The Economic Club of New York

114th Year
608th Meeting

Lael Brainard
Member of the Board of Governors
Federal Reserve System

June 1, 2021

Webinar

Moderator: Michael Feroli
Chief U.S. Economist
J.P. Morgan

Welcome everyone. This is Barbara Van Allen, President of the Club, and we're going to get started in exactly a minute and 30 seconds. Thank you.

Introduction

Chairman John C. Williams

Well, good afternoon and welcome to the 608th meeting of The Economic Club of New York in our 114th year. Now I'm John Williams. I'm the Chair of the Club and President and CEO of the Federal Reserve Bank of New York. So, as many of you know, The Economic Club of New York is the nation's leading nonpartisan forum for discussions on economic, social and political issues, and our mission is as important today as ever as we continue to bring people together as a catalyst for conversation and innovation. A special welcome to members of the Economic Club's 2021 Class of Fellows – a select group of diverse, rising next-gen business thought leaders. And welcome to the graduate students from the Gabelli School of Business at Fordham University.

Now, it's a pleasure for me to welcome our special guest today, The Honorable Lael Brainard. Lael took office as a member of the Board of Governors of the Federal Reserve System in 2014. And prior to her appointment to the board, Lael served as Undersecretary of the U.S. Department of Treasury from 2010 to 2013 and Counselor to the Secretary of the Treasury in 2009. During this time, she was a U.S. Representative to the G-20 Finance Deputies and G-7 Deputies and was a member of the Financial Stability Board. She received the Alexander Hamilton Award for her service.

From 2001 to 2008, Lael was Vice President and the Founding Director of the Global Economy and Development Program and held the Bernard L. Schwartz Chair at the Brookings Institution, where she built a new research program to address global economic challenges.

Lael served as the Deputy National Economic Adviser and Deputy Assistant to President Clinton. She also served as President Clinton's personal representative to the G-7/G-8. She received a B.A. with university honors from Wesleyan University and received a Ph.D. in Economics from Harvard.

So the format today will be a conversation and we're fortunate to have Club member and Chief U.S. Economist from J.P. Morgan, Michael Feroli, doing the honors and moderating. And we'll end promptly at 2:45 and, as a reminder, this conversation is on the record. We have media on line. And now without further ado, Lael, the mike is yours.

Remarks by Governor Lael Brainard

GOVERNOR LAEL BRAINARD: Well, thank you. It's really a pleasure to be here with The Economic Club of New York. Thank you to Barbara Van Allen for the invitation. Thank you to John Williams for the very kind introduction, and I'm looking forward to the conversation with Michael Feroli.

So just looking out from where I sit, consumer demand is strong, vaccine coverage is expanding, and pandemic-affected sectors are reopening in fits and starts. Similar to the pandemic shutdown with its ebbs and flows, the reopening is without precedent, and it's generating supply-demand mismatches at the sectoral level that are temporary in nature. Separating signal from noise in the high-frequency data may be challenging for a stretch. The sectoral supply-demand mismatches are making it difficult to precisely assess inflationary developments and the amount of resource slack from month to month.

But looking through the noise, I'm optimistic we will see further progress in the coming months. Today the economy is far from our goals, and there are risks on both sides. The best way to achieve our maximum employment and average inflation goals is to be steady and transparent in our outcome-based approach to monetary policy while remaining attentive to the evolution of the data and prepared to adjust as needed.

So let me just touch briefly on the demand and supply mismatches, note how they're affecting inflation and the labor market and then wrap up with a brief discussion of policy before the conversation with Mike.

Last week's updated estimate of first-quarter real GDP continued to show strong annualized growth of 6.4%, and I expect a further acceleration in output growth during the current quarter. Looking through the month-to-month variation, the data suggests that very strong underlying spending growth is continuing this quarter, fueled by recent fiscal support and continued reopening. Real PCE, personal consumption expenditure, stepped down slightly in April after surging over 4% month over month in March, due to a strong spend-out that month of fiscal support. A similar pattern of moderation in April following outsized strength in March is also evident at the level of individual goods categories. Spending growth is strong in the pandemic-affected services sectors that are reopening with spending at restaurants and bars increasing 3% in April after surging over 13% in March.

So overall, growth this year is expected to be the strongest in decades as the economy bounces back from the depressed levels associated with the pandemic. The supplemental savings accumulated over the course of the pandemic from fiscal support and constrained services consumption hold the potential for a substantial amount of additional spending, but there's a lot of uncertainty about how much of that is likely to be spent out this year or perhaps more slowly over time.

While the early spend-out in the first quarter of this year was exceptionally strong, whether that strength will be maintained depends in part on the distribution of where that remaining additional savings sits. Spending could moderate, for instance, if a lot of those additional savings is concentrated among higher income households that may already have completed many of their durable goods purchases or who may return to pre-pandemic consumption of discretionary services rather than making up for the underconsumption during the shutdown.

The timing of that consumption out of the accumulated savings matters a lot for the strength of demand not just this year but also next. Today's fiscal tailwinds are projected to shift to headwinds next year. So it'll be important to see how much household spending will continue to support growth into next year as opposed to settling back to pre-pandemic trends, which would be a headwind relative to the strong makeup consumption we've seen so far this year.

During the reopening phase, the surge in demand is hitting some sectors before the supply side has had a chance to catch up. Many businesses shrank in order to survive the pandemic and now may be struggling or moving cautiously to expand capacity. These mismatches are exacerbated in some areas by idiosyncratic disruption such as in semiconductors, steel and lumber. Importantly, the reopening pains associated with mismatches between demand and supply in most sectors are temporary in nature and are likely to be resolved as pent-up demand moderates and businesses hire and expand.

So let me just talk a little bit about how I see those showing up first in the inflation data. They are evident in the April inflation readings. I had been anticipating a notable move up in inflation beginning in April and lasting several months due to a combination of base effects and temporary reopening dynamics. And indeed, core PCE inflation moved up to 3.1% on a 12-month basis in April, while total PCE inflation rose to 3.6% on a 12-month basis amid high energy prices. A very significant portion of those 12-month readings reflect contributions from base effects.

Core PCE inflation is estimated to be around 2.4% in April after adjusting for those base effects. Apart from base effects, the factors driving the increase in inflation are consistent, in my view, with the expectations I had that we would see temporary price increases associated with sectoral supply-demand imbalances and that the timing and sectoral incidence of those increases would be very difficult to predict. While the level of inflation in my near-term outlook has moved somewhat higher, my expectation for inflation to move back towards its underlying trend in the period beyond the reopening remains broadly unchanged.

So if we take a look in particular, we'll see increases in a few categories that were prominent contributors to the month over month April core PCE. Used vehicles, airfares and accommodations together contributed nearly one-third of month over month core PCE inflation in April even though the cumulative weight of all of those components in the PCE basket is just 3%. So it's notable that the major contributors to the April core PCE inflation increase aren't normally significant drivers of core inflation.

Let me just go into a little bit of detail on one or two of them. So, for instance, the used vehicle category contributed just over 0.1 percentage point of that increase. On the demand side, stimulus payments and low borrowing rates have given households additional ability to purchase vehicles and the pandemic appears to have increased the perceived relative value of private transportation. On the supply side, the limited production of new cars due to semiconductor shortages, rental car companies have become buyers in the used vehicle market in order to restore the capacity they had shuttered during the pandemic, whereas they would normally be net sellers. So, as a result, we saw used car prices, which had been on a slight downward trend in the years leading up to the pandemic, jumping a record 10%. While these pressures may persist over summer months, I expect them to fade and likely reverse somewhat subsequently.

Similarly, the travel-related accommodations and airfare sectors also contributed nearly 0.1 percentage points to that month over month movement. Prices in these categories are recovering from very depressed values well below their pre-Covid levels. They're expected to continue to rise amid renewed summer travel, but the natural limitations of making up spending on foregone travel are likely ultimately to result in a normalization of demand growth after a few quarters and the capacity of these sectors will likewise increase from their depressed pandemic levels.

So, in assessing the risk that such transitory pricing pressures get embedded in persistently high inflation, it's really important to remember that inflation averaged less than 2% over the past quarter-century and statistical measures of trend inflation ran consistently below 2% for decades before the pandemic. Relative to the entrenched inflation dynamics that existed before the pandemic, the sharp temporary increases in some categories of goods and services seem unlikely to leave an imprint on longer-run inflation behavior.

To be sure, I will be keeping a very close watch on a range of indicators for any signs of unwelcome changes in longer-term inflation expectations. Looking across those, the measure of breakeven inflation compensation based on TIPS, suggests that the recent inflation data haven't disturbed longer-run inflation expectations. Since the April CPI data were released, TIPS-based breakeven rates over the next five years, and separately for the five year, five-year-forward, have moved down, not up. Those measures suggest that market participants are demanding slightly less compensation for expected longer-term inflation than they were before the inflation data were released relative to medium-term inflation.

Survey-based measures of inflation expectations are mixed. The most recent Survey of Professional Forecasters did show an increase in median PCE inflation expectations over the next five years of 20 basis points from 2% to 2.2% and a smaller change for inflation expectations over the next ten years from 2% to 2.1%. So similar to the market-based measures, this measure implies a slight decline in the forward inflation measure used to proxy for longer-term inflation expectations relative to medium-term expectations. By contrast, the median response in the May Michigan Survey regarding inflation over the next five to ten years moved up to a level last seen in 2013. Putting all of those together, the Board staff's Index of Common Inflation Expectations etched up a few basis points, but just reaching to bottom end of its range of values before 2014.

The inflation dynamics seen over a few decades have led to inflation at somewhat below target and relatively stable, and generally, we would expect inflation dynamics to evolve very gradually. Longer-term expectations have been extremely well anchored so when some developments have pushed inflation above or below target, the rise has not been embedded in the ongoing inflation rate.

So let me just now turn more briefly to how I see the temporary mismatch between the surge in demand and a fitful supply response at the sectoral level also showing up in recent employment data. While job openings are at the top of their range, the payroll data in April were surprisingly weak. In part, that weakness reflected some sectors where the same supply chain disruptions I was talking about earlier, limiting production despite strong demand, so most notably the semiconductor shortage and the idling of a number of U.S. auto plants showed up in a decline, a large decline in the motor vehicle manufacturing area in April that more than accounted for overall manufacturing employment decline. And similarly we saw construction employment flat in April due to shortages of lumber.

The lackluster April payroll report also reflects some post-pandemic sectoral reallocation. We saw sectors that expanded substantially in response to Covid-related demand shedding jobs in preparation for a post-pandemic world. And we can see that particularly in delivery services jobs and grocery store jobs where we saw very large declines.

With a record number of job openings reported at the end of March, it does appear that labor supply is lagging behind labor demand in several sectors, but I anticipate that that, in part, reflects ongoing concerns about the virus and caregiving responsibilities. At the time of the April survey, nearly 3 million people reported being out of the labor force because of the pandemic and only 23% of the 18-to-64-year-old population at that point were fully vaccinated. Similarly, constraints related to schooling and childcare are ongoing. While it's now rare for a school district to be entirely remote, recent estimates indicate that only over one-half of U.S. students or just over one-half of U.S. students are in school districts that continue to operate in a hybrid rather than fully remote, rather than fully in-person environment.

So, let me just say the supply-demand mismatches in the labor market are likewise anticipated to be temporary, and I do expect to see further progress on employment in the coming months. While it's difficult to disentangle the effects of concerns about contracting the virus or caregiving responsibilities brought on by the pandemic, from those supplemental benefits, all of these factors are likely to diminish by autumn with the return to fully in-person school, progress on vaccinations and the expiration of enhanced UI benefits in early September or actually earlier in many states.

But where we are today is, with employment, far from our goal. Jobs are down by over 8 million relative to their pre-pandemic level and the shortfall is over 10 million if we take into account the secular job growth that would have occurred over the past year in normal circumstances. As of April, the overall employment to population, EPOP ratio, is more than three percentage points below its pre-pandemic level. So on balance, the inflation and employment data thus far appear to reflect a temporary misalignment of supply and demand that should fade over time as the demand surge normalizes, reopening is completed, and supply adapts to the post-pandemic new normal.

So what does that mean for policy? Under our guidance, adjustments in the path of monetary policy are transparently tied to realized progress on our maximum employment and 2% average-inflation goals. Jobs are down by between 8 and 10 million compared to the level we would have seen in the absence of the pandemic, and it'll be important to see sustained progress on inflation given the preceding multiple year trend of inflation below 2%. While we are far from our goals today, we are seeing welcome progress, and I expect to see further progress on employment and inflation in coming months.

I'm attentive to the risks on both sides. I will be carefully monitoring inflation and indicators of inflation expectations for any signs that longer-term inflation expectations are evolving in unwelcome ways. And if we were to see inflation moving materially and persistently above 2%, we do have the tools and the experience to gently guide inflation back down to target and no one should doubt the commitment to do so.

But just as it's important to be attentive to upside risk, it's also important to be attentive to the risks of pulling back too soon. In the previous monetary policy framework, the customary preemptive tightening based on the outlook to head off concerns about future high inflation likely curtailed critical employment opportunities for many Americans and embedded persistently below-target inflation. The entrenched pre-pandemic combination of low equilibrium interest rates, low underlying trend inflation and a flat Phillips curve is likely to reassert itself after reopening is complete. And this type of environment creates asymmetric risks since the lower bound constraint means the policy can respond more readily when inflation surprises to the upside than to the downside.

So remaining steady in our outcomes-based approach during the transitory reopening surge will help ensure the momentum that we'll need to see as current tailwinds shift to headwinds isn't curtained by a premature tightening of financial conditions.

So with that, let me turn it over to you, Mike.

MICHAEL FEROLI: All right, thanks Governor Brainard, for those very interesting and in-depth comments, particularly regarding inflation, which I guess is the topic I'll start with because it certainly seems to be the topic most people are focus on lately. You mentioned, interestingly, in talking about inflation being temporary in nature that you expect these supply-demand imbalances to last over the summer months, and in assessing whether the outlook remains benign for inflation, you focused mostly on inflation expectations and reasonably so. I was just wondering if over coming months, outside of inflation expectations, are there other measures you're going to be looking at to see whether this upside, developments in inflation, are truly transitory in nature?

GOVERNOR LAEL BRAINARD: Well, I do think, as I was mentioning earlier, I want to be very attentive to risks on both sides so I will be monitoring that data over the next several months very carefully. And I'll be looking at a dashboard, not just the inflation expectations indicators that I noted earlier, but also carefully monitoring a variety of measures of inflation. Obviously the core PCE measure and the PCE measure that are the focus of the Committee's framework, but also a variety of different ways of looking at inflation that might control for outliers. So there are a variety of different kinds of measures of inflation that I'll be looking at.

But I do think that, you know, that this is unprecedented, this reopening, that there's some reopening dynamics and that, for a variety of reasons that we talked about earlier, both the surge in demand being expected to normalize, businesses over time being able to hire and adapt, you know, we would expect some of those reopening dynamics to fade over time so that some of these current measures are likely reflecting some temporary factors.

MICHAEL FEROLI: And would you say wage measures are going to be distorted...

GOVERNOR LAEL BRAINARD: Absolutely. I will be also looking, I think, if this was the gist of your question, in addition to monitoring those price inflation measures, it'll be also very important to be monitoring measures of wage inflation, and there are two. You know we did see the average hourly earnings measure moving up, but we also saw that, again this is one month worth of data, and we saw both wages in average and work hours going up. And so it's very likely that some of those temporary factors are also showing up in the month-to-month labor data, but we will, of course, be carefully monitoring wage data that might be controlling for composition effects over, you know, a several month period as opposed to taking too much signal from one month's worth of data.

MICHAEL FEROLI: On inflation expectations, which you highlighted as the major thing to be most attentive to over the coming months, you referenced the Board's Index of Common Inflation Expectations, which has moved back up but is still below levels that prevailed between 2000 and 2014. Had there not been a shift in framework here, one would think 2000, the level that prevailed over that period would be something consistent with price stability. Since we have moved to a flexible average inflation target, does that imply that we should be looking for a somewhat higher level of inflation expectations that prevailed in that period from 2000 to 2014?

GOVERNOR LAEL BRAINARD: Well, certainly I think the core of the inflation part of the new framework is to ensure that inflation expectations are strongly anchored at 2%

given that there was evidence that inflation expectations had perhaps been drifting a bit down below our target in the years leading up to that change in the framework. So certainly some of the movements, the early movements in some of those inflation indicators upon the, you know, sort of roll out of the framework and the forward guidance that was put into effect pursuant to that framework I did actually interpret as a positive sign that the new framework was well understood and that, you know, the framework would have that effect of being able to re-anchor inflation expectations at 2%, and so that is kind of at the core of that average inflation approach. And I do expect to be monitoring that very closely although, of course, again I don't want to take too much signal from any one month's worth of data.

MICHAEL FEROLI: Right, of course. Staying on this topic of inflation expectations, at the last press conference Chair Powell was asked about the possibility of inflation expectations rising ahead of reaching the full employment goals, which he said was unlikely. So let me try and ask that question in a slightly different way, which is one of the motivations here of the framework review and arguably for the adoption of the FAIT framework was to raise inflation expectations or at least prevent an unwelcome fall in inflation expectations. Given that emphasis, should a return of inflation expectations, or why wouldn't a return inflation expectations back to their previous levels be sufficient? Why would we need to see actual follow through on inflation if most of the, if we actually see inflation expectations move ahead of that development?

GOVERNOR LAEL BRAINARD: So, you know, I think the forward guidance is pretty explicit in terms of what we're looking for on inflation, both in terms of the forward guidance for the path of the policy rate, where it talks about wanting to see sustained inflation, sustainably at 2%, with moving or on track to moderately exceed for some time. But the broader frame for that, which is in that statement, is achieving inflation that averages 2% over time in order to anchor inflation expectations at 2%. So clearly that's something that, we'll continue to monitor that, but certainly that is not what we have seen to date and so that is why I'll be watching the data carefully for further progress on that.

Again, my own expectation is that right now what we're seeing is a combination of factors that are largely temporary in nature. Both those base effects, which are very strong currently and will be for another little while, but then these misalignments between the surge in demand and the catch-up on the supply side, I think those will take some longer period of time. But my own expectation is for inflation to move back down towards target following that reopening phase because of those really strong entrenched inflation dynamics that we were talking about earlier. So we'll just have to monitor the data exceptionally closely.

And, as you know, we are looking for progress on both legs of the dual mandate. And, you know, we do talk about, in our consensus statement, circumstances in which the committee judges those objectives not to be complementary. So I think the framework does contemplate those kinds of circumstances although that's certainly not what I expect.

MICHAEL FEROLI: Okay, one last on inflation before moving on. I know we've talked about inflation quite a bit, not only here but in a lot of forums. So you had mentioned, so certainly currently spot inflation is running rather high and you mentioned a bunch of reasons to expect it to be transitory, which I happen to share that outlook. But at the same time, many on the Committee have talked about focusing on outcomes rather than the outlook. So this sounds a little bit dissonant that we're focused on outcomes and the current outcome is kind of achieving the inflation goals and the transitory discussion kind of focuses more on the outlook. So maybe you could comment on what seems like a bit of a dissonant message we're getting here from the Fed in terms of outcomes versus outlooks and that shifting of the discussion on inflation to the outlook.

GOVERNOR LAEL BRAINARD: Yes, so both the framework and the forward guidance talk about sustained achievement of 2% inflation. And so as I look at inflation data from month to month, I do have to try to parse what of that is contributing to sustained performance of inflation at 2% as opposed to temporary factors that really don't provide much signal for that sustained inflation outcome. So I don't see it, I see it as entirely consistent in that the outcome that certainly I'm focused on is sustained performance of inflation at 2%. And so, you know, it is important to try to understand the nature of the data from month to month in the inflation ratings.

MICHAEL FEROLI: Maybe we could pivot a little bit here to, well, to policy. In your prepared remarks, you didn't discuss too much, some of the tools used to, as you state, gently, put the economy into where it needs to be. A lot of focus has been, of course, since the _____ taper. And maybe I'll just start with a question that I've received a lot from people I've talked with, which is why continue to, so I think you've made an eloquent case for why accommodation in general is needed given the employment shortfalls we see, but I guess there's some more questions about why that accommodation is taking place in the form of mortgage purchases, particularly given that the most recent financial stability report kind of flagged somewhat elevated housing prices. So perhaps you could discuss the rationale for continued mortgages at the current pace.

GOVERNOR LAEL BRAINARD: Yes. So, you know, broadly speaking, because of the lower bound constraint, right, asset purchases is an integral part of our monetary policy framework to provide accommodation. And generally when we turn to asset purchases, we've done so through expanding our holdings of longer-term Treasury and agency securities. And generally by doing so we tend to put, or the goal is to put downward pressure on longer-term interest rates and thereby support the flow of credit to households and businesses. So generally that's been the kind of goal of our asset purchase program.

And, of course, it's also important to remember that when we started during the very severe market stress episode in March of last year, our purchases of both Treasuries and agencies were also very important to smooth market function. That was the original, the original goal, and it shifted later, late last year in fact. So the composition of security purchases we now have, in fact, reflects the pace of Treasuries and MBS purchases as we emerged from that most intense period of the crisis in June of last year. And the composition of purchases at that time appeared to be effective and so the FOMC chose to retain that composition to help provide certainty to market participants about the path of our asset purchases over time.

So that's where we got to that composition to begin with and broadly speaking, from just a sort of monetary accommodation perspective, the effects of purchases of Treasuries and agency MBS is roughly the same. So generally speaking, we believe we are accomplishing that goal of providing more accommodative financial conditions to support households and businesses through putting that downward pressure on longer-term interest rates through both. And so in that sense the composition is effective in achieving our monetary policy goal.

Now, of course, we do monitor the housing market and home prices very carefully and, as you say, we see strength there and that is, in part, reflecting very high demand at a time when there are low inventories and there's some supply constraints as you know. And, of course, as we think about this from a financial stability perspective, underwriting terms are just much stronger and generally household balance sheets are much healthier so it's really not comparable to that period in 2008 that some people are raising.

MICHAEL FEROLI: Okay, so, not to put words in your mouth, but are you saying basically using, the composition can't nimbly affect which sectors of the economy will grow faster or slower?

GOVERNOR LAEL BRAINARD: So the composition was chosen to provide certainty to markets and generally speaking our goal is on longer-term interest rates and so the existing composition has the effect that we are trying to provide accommodation through those more sort of favorable financing conditions for households and businesses. So it's effective in the current composition and that's the lens through which we are continuing the current composition.

MICHAEL FEROLI: Okay. I know it's been tough to get a precise definition of substantial further progress so I'm going to skip over that and maybe ask about how we think about “well in advance.” So the Chair and others have spoken about communicating to the market well in advance of any tapering decision. Should we think about that in calendar-based terms? Or is it conditional on how well the market accepts the beginning of the taper discussion? Can you just offer a little more on how we should think about this phrase?

GOVERNOR LAEL BRAINARD: Yes, so I think we are very transparent about the employment and inflation goals that we’re seeking to achieve – the forward guidance that I mentioned earlier, the broader framework that contextualizes those important goals. And we’ve tried to, I think, certainly in my thinking the forward guidance on asset purchases was to place the asset purchases within that broader framework.

I think generally our communications have been very transparent about sort of how we think about those asset purchases. And, as you saw in the minutes, we’re very transparent in terms of describing Committee discussions about tapering in asset purchases, and so that’s all part of the communications. And it does appear, which I think you were perhaps alluding to, that market participants seem to be broadly well informed about what those conditions are and seem to be reacting to data in ways that are consistent with that.

And, of course, we’re seeing the data as the markets are seeing the data and so the fact that we've laid out pretty clear guidance allows market participants, I think, to understand our reaction function and to assess that data the way the Committee participants would. So from what I'm seeing in terms of, in particular the New York Fed surveys of market participants and primary dealers, there seems to be a very good understanding of how Committee members are generally thinking about the forward guidance and the progress that we're seeing in the data.

MICHAEL FEROLI: Maybe we could, staying on policy, shifting from balance sheet to the outlook for rates, you know, the FAIT framework is relatively new. It's less than a year old so there's still, maybe a learning process here between the Fed and the public. And I was wondering how, if there are certain rules that you might refer to in thinking about this framework. In other words, maybe we're no longer looking at Taylor rules and things of that nature as a guide, but do you look at things like the Bernanke sort of three-year look-back type of way of thinking about it? Or maybe you could just expand a little bit on some of the things you monitor to see how progress is going toward the goals of the new framework?

GOVERNOR LAEL BRAINARD: So just, I can just speak for myself. So I do think a variety of different rules do provide useful benchmarks that help inform my thinking. I do think it's also important to just state upfront that the F was very important in FAIT, that the framework clearly does refer to a flexible average inflation targeting approach, and it does not tie itself to a mechanistic average inflation target rule. That said, I do find it useful. And so I do look at sort of temporary price level targeting, Bernanke, Kiley-Roberts type of framework. I certainly have looked at different AIT approaches with different initialization periods and different sort of look-back periods. So I am tracking those and they help inform my thinking, but I look at a sort of set of different approaches and that does help inform my thinking. But I don't have a single rule that would mechanistically inform my thinking.

MICHAEL FEROLI: I'm very conscious of John's time, I think I probably have time for maybe one last question. It's about the employment mandate, the new interpretation of the employment mandate in terms of shortfalls. And you and many others have said, you know, you're not going to focus on one indicator or even a set of indicators. And I just wondered, why the change in thinking relative to 2012 when the Evans Rule basically focused on the unemployment rate? And I think my understanding of most of the evidence is that the Evans Rule served the Committee well in terms of furthering its goals and so why now shift toward broad whereas in the past something more tangible did a good job?

GOVERNOR LAEL BRAINARD: Yes, so I don't think it did a good job. I don't think it did a good job. I think we left a lot of jobs on the table in the previous framework and so that is why the shift. And, you know, there are several things that are different about the current framework on the employment side of our dual mandate. One, it is focused on shortfalls whereas previously the framework was focused on deviations from either side. And that was associated with a view that there was a sort of inherent necessary relationship between inflation being, employment being too high and subsequent high inflation, which we just haven't seen in the data. We have not seen that kind of Phillips curve relationship. So that shortfall change, I think, is profound, very important.

Secondly, as you know, we talk, instead of a reference to a natural rate of unemployment, which was part of that framework, we now talk about a broad-based and inclusive measure of maximum employment. And that also is a, I think, a sort of a learned experience that in the last recovery there were several points where people pointed to the unemployment rate and said, look, it's at the natural rate and this is the right time to begin tightening policy because we're going to see inflation.

But, in fact, there were many margins that were not showing up in that simple unemployment rate and, you know, as the Committee was able to allow the recovery to progress, we saw the long-term unemployment numbers came down. We saw the part-time employment becoming full-time employment. We saw labor force participation overall taking some time to improve and, in fact, you know, the trend estimates were much more pessimistic than what actually prevailed. And then we saw the labor force participation for particular groups who generally only see their prospects of employment improving very late in the cycle improvement. And so I think that experience informed that term broad-based and inclusive, and I do think it's a very significant set of changes.

MICHAEL FEROLI: Thanks. Thanks very much for that candid conversation. I know, as I said, I think I'm one minute over. Hopefully that's not too bad by John's standards.

GOVERNOR LAEL BRAINARD: Thank you.

CHAIR JOHN C. WILLIAMS: Yes, unfortunately, we are out of time. But thank you, Lael, thank you, Michael, for sharing your time and insights with us today. We really appreciate it.

GOVERNOR LAEL BRAINARD: A pleasure, thank you.

CHAIR JOHN C. WILLIAMS: And it's now the part of the program where I'm going to list off some of the upcoming speakers. So we've got a lot of great speakers this summer. We encourage you to invite guests to our events. Next up, on June 8th, we have the Metropolitan Opera General Manager, Peter Gelb, along with the Lincoln Center for the Performing Arts President and CEO, Henry Timms. Then on June 9th, we have Andrew Yang, Mayoral Candidate for New York City. On June 10th, we have Connie Evans, President and CEO of AEO. And then on June 17th, we have Henry Kaufman, President of Henry Kaufman & Company, Inc. And then on June 22nd, we have Henry Louis Gates, Alphonse Fletcher University Professor and Director of the Hutchins Center for African & African American Research at Harvard University. And, of course, we have many, many more speakers that we're lining up for the rest of the year, so please check our website and your emails to see that. And if you just joined as a guest today and you'd like to become a member, please email the Club at the address on the screen.

Finally, I'd like to take a moment to recognize those of our 335 members of the Centennial Society joining us today as their contributions continue to be the financial backbone of support for the Club and help enable us to offer our wonderful, diverse programming both now and in the future. So thank you again and please stay healthy and safe.