not a significant source of inflationary pressure. This morning's jobs report shows the unemployment rate at 4.2 percent in March, still in the low range where it has held since early last year. Over the first quarter, payrolls grew by an average of 150,000 jobs a month. The combination of low layoffs, moderating job growth, and slowing labor force growth has kept the unemployment rate broadly stable.

Turning to the other leg of our dual mandate, inflation has declined sharply from its pandemic highs of mid-2022. It has done so without the kind of painful rise in unemployment that has often accompanied periods of tight monetary policy that are needed to reduce inflation. More recently, progress toward our 2 percent inflation objective has slowed. Total PCE prices rose 2.5 percent over the 12 months ending in February. Core PCE prices, which exclude the volatile food and energy categories, rose 2.8 percent. Looking ahead, higher tariffs will be working their way through our economy and are likely to raise inflation in coming quarters. Reflecting this, both survey- and market-based measures of near-term inflation expectations have moved up. By most measures, longer-term inflation expectations—those beyond the next few years—remain well anchored and consistent with our 2 percent inflation goal. We remain committed to returning inflation sustainably to our 2 percent objective.

Monetary Policy

Turning to monetary policy, we face a highly uncertain outlook with elevated risks of both higher unemployment and higher inflation. The new Administration is in the process of implementing substantial policy changes in four distinct areas: trade, immigration, fiscal policy, and regulation. Our monetary policy stance is well positioned to deal with the risks and uncertainties we face as we gain a better understanding of the policy changes and their likely effects on the economy. It is not our role to comment on those policies. Rather, we make an assessment of their likely effects, observe the behavior of the economy, and set monetary policy in a way that best achieves our dual-mandate goals.

We have stressed that it will be very difficult to assess the likely economic effects of higher tariffs until there is greater certainty about the details, such as what will be tariffed, at what level and for what duration, and the extent of retaliation from our trading partners. While uncertainty remains elevated, it is now becoming clear that the tariff increases will be significantly larger than expected. The same is likely to be true of the economic effects, which will include higher inflation and slower growth. The size and duration of these effects remain uncertain. While tariffs are highly likely to generate at least a temporary rise in inflation, it is also possible that the effects could be more persistent. Avoiding that outcome would depend on keeping longer-term inflation expectations well anchored, on the size of the effects, and on how long it takes for them to pass through fully to prices. Our obligation is to keep longer-term inflation expectations well anchored and to make certain that a one-time increase in the price level does not become an ongoing inflation problem.

We will continue to carefully monitor the incoming data, the evolving outlook, and the balance of risks. We are well positioned to wait for greater clarity before considering any adjustments to our policy stance. It is too soon to say what will be the appropriate path for monetary policy.

Conclusion

We understand the benefits of a solid economy where workers can find jobs and inflation is low and predictable. We also understand that elevated levels of unemployment or inflation can be damaging and painful for communities, families, and businesses. That is why we at the Fed will continue to do everything we can to achieve our maximum-employment and price-stability goals.

Thank you. I look forward to your questions.