The Economic Club of New York

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The Economic Club of New York

116th Year
730th Meeting

Jerome H. Powell
Chair, Board of Governors
Federal Reserve System

October 19, 2023

In-Person/Hybrid Event

Moderator: David Westin
Anchor, Bloomberg Wall Street Week

Introduction

Vice Chair Robert Steel

Good afternoon and welcome to the 730th meeting of The Economic Club of New York. I am Bob Steel, Vice Chair of the Club and Vice Chair of Perella Weinberg Partners.

The Economic Club of New York is known as the nation's leading nonpartisan forum for discussions on economic, social, and political issues. More than 1,000 prominent guest speakers have appeared before the Club over the last century and have established a strong tradition of excellence. I would like to extend a warm welcome to students from NYU Stern School of Business, Columbia Business School, Rutgers University, and Mercy University, who are joining us virtually today, as well as members of our largest-ever Class of 2023 Fellows – a select group of diverse, rising, next-gen business thought leaders. As a reminder, applications for our 2024 Fellows program are now available on the Club's website.

It is my honor today to welcome our esteemed guest of honor, Chairman of the Federal Reserve System, Jay Powell. Jay first took office as Chair of the Board of Governors of the Federal Reserve System in 2018, for a four-year term. He was reappointed to the office and sworn in for a second four-year term in May 2022. Jay also serves as the Chair of the Federal Open Market Committee, the System's principal monetary

policymaking body. He has served as a member of the Board of Governors since taking office in 2012, to fill an unexpired term. Jay was reappointed to the Board and sworn in, in June of 2014, for a term ending January 31, 2028.

Prior to his appointment to the Board, Jay was a visiting scholar at the Bipartisan Policy Center in Washington, D.C., where he focused on federal and state fiscal issues. From 1997 through 2005, he was a partner at The Carlyle Group. Jay served as an Assistant Secretary and as Under Secretary of the U.S. Department of the Treasury under President George H. W. Bush, with responsibility for policy on financial institutions, the Treasury debt market, and related areas. Prior to joining the Bush administration, he worked as a lawyer and investment banker in New York City.

In addition to service on corporate boards, he has served on the boards of charitable and educational institutions, including the Bendheim Center for Finance at Princeton University and the Nature Conservancy of Washington, D.C. and Maryland.

The format today will begin with opening remarks from Jay followed by a conversation with Bloomberg's David Westin. David is the Anchor for Bloomberg Wall Street Week. As a reminder, this conversation is on the record as we do have media on the line and in the room. Without further ado, if you all will join me in welcoming Jay to the stage.

Opening Remarks by Jerome H. Powell

Thank you, Bob, and thank you to everyone for being here today. It's great to be back at The Economic Club of New York where I last visited before Covid. So, before our discussion, I'll take a few minutes to discuss recent economic data and the outlook for monetary policy.

Incoming data over recent months show ongoing progress toward both of our dual mandate goals – maximum employment and stable prices – and I'll start with inflation. By the time we raised rates in March of 2022, it was clear that restoring price stability would require both the unwinding of pandemic-related distortions to supply and demand, and also restrictive monetary policy to cool strong demand and give supply time to catch up. These forces are now working together to bring inflation down.

After peaking at 7.1% in June 2022, 12-month headline PCE inflation is estimated at 3.5% through September. Core PCE inflation, which omits the volatile food and energy components, provides a better indicator of where inflation is heading. And twelve-month core PCE inflation peaked at 5.6% in February of 2022 and is estimated at 3.7% through September. So clear progress there.

Inflation readings turned lower over the summer, a very favorable development. The

September inflation data continued that downward trend but were somewhat less encouraging. Shorter-term measures of core inflation over the most recent three and six months are now running below 3%. But these shorter-term measures are often volatile. And in any case, inflation is still too high, and a few months of good data are only the beginning of what it will take to build confidence that inflation is moving down sustainably toward our goal. We cannot yet know how long these lower readings will persist, or where inflation will settle over coming quarters. While the path is likely to be bumpy and to take some time, my colleagues and I are united in our commitment to bring down inflation sustainably to 2%.

In the labor market, strong job creation has met a welcome increase in the supply of workers, due both to higher participation and to a rebound of immigration to pre-pandemic levels. Many indicators suggest that, while conditions remain tight, the labor market is gradually cooling. Job openings have moved down well below their highs and are now only modestly above pre-pandemic levels. Quits are back to pre-pandemic levels as well, and the same is true of the wage premium earned by those who change jobs. Surveys of workers and employers show a return to pre-pandemic levels of tightness. And indicators of wage growth show a gradual decline toward levels that would be consistent with 2% inflation over time.

To date, declining inflation has not come at the cost of meaningfully higher

unemployment – a highly welcome development, but also a historically unusual one. Healing of supply chains in conjunction with the rebalancing of demand and supply in the labor market has allowed disinflation without substantially weaker economic activity Indeed, economic growth has consistently surprised to the upside this year, as most recently seen in the strong retail sales data released earlier this week. Forecasters generally expect GDP to come in very strong for the third quarter before cooling off in the fourth quarter and next year. Still, the record suggests that a sustainable return to our 2% inflation goal is likely to require a period of below-trend growth and some further softening in labor market conditions.

Geopolitical tensions are highly elevated and pose important risks to global economic activity. Of course, our institutional role at the Fed is to monitor these developments for their economic implications, which remain highly uncertain. But I will also say, speaking for myself personally, I found the attack on Israel horrifying as is the prospect for more loss of innocent lives.

Turning to monetary policy, the FOMC has tightened policy substantially over the past 18 months, increasing the federal funds rate by 525 basis points at a historically fast pace and decreasing our securities holdings by roughly $1 trillion. The stance of policy is restrictive, meaning that tight policy is putting downward pressure on economic activity and inflation. Given the fast pace of the tightening, there may still be meaningful

tightening in the pipeline.

My colleagues and I are committed to achieving a stance of policy that is sufficiently restrictive to bring inflation sustainably down to 2% over time, and to keeping policy restrictive until we're confident that inflation is on a path to that objective. We are attentive to recent data showing the resilience of economic growth and demand for labor. Additional evidence of persistently above-trend growth, or that tightness in the labor market is no longer easing, could put further progress on inflation at risk and could warrant further tightening of policy.

Along with many other factors, actual and expected changes in the stance of monetary policy affect broader financial conditions, which in turn affect economic activity, employment and inflation. Financial conditions have tightened significantly in recent months, and longer-term bond yields have been an important driving factor in this tightening. We remain attentive to these developments because persistent changes in financial conditions can have implications for the path of monetary policy.

My colleagues and I remain resolute in our commitment to returning inflation to 2% over time. A range of uncertainties, both old ones and new ones, complicate our task of balancing the risk of tightening monetary policy too much against the risk of tightening too little. Doing too little could allow above-target inflation to become entrenched and

ultimately require monetary policy to wring more persistent inflation from the economy at a high cost to employment. Doing too much could also do unnecessary harm to the economy.

Given the uncertainties and risks, and given how far we've come, the Committee is proceeding carefully. We will make decisions about the extent of additional policy firming and how long policy will remain restrictive based on the totality of the incoming data, the evolving outlook, and the balance of risks. Thank you. I look forward to our conversation, David. (Applause)

Conversation with Jerome H. Powell

DAVID WESTIN: Thank you very much, Chair Powell, for being with us today, for the remarks and for having a bit of a conversation here. We really appreciate it. It strikes me, it's a particularly propitious time, given everything that's going on in the world and in the economy. There's a lot to talk about, a lot to discuss.

Let me start with something you just referred to, which is the surprise to the upside in the economic data, despite – as you termed it – historically fast pace of growth. Are you surprised at how resilient the United States economy is. Just today we got the jobless claims numbers, surprised, because they were low. We got the retail sales numbers,

you mentioned. We got industrial production. Across the board, it seems like a very strong economy, despite all you've done to try to slow it down.

CHAIR JEROME H. POWELL: Yes, so, we certainly have a very resilient economy on our hands. We've got the economy growing strongly. If you think back a year, many forecasts called for the U.S. economy to be in a recession this year. Not only has that not happened, growth is now running, for this year, above its longer-run trend. So that's been a surprise. Driven largely by consumer spending, driven by a very strong job market with people getting jobs with high first-time nominal wages, and then as inflation has come down, real wages, which is spurring spending. And we've also had inflation coming down. So it really is a story of much stronger demand.

There may also be, there may be some ways in which the economy is less affected by interest rates. It's hard to know precisely. But, for example, companies, many companies, any company with bond market access will have termed out its debt, right? And therefore, may not be feeling the effects of higher rates. The same may be true of homeowners who have a long-term fixed-rate, low-rate mortgage, who then are therefore, because it's not an adjustable rate or a higher rate, they're not feeling that increase in rates. So the economy may be somewhat less susceptible to the effects of rate increases.

On the other hand, if you look at intra-sensitive spending, these are very much the places where we expect to see and do see effects. So, for example, in housing, the housing sector has been very affected by higher rates, as purchases of durable goods. If you look at surveys, people will not say that it's a good time to buy a car or a house, quite the contrary. So we see policy working through its usual channels. It may just be that rates haven't been high enough for long enough. And again, it's all happening in a context of very strong demand.

DAVID WESTIN: We've heard, the terming out of debt, as you say both corporate debt and household debt, may diminish the effectiveness of rate hikes. Do you have a view on whether that's true? And if it is true, what does it say about monetary policy? Does it mean you have to go farther in the rate hikes? Or do you just not have the power to affect it?

CHAIR JEROME H. POWELL: So, no, I don't think that there's a fundamental shift in the way that interest rates affect the economy. There may be some differences in this cycle because of what I mentioned. As I mentioned, we are seeing the effects where we expect to see them, which is intra-sensitive spending and also asset prices to some extent, and the exchange rate, which we're also seeing a strong exchange rate, which is disinflationary. So I don't think there's a fundamental change in the way monetary policy affects the economy.

And again, it goes back to just very strong demand. We take the economy as it is. We take fiscal policy and the economy and all the things we don't control, they come to us, and we conduct policy always to achieve maximum employment and stable prices. So we take what comes. The fact that we have a strong growing economy, a strong growing labor market, and inflation coming down, these are the elements that we want to see to achieve the outcome we want. It may take more time, but ultimately this is the kind of thing you would want to see along the path to getting through this without a big increase in unemployment.

DAVID WESTIN: How much effect, thus far, has the Fed had? We all have memorized now, long and variable lags, how long and how variable? And where are you in that process? Are you at the 25% point, the 50%, in terms of seeing the effect in the real economy?

CHAIR JEROME H. POWELL: So there's no precision in our understanding of how long lags are. One thing that has changed in the modern era is that markets now, over the course of the last 30 years, central banks have decided instead of being secretive, to be very transparent. And what that has meant is that markets move actually well in anticipation, well before our policy moves. So the transmission from policy moves to financial conditions actually happens before the moves now, whereas that was not the case 50 years ago when Milton Friedman coined the phrase, "long and variable lags."

But now you have financial conditions changing and the question is how does it affect the economy. The standard channels are asset prices, intra-sensitive spending, and the exchange rate, for example. And again, we do see that happening, just not as fast as we would like. And I would attribute some of that to just stronger demand, you know, household savings turned out to be higher, household spending has been stronger, and that's by far the largest part of the economy.

DAVID WESTIN: In order to conduct monetary policy effectively, do you need at least a hypothesis about how much has already hit the economy? Because it's hard to know how much more you need to do if you don't know how far you've come.

CHAIR JEROME H. POWELL: So, on lags, I think, if you think back it's been a year now since the last 75 basis point hike we did. It was at the November meeting in 2022. The first one was in June, so it's more than a year. So we should be seeing the effects. By the way, they don't all just arrive on one day. They arrive and then they're thought to peak and then to diminish. So there's a lot of uncertainty around lags.

And one of the reasons why we have slowed down significantly this year is to give monetary policy time to work. The truth is, though, you can find academic support for different speeds and duration of lags. So we have to use our eyes and a little bit of risk management and patience in slowing down the pace to make sure that we are seeing

the full effects. And I think, again, that's part of why we've slowed down this year. We went very quickly in 2022 to catch up to where we needed to be, and now we're moving carefully with these decisions.

DAVID WESTIN: So, when you spoke back in August of 2020 and sort of laid out the revisions to the framework, as it were, you said that in terms of anticipated growth, so the consensus had gone from something like 2.5 to 1.8%, I think were the numbers you laid out, where are you now? Where's the Fed? Where are you? And what you think basically the long-run growth is?

CHAIR JEROME H. POWELL: Long-run potential growth is not something that moves around a lot over time, but my own guess is it's around 2%. I think the standard mainstream view would be a little bit below 2%. But I would just say 2% real growth over time. And, you know, what causes growth is, you know, growth in hours worked plus growth in productivity. Growth in hours worked is a function of population growth in the long run, and also labor force participation. Many things affect productivity. But if you drop in reasonable standard longer-term estimates of hours worked, growth, and productivity, which is just output per hour, productivity growth, you get something around 2%. And that's higher than most other advanced economies.

DAVID WESTIN: As you look at it, do you see historical precedent for having a growing

economy with high rates over a long period of time? I mean, as you look back, I mean is it like the late 90s, for example? What analogies do you draw as you try to determine what this might be doing to the economy in the longer term?

CHAIR JEROME H. POWELL: So that's really a question about what the level of rates will be going forward, what the neutral level will be, and I think it's very hard to know confidently what the answer to that will be in five years. Some of the reasons why rates were low for the last 25 years were just the aging of the global population and globalization, so lots of savings with an aging population, savings greater than investments, so rates are lower, and productivity was low. So all of those led to low interest rates.

So what has changed with the pandemic? You might see less effects from globalization. Certainly demographics, the aging of the global population has not changed. I mean this is a discussion we're having on an ongoing basis. It doesn't really affect current policy. But where will rates settle at? What will be a normal rate? So if a typical Fed tightening cycle would leave you at 5 or 6%, and this is before the pandemic and before the low inflation period, you would have had Fed rates at 4 or 5% or even higher frequently. Are we going back to that? I really don't know. I wouldn't want to speculate. I mean, my guess is it will be somewhere in the middle.

I think we can say this now. The effective lower bound is not an issue. We were very concerned about that. Right now, we're very far from the effective lower bound, and the economy is handling it just fine. But that's because we're at a time of really elevated demand coming out of the pandemic as we reopened with fiscal stimulus and monetary stimulus. We have very strong demand in the United States. Hard to know what the economy will want in the way of interest rates when, five years from now when all of the effects of the pandemic are behind us.

DAVID WESTIN: You mentioned the long-term equilibrium rate, which you talked about again, back in Jackson Hole in August of 2020. Back then, you said, you thought it had, sort of the consensus, it had come down. I think it was from like 4.25% to 2.5%. Where is it today?

CHAIR JEROME H. POWELL: So, by any reckoning, long-term interest rates and the neutral interest rate came down steadily over the course of several decades. So where is it today? I don't know. You know, we're finding it basically. The idea was, I think the median indication of what the real neutral rate was around 50 basis points before the pandemic. It may have risen in the near term. The real question that matters, though, is will it rise in the long term? And that we don't know.

DAVID WESTIN: But do you need to know it in order to conduct monetary policy? I

mean you must have to have at least a theory. I mean I'm not saying you have to be right about it, but you have to have a hypothesis, don't you? As you look at the data, you have to put the data through some sort of theory.

CHAIR JEROME H. POWELL: So, we all write down our estimates of the longer-run neutral rate every quarter in the Summary of Economic Projections. And that's based on models. It's based on, also looking out the window and including lags, thinking how are our current rates affecting the economy. So the evidence of your eyes is that the economy is handling much higher rates, at least for now, without difficulty. So notionally, that might tell you that the neutral rate has risen or it may just tell you that we haven't had rates high enough for long enough. You're right, though, you know, we have models for everything. We have formulas for everything. Ultimately, as a practitioner, we have to focus on what the economy is telling us. Even taking lags into account, what's it telling us? Does it feel like policy is too tight right now? I would have to say no. I think the evidence is not that policy is too tight right now. And we're at 5-1/4 to 5½%.

DAVID WESTIN: Do you think we're entering into a new phase in monetary policy? We had the Volcker disinflation; I think you referred to it as. And then we had sort of inflation targeting for a time. There was concern about secular stagnation. We were pushing the zero bound, as you said. We were concerned about that. And then we had the pandemic, and we had the real problem with inflation. What's the next phase look like?

How would you describe it?

CHAIR JEROME H. POWELL: What we've been through is, in all of the advanced economies around the world, was a period where the effective lower bound, the proximity of interest rates, risk-free interest rates to the effective lower bound, which is zero or a little bit less, was a big problem for monetary policy. And just, rates came down and down and down. And the problem is if rates are going to be close to zero in good times, then how do you cut? And so have central banks lost the power of their most important tool, which is interest rates? This was a subject of a vast literature in monetary policy research for 20 years. And, you know, the most common answer was some kind of a makeup strategy. So you would credibly promise to run inflation a little bit hot, above 2%, and that would anchor inflation at 2%, to counter the times when it was below.

So that was a very serious problem, which filled books worth of research. Then comes the pandemic. Then comes the response to the pandemic. And then comes the pandemic inflation. Not just in the United States but everywhere. The question is, is that a secular change? Or these factors that brought us to that place, are they still out there waiting to come back? And, you know, books are written on this subject now. You can argue that, and some have argued, that effectively the last 20 years before the pandemic were kind of a perfect storm of disinflation.

And now that's all gone, and we're going into a more inflationary period that will be characterized by more supply shocks and things like that and, therefore, more inflationary pressure. So, are we going into such a, I don't know. I mean, all I can tell you; I think it's unknowable and, you know, great theorists and researchers have different views on this. It's not something you can settle in advance. We'll have to see. I think our issue is right now trying to achieve a sufficiently restrictive stance of policy to bring inflation down to 2% over time. That's what we're really focused on.

DAVID WESTIN: Whenever any of us go, particularly institutions go through tumultuous times – and goodness knows, you've been through a tumultuous time – we look back and think, okay, what did we learn, sort of an after-action report? Look at the pandemic and pandemic inflation, what would you say you learned in terms of macroeconomics, in terms of the economy, from that experience?

CHAIR JEROME H. POWELL: So hindsight is always a wonderful thing, right? I think the fair way to judge the actions that were taken is to put yourself in the place of legislators and central bankers around the world. There was no playbook. You know, we haven't seen a global economic shutdown. People were thinking that the pandemic might kill a whole lot of people and that we wouldn't have a vaccine for five years and we might not have an economy for five years. So these things were all very possible in March of 2020.

And so we pulled out all the stops and Congress pulled out all the stops. With the benefit of hindsight, could we have done a little bit less and had a little bit of inflation? I guess we could. But I think if you look overall at the performance of the U.S. economy, our economy is the strongest. We're actually also making the most progress on inflation, but we certainly have the strongest growth. We're back to prior growth trend. You know, not just level of where we were, we're actually back to the prior trend.

The last time we had this many consecutive months of unemployment below 4% was in the late 1960s, so it's more than 50 years ago. So our economy is doing very well from all of that. But if you had perfect hindsight, you might not have had as much inflation if we had done less. Although other countries who didn't do as much as we did also had substantial inflation problems.

DAVID WESTIN: I think my question was just a little bit different. It's not so much of assigning blame or saying did somebody make a mistake, as are there things that going forward would change the way you conduct monetary policy that you learned from that? That maybe nobody had reason to know at the time, but it was an experience you went through.

CHAIR JEROME H. POWELL: Well, you know, we were in a time of, a very long time, a reasonably long time of disinflationary forces. And I think everybody's instinct had been

attuned to risks coming from this direction, which is too low inflation. And so what this has taught us is that now that that period, that period is over, and we now have probably going forward a more balanced set of risks where high inflation and low inflation are both risks. In fact, right now the risk is still high inflation, but I'm assuming once we get back to 2% we won't have that. We've certainly learned that.

The possible range of events is so much wider than what we think it is on any given day. The tails are so wide and it's just not human nature to constantly be thinking about things that are way out on the tail, but they happen in financial markets and in economies. They happen far more regularly than they should.

DAVID WESTIN: I suspect every person in this room is well aware of what's going on with yields with bonds. It's been a big story, particularly in the longer end of the curve. What is your understanding of what is going on in the bond market and why those yields are going up, particularly again at the longer end of the curve?

CHAIR JEROME H. POWELL: So it's really two questions. One is why is it happening? And the other is why does it matter for policy? And so I would say on the why is it happening question, I think it's appropriate to have a little bit of humility. It's always hard to say exactly what's going on with longer term yields. But this is what I think we can say.

First, what it's not. It's not apparently about expectations of higher inflation. And it's also not mainly about shorter term policy moves, so fed funds moves over the next year or two. Really, you can look at the 2-year, for example, and two years moved up a little bit since September, but really the move is in longer-run bonds. So it's really happening in term premiums, which is the compensation for holding longer-run securities and not principally a function of the market looking at near-term fund rates.

I think a few other ideas about, there are many candidate ideas and many people feeling their priors have been confirmed by this event, I'll say, as well. So one would be just that markets and analysts are seeing the resilience of the economy to high interest rates. And they're revising their view about the overall strength of the economy and thinking even longer term this may require higher rates. That could be part of it. You know, there may be a heightened focus on fiscal deficits. That could be part of it. QT could be part of it. Another one you hear very often is the changing correlation between bonds and equities. If we're going forward into, if we are going forward into a world of more supply shocks rather than demand shocks, that could make bonds a less attractive hedge to equities and, therefore, you need to be paid more to own bonds and, therefore, the term premium goes up. So all of those are possible ideas.

Then the question is, does it matter for us, as long as I'm talking about this? So the way I think about it is we change our policy, actual and expected changes in our policy affect

financial conditions. And persistent changes in financial conditions affect economic activity, hiring, and inflation. So one question is, are we seeing the longer-run bonds, the increases in rates, are we seeing those come through in financial conditions in a persistent way? And I think if you look at financial conditions indexes, the answer so far would be yes, you are. Persistence, it will be a matter of just seeing it with our own eyes. But certainly if you look at financial conditions indexes, they're showing tightening and it's a lot because of longer rates.

Then the question is, is it endogenous? Is it just because the market expects us to take things, to take further actions to tighten monetary policy? In which case, you have to follow through. But that doesn't seem to be the case. It doesn't seem to be principally about expectations of us doing more. It seems that the other factors are the more prominent ones.

DAVID WESTIN: Another question is...

CHAIR JEROME H. POWELL: The bottom line, though, that means it probably does over time, it makes sense. It's something that we'll be looking at.

DAVID WESTIN: Well, that's the question I was going to ask. Over time, from what you understand right now, do you think this is a temporary phenomenon? Or do you think

there are structural factors, whatever they are, and we can talk about what they might be, that this is the future that we're looking at now?

CHAIR JEROME H. POWELL: Well, so, of the factors I just listed, some of them are shorter term, some of them are longer term, and some of them could be either. So, for example, concerns over fiscal deficits, that could be a longer-term factor. The change in correlations between stocks and bonds could be a long term. I don't think we know. I think basically bond prices are set by supply and demand. The supply of Treasuries is a known thing, but demand can be affected by any and all of these theories, and also just by sentiment, which is hard to characterize. So, you know, markets have been volatile. You've seen rates moving up and down a lot. I think we have to let this play out and watch it. But for now, it looks, it's clearly a tightening in financial conditions, and so we'll be watching it carefully.

DAVID WESTIN: We've talked about the fiscal side, and you've been very careful repeatedly to say you want to stay in your lane. You're not responsible for fiscal issues. At the same time, you have to take it into account. And it looks like the United States is going to have to borrow a fair amount of money. By the way, other countries are as well around the world. We have a big supply of Treasuries coming onboard. To what extent do you think that is a longer-term issue?

And let me tie it back to something you referred to in your remarks actually. When we see geopolitical conflict around the world, like in Israel, like in Ukraine, some of the buildup with respect to China, the defense spending is going to be elevated for the United States and for other countries. Do you take that into account in figuring monetary policy? Because it may well mean that we're borrowing a lot more money than we have in the past.

CHAIR JEROME H. POWELL: So, we, of course, see the same things that everything else does. I just came back from IMF meetings this weekend, and there's a lot of talk of the very large resource demands that organizations like the IMF and, of course, countries are facing, and the need for substantial amounts of revenue. You mentioned military. There's also dealing with climate change and things like that. So there's a lot of that.

As you mentioned, we don't comment on fiscal policy. Actually the fiscal authorities have oversight over us and not the other way around, so we stay away from that. So I would just say everyone knows, it's not a secret, and about all I can say is we know that we're on an unsustainable path fiscally. It's not the level of the debt is unsustainable. It's not. It's that the path we're on is unsustainable and we'll have to get off that path sooner rather than later.

It's not really something, though, that affects a monetary policy decision about how much we raise rates in the next months. It's not going to be driven by, I mean if there was some vast new fiscal policy that were about to be enacted, that would have an effect on the models and it would have an effect on projections and indirectly that would affect us. But we would not be in a position of responding directly to fiscal policy.

DAVID WESTIN: When we talk about the Treasury market, obviously there's buying and selling, and the United States government is issuing a lot of Treasuries. There's also a question of who is buying? And we now have one buyer who stepped out of the marketplace, namely the Fed, which is a big buyer. At the same time, we're getting reports that maybe some of the overseas buyers may be pulling back as well. How do you take that into account in assessing where we're going with long-term bond yields?

CHAIR JEROME H. POWELL: So actually I think buying by overseas entities has actually been pretty robust this year. So there have been some small changes, but I think by and large they've been buying robustly. Again, we look at the broad financial conditions. We look at interest rates, other asset prices. That's what we look at. We're not, you know, we don't focus on fiscal policy. We wouldn't change monetary policy because of, for example, you know, because we think that the U.S. is on an unsustainable path. Everyone knows that. We're just going to do monetary policy to achieve maximum employment and stable prices, and that's how we think about it.

DAVID WESTIN: I'm curious, though, one of the things you're most concerned about is the real economy, what's going on in the real economy. You distinguish yourself from some of your predecessors in that you have a significant exposure to the private sector, not just academics. As you talk to CEOs, people in business, what are you hearing about the cost to capital? Because these bond prices are really affecting cost to capital for the first time in a while. There was a long time that cost to capital felt like it was almost zero. And business changes an awful lot when the price of money goes up.

CHAIR JEROME H. POWELL: I talked to several people this week who run companies and they each said that the economy remains strong, and that they don't see the consumer, you know, there's some areas where spending is softening, but overall, I mean look at the retail sales number. The consumer is strong. Volume is not going up very much, but companies are profitable.

Now, where I think the cost to capital would really matter would be for smaller companies and early-stage companies. And that really does matter. So we don't have a lot of tools. We have interest rates and they're far from perfect. It's famously a blunt tool, but it's what we have to get inflation down. And really the world counts on us to deliver low and stable inflation. That's what we have to do. And at a time like this, we know that we're having negative effects on, you know, we had the home builders in this week, it's a very tough time in the home building industry. And we know that.

But ultimately what we want to get back to is a long period of price stability. That's the best thing we can provide, and policymakers and businesses and everyone, and people can just lead their lives not worrying about inflation. This is what we can deliver. It's what we have to deliver, and this is the time. You know, our independence is not for times when we're really popular, it's for now, when we're doing something that really the public counts on us to do, notwithstanding that it's challenging and difficult. And, you know, higher interest rates are difficult for everybody.

DAVID WESTIN: You have not wavered from your commitment to 2%. You did it again today, 2%. No question about it. There are those who suggest, including some colleagues in the Fed, that maybe the bond market is doing part of your job for you. Is that the way you see it?

CHAIR JEROME H. POWELL: Look, I would say it this way. The whole idea of tightening policy is to affect financial conditions. And to the extent higher bond rates reflect, they do, they're producing tighter financial conditions right now, so that's how monetary policy works. That's literally how it works. So, again, in principle as long as bond rates are going up for some reasons, and they're not going up just because they expect us to do things, so that if we don't do them, they'll come right back down, and we don't think that's the case actually. I don't think it's the case. It doesn't seem to me that's where analysis leads you. Then sure, that's a tightening. That's exactly what we're

trying to achieve.

DAVID WESTIN: And therefore, it seems like almost arithmetic. It must reduce some of the impetus for you to continue to raise rates.

CHAIR JEROME H. POWELL: At the margin, it could. I mean, I think, that remains to be seen. And, by the way, I'm not blessing any particular level of longer term rates, but in principal, that's right.

DAVID WESTIN: So let's talk about the labor market. You referred to that in your remarks as well. And as you say, vacancies have come down some, although they still are pretty elevated, if I'm not mistaken. Quits have actually gone up some. It seems to be a tight labor market. What do you make of what's going on in the labor market right now?

CHAIR JEROME H. POWELL: The labor market has been extraordinarily strong. So what happened in the pandemic was we had a negative labor supply shock, is one way to think about it. So a whole lot of people left the labor market when the pandemic happened, and then didn't come back. And so when the economy reopened and everybody that was, remember, there was revenge travel and revenge everything, a very strong demand, and there just weren't the people. So you had two job openings for

every person actively seeking employment. We've never been anywhere near close to that. There was panic, and wages and bonuses, and particularly in things like in-person services where people had not gotten big wage increases and didn't want to come back to work. So that's where we were.

So, since then there are very many signs that the labor market is getting back into balance, and I talked about some of that in my remarks. We survey businesses, we don't do it, but other people survey businesses and say, are workers plentiful? And that measure was no, but now it's back to pre-pandemic levels. You'd survey workers, are jobs plentiful? And that was at an all-time high and now it's still high but back. So wage increases are coming back down to more levels. Job openings are down from 2 to 1.4. They were at 1.2 in the very tight labor market of 2019. You know, the workweek, by so many measures, the labor market is gradually cooling.

And part of that is all through 2022, we thought we were going to get more labor supply and we didn't. And I personally thought, well, I guess we won't get any. And then we've gotten a substantial amount this year. The female labor force participation in prime-age workers is at an all-time high, which has to be related in some way to work from home. But labor force participation increased, immigration increased, and now you see that in the overall cooling of the labor market. So even though job creation is still very high, there are the workers to fill those jobs. And again, businesses will tell you that it's very

different. It's still a very tight labor market, but it's loosening.

DAVID WESTIN: Coming back to your goal of 2% inflation, what have you learned from this experience about the relationship between inflation and labor? I mean there's a lot to talk about, the Phillips Curve, whether it still applies, whether it's weaker? What is your hypothesis right now about the relationship between inflation and the labor market?

CHAIR JEROME H. POWELL: Let me tell you what it was before. So, one of my favorite charts is just a slope of the Phillips Curve over 40 years. And so it shows the relationship between unemployment and inflation. If you go back to the high inflation of the 70s, there was a very tight relationship. And that relationship went down and down and down, in fact where the Phillips Curve, there was almost no relationship, meaning the Phillips Curve was very, very flat.

Now, actually if you just ignore cause and just look at the data, it will tell you that the relationship is back. Do we really think that's a sustainable thing? I don't know. What happened, though, was that people came to seriously expect 2% inflation, something like 2% inflation. And if people expect that, if companies expect it and workers expect it and you expect it in your shopping, then that's what will happen, in a way. And that's what happened. So even in very, very tight labor markets, we didn't have high inflation. I was at the Fed since 2012 as unemployment went from 6 to 5 to 4, into the 3s for the

first time. And, you know, the models were all saying that we should be seeing some inflation, and we never saw, we never really saw 2% inflation on a sustained basis during that era. So we learned that the Phillips Curve was really flat. Some pronounced it dead.

Now, I don't think most of the inflation we're seeing at all is from the Phillips Curve, though. It was really the collision of very strong demand, really strong demand, with constrained supply. Cars being a great example. Many people wanted cars, didn't want to ride public transportation. Wanted to move to the suburbs. Unlimited demand for cars. Interest rates were low. Yet we couldn't get semiconductors, so there are no more cars. Car production went down. How do you solve that problem? Prices just go way, way up for cars. That's how you clear the market. So that's a classic example of what happened here. It really wasn't about the Phillips Curve. It was more about constrained supply and demand more broadly, especially for goods at the beginning.

DAVID WESTIN: Let's turn to another responsibility of yours which is the banking system. Last March we had something of a scare because of, I guess, interest rate risk, with Silicon Valley Bank and then some others. Are we through that now? Where are we in that process? Are you resting easy?

CHAIR JEROME H. POWELL: So what you pay us for is not to rest easy. We don't do

that. But I would say where we are is this. Things have certainly settled down, certainly have settled down. We see the funding market is fine. And, you know, we paid a lot of attention to banks that looked anything like the banks that had the problems and made sure that they had credible liquidity plans and plenty of liquidity and all of that. And so I think all of that has worked. And we set up this facility that's available for banks to borrow. And so all of that has led to a real settling down. But, you know, our job is to be on the case, and we're still on the case, and we'll keep after that.

Banks are generally very well-capitalized and highly liquid in our country. Banks are strong. You know, we benefit from all those years of reform under Dodd-Frank and Basel III that we went through, you know, with former Governor Tarullo and many others. And so we benefit from a very strong well-capitalized banking system that's much better at managing its risks than the one that entered the Global Financial Crisis.

DAVID WESTIN: Very well-capitalized but you want some more...the proposal.

CHAIR JEROME H. POWELL: The Basel III proposal, which is, you know, it's a rule that's out for comment so there's not a lot I can say. But we do expect a lot of comment and we do expect to take those comments very seriously.

DAVID WESTIN: Talk about commercial real estate. There are some concerns out there

in the marketplace about what's going on because obviously there's a repricing that comes with your increased rates. It's thought that there's some real estate that's not worth the money that it was originally financed with it. How concerned should we be about that? Is something lurking out there that could really affect the system overall, not just the people who invested?

CHAIR JEROME H. POWELL: So there's work-from-home and that's affecting downtown real estate in a lot of big cities, and higher rates as well, as you point out. So this is an issue that we pay a great deal of very careful attention to. Commercial real estate is not a principal risk or a major risk for the very large, largest banks. It is much more for regional and really the smaller banks have proportionally much larger exposure to real estate, commercial real estate. So what we've done is the supervisors are in there looking at real estate portfolios. They're working with banks to make sure that they have plans to deal with the problems they have in their portfolio. These problems evolve over time. They don't land with great suddenness like a market event.

And so we're working with all of the bank regulators. We're working with banks that have, you know, concentrations of troubled real estate, to work it out. There will be losses for sure. You can drive down through most downtowns, many downtowns anyway, and see buildings that are empty and things like that. But we're working through it. And we're on that case and I don't see it as, you know, as presenting much

broader problems. But our job is to make sure that it doesn't.

DAVID WESTIN: As you mentioned, regional banks are where a lot of people focus on this. As you conceptualize the banking system, what is the role of the regional banks? We have the super-big banks that don't look like they're going anywhere, and we've got the community banks, the smaller banks that we understand are critical, particularly for small businesses and local context. But what about the regional banks, how much pressure is on them? And what would the damage be to the system if, in fact, there was more consolidation with some of the big banks?

CHAIR JEROME H. POWELL: I think the regional banks are very important, extremely important. You know, we have 4,500 banks, which is a lot more than any other country per capita or per dollar of GDP. But we have, you know, our G-SIBs, the largest banks, the leading banks in the world in profitability and in their success in their business. We have community banks who deal in smaller communities. But we also have these great regionals, and I think they do a great business with many companies. And I do think their business model is under pressure, and I would not like to see us add to that by treating them exactly like G-SIBs. I think they don't need exactly the same attention that a G-SIB gets. But I would say, I personally think, and I think we, at the Fed, strongly think that the regionals and the smaller regionals are an enormously important part of our banking system.

DAVID WESTIN: Okay, you've been very generous with your time. I really appreciate it. I have one last question. Are you having a good time? (Laughter) And if so, why?

CHAIR JEROME H. POWELL: Now, or...

DAVID WESTIN: No, no, no, I assume this wasn't that pleasant, but in general, are you enjoying your job?

CHAIR JEROME H. POWELL: I would say this. First of all, it's an incredible honor to do this job. And every day I do it, I feel so fortunate and so lucky and blessed to be entrusted with this. And all I want to do is do the best job I can for the public that we all serve. And, yes, there's a lot that is enjoyable about it, but mostly it's just so important to get it right, and that's what we're trying to do.

DAVID WESTIN: Thank you so much, Chair Powell. (Applause)

VICE CHAIR ROBERT STEEL: Well, let me just conclude with four thank-yous. First, thanks to the team from the Economic Club that organizes these events. It doesn't happen because anyone on the dais does anything, it happens because the team works hard and organizes it and makes it go so smoothly. Number two, thanks for our audience, and our members, both here in the room and online. Let me also say thanks

to David. You did a great job engaging with the Chairman. And, you know, I think, I saved the best for last. Jay, thank you very much for your talk today. Thank you for the time speaking with David. And all of us say, very much, when you read and listen to your contribution to the Fed in your various roles, there's only one thing to say, and that is thank you very, very much for your service. Thank you. Everyone, enjoy lunch.

(Applause)