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Susan M. Collins
President and Chief Executive Officer
Federal Reserve Bank of Boston

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Moderator: Abby Joseph Cohen
Professor of Business, Columbia Business School
Retired Partner, Goldman Sachs
Former Trustee, ECNY

Introduction

President Barbara Van Allen

If everyone could take their seats, that would be terrific. We have a large online audience, so I'm sensitive to time. So I think it is now good afternoon, so good afternoon, and welcome to the 754th meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. Recognized as the premier nonpartisan forum in the nation, The Economic Club of New York stands as the leading platform for discussions on economic, social, and political issues. For more than a century, we've hosted over 1,000 prominent guests and that certainly contributed to our tradition of excellence which continues up to today.

I'd like to extend a warm welcome to students who are joining us virtually from the Zicklin School of Business, Princeton University, and Yeshiva University's Sy Syms School of Business as well as members of our largest-ever Class of 2024 ECNY Fellows – a select group of diverse, rising, next-gen business thought leaders.

Today's discussion is included in our Equity and Inclusion programming, and we're pleased that this programming is supported by our corporate partners – Mastercard, PayPal, S&P Global, and Taconic Capital.

Now it's my honor to welcome our special guest today, Susan Collins. Susan is President and CEO of the Federal Reserve Bank of Boston. And in this role she participates on the Federal Open Market Committee, the monetary policymaking body of the U.S., as I know everyone in this room knows. Since taking office in 2022, Susan oversees all of the bank's activities including economic research and analysis, banking supervision, the financial stability efforts, community economic development activities, and a wide range of payments, technology, and finance initiatives.

She is widely published as an international macroeconomist, with a lifelong interest in policy and its impact on living standards. Her research includes work on the determinants of economic growth, exchange rate regimes and economic performance, implications of global integration for U.S. labor markets, persistent macroeconomic imbalances, and countries' economic transformations.

Prior to leading the Boston Fed, Susan was Provost and Executive Vice President for Academic Affairs at the University of Michigan in Ann Arbor. In that role, she was the Chief Academic and Budget Officer, and the Edward M. Gramlich Collegiate Professor of Public Policy and Professor of Economics. She began her career on the Economics Department Faculty at Harvard University, spent many years dividing her time as a Professor at Georgetown University and as a Senior Fellow in Economic Studies at Brookings.

She contributed previously within the Federal Reserve System, serving nine years on the Board of Directors of the Federal Reserve Bank of Chicago, three as a Director for the Detroit branch, starting in 2013. Among other affiliations, she served as a Board member for the Peterson Institute of International Economics, and the National Bureau of Economic Research.

She earned her Ph.D. in Economics at the MIT, and a B.A. in Economics at Harvard University, summa cum laude.

The format today will be prepared remarks by Susan followed by a conversation in which we're pleased to have Club Member and Former Trustee Abby Joseph Cohen doing the honors of moderating. Abby is a Professor of Business in the Economics Division at Columbia Business School, and retired partner at Goldman Sachs. We're going to end promptly at 1:00, and time permitting, they will take questions from those in the room. As a reminder, this conversation is on the record. We actually have media in the room and a lot of media online as well. Without further ado, please join me in welcoming Susan and Abby to the stage, and I'll hand the podium mike over to you, Susan.

Remarks by Susan M. Collins

Well, thank you very much, Abby, I'm sorry, Barbara, for such gracious remarks, and it is such a pleasure to be here with all of you today. And it's also just, I always enjoy being back in New York, which is where I grew up.

I'd like to start just with a couple of thank yous and appreciations. I wanted to thank my Federal Reserve colleague and your Board Chair, John Williams, for the suggestion that I join you, and also wanted to thank Barbara Van Allen and her entire team for just such a warm welcome. And my thanks as well to Abby Joseph Cohen for moderating the discussion that we'll have after my remarks.

I also just wanted to start by commending the Club for providing a really important forum to present views and analysis and discuss complex matters in a setting that is nonpolitical and nonpartisan. I think thoughtful engagement is really essential and I wanted to thank you for nurturing it.

It's important for policymakers to rigorously study data, for empirical insights, and to engage widely, explaining what we do and why, and sharing perspectives. This is a key reason that I am joining you here today, and also why I reach out to stakeholders across the economy, learning more about their economic conditions, challenges they face, and also opportunities.

So today I'd like to share my perspectives on the U.S. economy and monetary policy as we, at the Federal Reserve, work to achieve our mandates from Congress and, as I like to say, to support and foster a vibrant economy that works for everyone, not just for some people. Of course, my comments reflect my own views and not necessarily those of my colleagues on the Federal Open Market Committee, or FOMC, or across the Federal Reserve System.

So in my remarks today, I'll start with an overview and then briefly discuss some supply and some demand side aspects of the economy, and end with some comments about my outlook and about monetary policy.

So by way of overview, my read of the economic data supports my continued stance as a realistic optimist. And by that, I mean that I do expect to see further evidence that inflation is durably, if unevenly, returning to 2%, and that the economy is coming into better balance, with demand and supply more closely aligned amid a healthy labor market. And as a result, I do expect that it will be appropriate to begin lowering the federal funds rate, but later this year.

However, in addition to that optimism, I'm also realistic about the risks and the uncertainties, which remain elevated. Recent data suggests that it may take more time than I had previously thought to gain greater confidence in inflation's downward trajectory before beginning to ease policy. So a patient, methodical, and holistic approach is required. I see the current stance of policy as well positioned to balance the risks, which are two-sided, meaning there is a risk of easing too quickly, interrupting inflation's return to target; and, on the other hand, a risk of staying restrictive for too long, causing a more-than-necessary slowdown.

A striking feature of 2023 was that inflation declined significantly, and that many had expected, but instead of the widely forecast growth slowdown, the economy expanded robustly. And along with the decline in inflation, we saw continued, well-anchored long-run inflation expectations as well as a decrease in short-run inflation expectations to levels consistent with the 2% target. Furthermore,, when inflation is high, price changes across sectors tend to become quite similar. And so in another welcome development, sectoral price changes have showed much less synchronicity in 2023 than they had in 2021 and 2022.

Strong economic activity combined with moderate inflation, moderating inflation, points to the key role of supply improvements in helping to rebalance the post-pandemic economy. Such improvements are very good news, but as I'll discuss, the extent to which they'll continue is unclear. And this adds to the list of uncertainties that are relevant in assessing the data and in evaluating the outlook.

In addition to increased supply, demand has remained robust despite higher interest rates. Without ongoing supply improvements, we risk demand continuing to outpace supply and exacerbating pressure on prices. This implies that demand will need to moderate for the Fed to achieve its price-stability goal. So, while resilient activity is good news, it also raises questions about the extent to which the stance of monetary policy is actually restraining demand.

Regarding supply, some of the improvements last year were expected. Most notably, we saw the unwinding of the supply chain bottlenecks, which contributed to a significant decline in core goods price inflation, now back in its pre-pandemic range. Improvements also in labor productivity and labor supply, but those were more surprising.

The recent acceleration in labor productivity is still evolving. It could partly reflect firms' needs to find efficiencies, given labor shortages and rising costs. Improved labor productivity could also partly reflect gains from labor market reallocation earlier in the recovery, when strong labor demand enabled many workers to change jobs, likely improving employment matches overall. Higher labor force participation among prime-age workers was another welcome surprise. That recovered notably, especially for women, despite continued challenges with the supply of childcare.

And I will note that, so far, the robust labor market has allowed for remarkably inclusive outcomes by historical standards, with employment gains that have been spread across racial and ethnic groups. And this represents important progress towards a more broad-based notion of full employment. In addition, increased immigration has expanded the labor supply by more than previously thought. With a larger population, the pace of monthly payroll growth that's consistent with a stable employment rate is likely much faster than it was pre-pandemic.

And so while I certainly hope to see further improvements in aggregate supply, there's considerable uncertainty around whether these changes will continue at a pace and scale that supports the rebalancing that's needed to achieve price stability. But to be very clear, while the economy's productive capacity may not expand as quickly as it did in 2023, it should still grow at a solid pace this year and next.

Turning to demand, the evidence also points to demand staying elevated, despite real interest rates that are high by the standards of the past two decades. In particular, consumption growth has remained robust, buoyed by household balance sheets that have remained strong. And faster population growth likely contributed to increased spending as well.

And it's worth noting that firms have likely been able to maintain relatively high profit margins, not just due to productivity gains but also to robust demand. And in turn, this profitability has enabled firms to draw on internal funds to expand their productive capacity and hire more workers, rather than relying on the now more expensive sources of external credit and, therefore, partly limiting the effects of higher credit costs.

Resilient demand could explain the increase in inflation so far this year. In particular, there are signs that household expenditures may be shifting away from goods towards services, where price pressures are still high. Shelter price inflation also remains elevated, with moderation in market rents limited by continued strength in the labor market.

So let me turn to monetary policy. The intent is to help slow demand in a manner that's consistent with inflation sustainably returning to 2%, amid healthy labor market conditions. But given the continued economic strength, the extent to which monetary policy has been tempering growth is unclear, as is the extent to which it will do so going forward.

In fact, the current level of interest rates may provide less restraint than expected. Strong balance sheets have likely reduced the interest rate sensitivity of households and firms. And in addition, the current low household savings rate may indicate that the returns needed to incentivize savings may have increased. And for firms, the return to capital spending may be rising, due to the supply of additional workers and to productivity improvements.

These considerations, together with equity market gains, continued narrow corporate bond risk spreads, and the growing availability of credit from nonbank institutions, suggest that current financial conditions may be only modestly restrictive. To be clear, moderately restrictive policy is consistent with demand ultimately slowing and inflation returning to target. Furthermore, the supply improvements I've mentioned imply that the extent of slowing required to rebalance the economy is less than one might have thought given the strength in activity.

This assessment of the monetary policy stance implies that the risks are two-sided. On the one hand, there is the risk of inflation not continuing on a downward trajectory back to 2%, which highlights the importance of not easing prematurely. At the same time, the possibility of the economy slowing notably should not be discounted. We may not yet have seen the full effects of the FOMC's past policy actions, given the considerable uncertainty about the lags with which monetary policy affects the economy. And furthermore, higher interest rates could make the economy more vulnerable to the effects of adverse economic or geopolitical shocks, should they occur.

However, in my view, the risks of monetary policy being too tight have receded. Earlier this year, I was concerned about policy restrictiveness, given an apparent rise in labor market fragility. At that time, data indicated that hiring was becoming concentrated in just a few, less-cyclical sectors. But in recent payroll gains, and revisions to the earlier data, that information shows that the gains have been more diffused across sectors. And indicators, including an unemployment rate that remains below 4%, and quit rates that are back to their pre-pandemic range, point to a labor market that, while coming into better balance, is still robust. A lower risk of overly tight conditions supports taking a more patient approach in deciding when to ease policy.

Looking ahead I remain realistically optimistic that we can achieve our dual mandate goals. At the same time, the slowdown in economic activity necessary for achieving price stability remains more in the forecast than in the data. But there may be some early signs pointing towards a slowing of demand. For example, the liquid savings from pandemic-era stimulus programs dwindled in 2023, especially for lower-income and younger households. And there's evidence of rising credit card utilization rates and delinquencies. And growth in business investment slowed in the second half of last year.

However, the potential impact and timing of these indications of slowing are uncertain. In a sign of still robust demand, payroll growth over the last quarter averaged 276,000 jobs per month, a pace that is likely faster than needed to keep up with population growth, even accounting for the increased immigration. And core inflation has moved up relative to the low readings in the second half of last year. And, of course, we've just gotten some new data related to inflation.

The implications of these recent data for the evolution of inflation, though, remain to be seen. For instance, we should not necessarily have been surprised by some higher inflation readings early this year, after the string of low numbers in the second half of 2023. Overall, the recent data have not materially changed my outlook, but they do highlight uncertainties related to timing and the need for patience, recognizing that disinflation may continue to be uneven. And this also implies that less easing of policy this year than previously thought may be warranted.

To gain greater confidence that progress remains on track, I'll continue to monitor a wide range of quantitative and also qualitative data. Expecting all of the indicators to be well-aligned is too high a bar, but I'd like to highlight five things, five of the many things that I'll be watching or looking for.

First of all, the evolution of the components of inflation. We don't have individual targets for the components, but the composition is informative, and the dynamics are quite different. In particular, housing as well as non-shelter services price inflation, is taking longer to return to pre-pandemic trends. And I'm going to be looking to see additional progress there.

Second, further evidence of the low synchronicity of price changes across sectors. This is a typical feature of low-inflation environments, and it's been encouraging to see this indicator return to its pre-pandemic level, or pre-pandemic range, I should say.

Third, evidence that wages continue to evolve in a way that's consistent with price stability. In fact, given the past price increases and the ongoing productivity developments, there's room for wages to grow at a relatively sustained pace without necessarily generating additional inflationary pressures.

Fourth, seeing short- and long-term inflation expectations remaining at levels consistent with the FOMC's 2% target.

And fifth, continued signs of labor demand moderating in an orderly way, to a healthy, sustainable balance with supply.

So, in sum, the recent developments continue to highlight the importance of a patient and methodical approach, as we holistically assess the available information. The incoming data have eased my concerns about an imminent need to reassess the stance of policy. It just may take more time than previously thought for activity to moderate, and to see further progress on inflation returning durably to our target. Less concern about labor market fragilities, combined with the possibility that policy is only modestly restrictive, reduces the urgency to ease.

And ultimately, though, I want to stress that policy is not on a preset path. It remains well-positioned to manage the risks, upside risks as well as downside risks. And so with that, I will say thank you, and I look forward to the conversation with Abby and also to your questions.

Conversation with Abby Joseph Cohen

ABBY JOSEPH COHEN: President Collins, thank you. That was extremely thorough, very thoughtful, and basically you have eliminated most of the questions that I had.(Laughter)

SUSAN M. COLLINS: I think there's always lots to talk about.

ABBY JOSEPH COHEN: There's always so much to talk about, especially this week. I think that your presence here in New York, and welcome back to New York, very, very timely. For those of you who follow market developments, you'll know that there was a read, a data read just yesterday morning on inflation that wasn't bad. It just wasn't quite as good as many had expected. And we had a day in which yields rose notably. Share prices fell significantly. And even the international news coverage was not just about what was happening to the economy, but the impact it would have on fed policy and the impact on electoral politics in this important year. And so clearly there's so much going on, but in many ways markets are responding to small increments of data. They're not necessarily looking at things in the big picture.

So I want to go back to one of the expressions you used that I thought was just wonderful. And that is, we need to be patient, and methodical, and holistic. I suspect people in this room know what patient is, right? And methodical, there are a lot of trained economists in this room. But give us a little bit more in terms of what you mean by holistic.

SUSAN M. COLLINS: Absolutely. And there's a lot there so there are a couple of things I'd like to follow up on. But let me start with holistic, which I think is a great place to start. You know, I do think that there's so many pieces of data and there are a lot of uncertainties as I've mentioned. That's always true, but the uncertainty is actually elevated compared to things pre-pandemic. I actually think in terms of three different types of uncertainty.

There's uncertainty about the data. And the data, like monthly volatility in inflation is elevated, compared to pre-pandemic, and it's still true. Not quite as much as it had been, but it's still elevated. There's uncertainty in terms of the key relationships. Things like consumption, which, course, is two-thirds of demand and the extent to which it is focused on goods versus services and where the pressures are, so all of those relationships, uncertainties there. And then the third type is the big, totally unexpected things like the pandemic, which hopefully we aren't going to have to worry about.

So in that context when there's many uncertainties and many things that might be evolving somewhat differently from how they had in the past, I think it's all the more important to take a broader look at the information available. And that includes the statistical information as well as the qualitative information. Statistics often tell us about last month or last quarter, and often the conversations can tell us about what people are thinking about on the ground and how they're looking forward. So it's almost to me a constellation, you can think of, and you don't want to focus too much on a particular number.

So one thing I will just say, and then I'm happy to talk a little bit more about yesterday's price release. And that is that, so it's certainly true that – and I tend to average over a couple of months because the data, as I said are noisy – it's certainly true that the first quarter CPI inflation numbers are higher than I might have hoped. I've already said maybe that's not so much a surprise because there was such a string of very good news earlier. But it's also true that if you look at wage growth, even though wage growth has been faster than it had been pre-pandemic, it's still consistent with the trajectory of inflation back down to 2% because of the past price increases and the productivity gains that we've seen. So I try to avoid looking at a particular number and looking more holistically. So that was perhaps an elaborated answer, but it gives a sense of how I think about that.

ABBY JOSEPH COHEN: That was terrific, so thank you for doing that. You know, one of the observations that you made had to do with the somewhat unexpected improvement in labor productivity. One of the arguments for years in the United States had been that productivity was under downward pressure and we now see that perhaps productivity is rising. Speak a little bit more about where you think that's coming from and why it's so important.

SUSAN M. COLLINS: Yes, so let me start with why it's so important. And some of that, you know, if you think about long-term growth, one of the key things, we could have increases in the productive resources, so the labor and capital that you have. But an awful lot of the long-term growth that we see that really does raise living standards in this country and countries around the world comes from increases in productivity. And as those are sustained over time, that's when you really see the impact. So it's extremely important for the things that we really care deeply about.

And it was somewhat of a surprise. I think many of us had not anticipated the extent of labor productivity we've seen. And it's still evolving, so I think it's too early to have a definitive story about exactly where it's coming from. You know, some of it might relate to artificial intelligence and some of the other technological advances. But I frankly think it's a bit early to be seeing that, and so I think it's going to take more time before that unfolds. And we don't know exactly what that will look like, although I know there's a range of views on that, but that's my sense.

One of the things that we're seeing, though, early on there were a lot of challenges that firms were grappling with. It was so difficult to get labor. You know, the labor supply challenges early on, which really pushed firms in a lot of different sectors to think creatively about how to increase efficiencies.

And some of those are being sustained even though the labor market has come into better balance. It's still true in some areas like healthcare. It's really hard still to hire for many organizations. But the kind of mindset shift to focus on looking for efficiencies in a context in which a lot of productive costs were increasing dramatically and it was so hard to hire, we may be seeing some of the gains of that.

And also it's true in a context where there was a lot of labor turnover, there were so many, quits were really high. So if you are – and I here this when I am talking to employers around the First District, across New England – when you're spending a lot of time, both hiring and then onboarding new workers, it's harder to get the efficiencies that you might have expected. And so as the amount of turnover has actually settled down, and so the kind of average tenure of your existing workforce has gone up, you're going to see productivity rise for that reason too. So I think there's a number of explanations and it's just too early to tell how to further parse that out.

ABBY JOSEPH COHEN: One other area where there has been, I think, a pleasant surprise has been that there's been growth in the labor force. You know, if we look at the pre-pandemic literature, we see so much about the way labor force participation rates kept declining, what a problem it might be particularly for women and so on. And we're now in a situation where we're seeing that the labor force itself is growing. Labor force participation rates among certain groups are growing. And you mentioned that women in particular have done better in this regard than many had expected even though there are childcare problems. So if you could address that a little bit, and then I'd like to turn our attention also to the role of immigration in growing our labor force.

SUSAN M. COLLINS: Yes, so a number of pieces to say about that. Let me just start with, maybe it's the long-term academic perspective, with just a little bit of big picture. Of course, we have a population that's aging. And so over time the trend of labor force participation, because of the different participation rates in different age groups, is trending down. And so, you know, the expectation had been that we were not going to see a recovery, a full recovery, because we're going to, kept, you know, kind of go back to what that trend was.

One of the surprises that happened in 2023 was that we saw an increase in labor force participation for prime-age workers. And actually recently, in the most recent data, there's been a bit of an uptick in labor force participation for over-55, which was not what was driving some of the increases before. So that's a bit early to tell.

And I will say that I have been very focused on childcare challenges. When I talk to people across the First District, the three things that I hear about the most are the challenges of available, affordable housing. And it's affordable across the income spectrum – affordable for low and moderate income, you know, affordable for middle income, even affordable for folks with somewhat higher incomes. And the next thing is childcare. And the focus, hearing from employers in Maine about how childcare challenges actually restricts abilities to hire and the challenges from a childcare center that they can't open and therefore people can't go back to work.

So it was surprising to see that prime-age women had seen a lot of the increase. There's quite a bit of work going on, including folks at the Boston Fed, but many others as well, trying to unpack that and understand what some of those connections would look like and the extent to which it will continue. But it certainly does help with productive capacity. So there's a lot more that one could say there, but I'll stop there.

ABBY JOSEPH COHEN: Before we get in to Fed policy, I want to drill down on an expression you used that I loved. And maybe it's because I'm now a professor of economics in the business school at Columbia, but the idea of synchronicity in inflation data. I thought that was such an important observation. Please explain a little bit more.

SUSAN M. COLLINS: Yes, I'm happy to. You know, and again going back to the idea of you have a constellation of data and there are a range of different things to look at. And so the idea of looking at the extent to which inflation changes are synchronized comes from research, and some colleagues of mine at the Boston Fed and others at DIS and elsewhere have done some of this work, finding that you can almost characterize inflation experiences as if they're two regimes.

You can have a context in which there's very high inflation. And with high inflation, what tends to happen if you look at price increases at the sector level, so take sub-sectors, so you're talking about, I don't know, more than 100 different smaller sub-sectors, they tend to be highly correlated. People are looking at what others are doing and so you see lots of people making increases at similar times. And in low inflation regimes, there's less attention to what others are doing and you don't see the same high correlation.

So one of the characteristics of a low, stable inflation regime is that there's a low synchronicity at that sub-sector level between price and __(audio cuts out). And if you go and look at – and you can do this in monthly data which is one reason it's helpful – if you look at 2021 and 2022, highly correlated for the U.S. And then if you look at 2023, you see it coming down and it's now back in the range that it was pre-pandemic. And so, to me, that's a very encouraging sign and one of the things I would hope to continue. If I saw it going back up, that would be something I would be concerned about.

ABBY JOSEPH COHEN: And I'm assuming this is also linked to the idea that inflation expectations have really risen in a notable way.

SUSAN M. COLLINS: Absolutely. So it was important, that was one of the things I highlighted that I'm watching. The fact that, you know, the long-term ones had been consistent with 2% throughout pretty much and the shorter-term inflation expectations have come down in a range that is also consistent. And again, to me, that is part of my broader baseline outlook.

ABBY JOSEPH COHEN: If we turn our attention to Fed policy, you are, after all, the President of the Federal Reserve Bank of Boston and a member of the FOMC, you've described yourself as a realistic optimist as it relates to the dual mandate of the Fed. Speak to us a little bit about what you're seeing and whether you're feeling more optimistic or less. And also what could go wrong?

SUSAN M. COLLINS: Sure, so lots of pieces of that one too. So I've actually been characterizing myself as a realistic optimist for some time. I, relatively early, and so even as early as the end of 2022, saw a pathway that was actually consistent with my baseline for us to be able to bring inflation down in an orderly way while labor markets remained relatively healthy. And the uncertainties and risks around that have evolved. They've stayed elevated. So, you know, I do think certainly relative to the beginning early days, I certainly think that that pathway is quite a bit wider than I had thought it was before.

You know, I will say at the same time that the kind of balance of the evidence is focusing me more intently on risks and recognizing that the uncertainties around that baseline have changed. So one of the things I said in my remarks is that the data that we've observed, this constellation of data, some of which are still quite consistent with the trajectory I'm looking for and some of which don't show the progress that I would hope to see. And I would say some of the price data would be in the latter category.

And so, you know, I do see the risks as elevated and so things in particular that I'm looking at, I think decomposing the inflation numbers is really helpful. One of the things we've seen is that as the supply constraint challenges have resolved – not fully, but largely – goods price inflation came down significantly and it's actually been back in the range it was pre-pandemic. And typically goods prices, actually deflation, a small level of deflation. So that's the range we're back in. And my outlook suggests that that will continue.

But we have not, we had seen good progress with housing price inflation coming down and that is not contributing in the way that I would hope to see at the moment. There are good reasons, I think, to expect to start to see more of that, although perhaps more slowly. Non-shelter price inflation is the key place that contributed to the rise that we saw in inflation in the first quarter and so that's what I'm looking at particularly closely. But again the fact that the wage increases are consistent with the trajectory back to 2%, and that that low synchronicity is still being maintained is helpful to me in how I think about the baseline as opposed to the uncertainties around it.

ABBY JOSEPH COHEN: One of the other pleasant surprises of this recovery has been, and to use your words, that it has been a vibrant and inclusive economy, and that has been a goal of policy. If you could describe to us what vibrant and inclusive means in your view and why are things now moving in that direction whereas they were so problematic five or ten years ago?

SUSAN M. COLLINS: Again, a couple of points to make about that. You know, and I think for me the starting point is our mandate from Congress, which is price stability and maximum employment. And that relates to me very closely to what I see as the overarching mission for the Federal Reserve, which as you just very nicely said it, is a vibrant economy that works for everyone.

And, you know, as you think about what a vibrant economy looks like, it really requires participation in the workforce and in a variety of other ways in the economy, wide participation, the energy, the great ideas and innovation from all of us. And so if you have an environment in which there are lots of barriers and lots of gaps to participation, that actually puts limits on the extent of productivity gains. It puts limits on the extent of productive capacity and actually constrains the vibrancy of your economy.

And so, to me, looking more broadly at how we better understand what those gaps, where they come from, what the barriers are, and I mentioned things like childcare. There are other wealth gaps and disparities. That can help us to work collaboratively with others as we better understand them and to address them. But just to be clear, monetary policy doesn't address things, structural things like childcare. So a number of the disparities and gaps are not the purview of monetary policy per se, but that speaks somewhat to the broader portfolio of the Federal Reserve which includes rigorous non-partisan research. It includes working collaborative with others to foster vibrancy.

And, in particular, I'd mention that we have an active community development, Economic Community Development Department, that focus on vibrancy for low and moderate income communities including small cities and rural areas. And so they help us to work in that area. And then the wide range of research that we do that, I think, contributes to that understanding.

ABBY JOSEPH COHEN: Your responsibilities for the First District, Federal Reserve Bank of Boston, I imagine that these responsibilities are very different than they might have been 100 years ago when the Federal Reserve System was put in place. You know, I think of the New England economy as having been dominated by agriculture, manufacture of clothing and shoes. What does the First District look like now? What is the engagement of the Federal Reserve Bank of Boston in this new 21st century kind of environment?

SUSAN M. COLLINS: Yes, thank you. So I can't speak to 100 years ago, what my predecessor might have thought of probably his role, but it is certainly true that the structure of the Federal Reserve with the Board of Governors based in Washington, D.C. and twelve reserve banks, I think was extremely wise for many reasons. But in particular because of the engagement with different regions of our country which really are very different economically. They have a different industrial mix. And so that understanding and also the connection so that we have engagement related to generating a vibrant economy and thinking about how to include opportunities more broadly. That's something that I really do take very seriously.

So, as far as the First District goes, one of the most, kind of vibrant areas that we have is healthcare and higher education. So that super-sector is quite large in the New England area and, you know, certainly very vibrant. We have a very diverse economy, and I have to say it's a great pleasure to travel around different parts of New England learning more about our coastal fisheries and that type of agriculture and the types of manufacturing.

But you're absolutely right, like the rest of the country, there are mill towns where the vibrancy that came from an industry that has become much more challenged over time has left small cities that are struggling. And that's an area that the Working Places Initiative that I mentioned before tries to focus on based on research, developing and fostering collaborative leadership approaches to address shared challenges and develop strategies to do that. So there's a lot of work that's there.

And I do think, on the one hand, how we think about that evolves over time. But at the same time, the commitment to connecting in a district recognizing that the twelve districts are really very different, even though they vary within themselves, that hasn't changed. And I think it's pretty much a hallmark of how the Federal Reserve works.

ABBY JOSEPH COHEN: One more question from me before I turn it to the people in this room, and it has to do with the situation now being faced by small businesses in the United States. You know, we have been surprised, I think, in the economics community, that the economy has been as robust as it has been even though interest rates have moved notably higher. And you addressed some of this in your comments speaking about the strong balance sheets that many firms had, speaking about their access to capital from other sources other than the public credit markets. What about some of the smaller businesses, the newer businesses, perhaps the minority-owned businesses, the women-owned businesses, are they working at something of a disadvantage at this point?

SUSAN M. COLLINS: So, I appreciate you raising a question about small businesses, which are really critical to the vibrancy of our economy in a lot of different ways. We are focused on gathering data about the experiences of small businesses. That's something that we do collaboratively across the Federal Reserve System and make that data publicly available and want to help a range of people to learn from and understand and see where their challenges are.

You know, interestingly, during the pandemic there was a real rise in entrepreneurship, a lot of small businesses. And, in particular, minority and women-owned small businesses increased in part because of the kind of different household balance sheet context enabled some who might have long desired to start a small business to actually have the wherewithal to be able to do that. And, you know, one of the things that, one of the many things that we're watching is what's happening over time.

And it has, as interest rates have increased, it has become somewhat more challenging in some contexts to gather funding. But at the same time, overall things seem to be continuing with challenging areas perhaps in some pockets. So it's something to monitor. And it also highlights the importance of community banks, which are one of the places that historically has been a mostly likely source of resources for smaller businesses given the relationships in communities and really speaks to the importance of the range of types of financial institutions that we have in our economy as part of that vibrancy that I've been talking about.

ABBY JOSEPH COHEN: Terrific answer. Thank you. So it's now time for those of you in the room who have questions for President Collins. Don't be shy. We're using microphones...

QUESTION: I have a question. So I'm wondering on the shelter...

ABBY JOSEPH COHEN: I'm sorry, can you identify yourself...

QUESTION: Hi, this is Gerald Di Chiara. Hi. I am wondering on the shelter component. You know, it's been obviously giving lagging data and making the CPI appear higher than it would be if it was giving more real-time data. In fact, Jeremy Siegel was on this very stage recently saying if it was adjusted for the real-time data, CPI would already be below 2%. Just wondering when you think the real-time data will start to show up in the actual CPI data for shelter.

SUSAN M. COLLINS: So, of course, there are a number of complexities and components to the way that the shelter piece of the CPI inflation is calculated. And it's a bit different from how shelter is, housing inflation is calculated in the PCE, which of course is the indicator that we are particularly focused on. I would say it's a bit hard to tell. I mean some of the underlying indicators, in particular, market rents, exactly to your point, have come down in ways that do seem consistent with the direction that we're looking at. And exactly how long that will take to show up, some of it, some of the parts that haven't come down relate to the non-market components. And so there's some complexities there which make it a bit difficult to give a very precise answer.

And we're still watching, because, you know, as I had mentioned, demand is still elevated. And we have to really take that patience and look at how things evolve. There are, I think, uncertainties in terms of the different components of housing. It's also important to separate the single family, the different components of that have somewhat different dynamics as well. So I think there are still things to watch there. And I do think that some of the data, to your point, are not reflecting the underlying things that one might expect so there's some complexities.

ABBY JOSEPH COHEN: What about some of the regional differences within the country?

SUSAN M. COLLINS: Yes, so one of the things that we look at is certainly some of the regional differences. You know, I would say that nationally – the house sale price data is elevated – but nationally has been coming down. And a lot of what's going on there has to do with the supply, the lack of inventory of housing which, despite the high interest rates, which has impacts on demand, it has meant that it's still quite a tight market. The national data has showed that overall home prices are declining. You're not seeing that in New England. And so the, even tighter inventory in New England means that we're actually seeing house prices there go up. So there are big differences across the regions and even within regions. But throughout New England, that is a pretty consistent story. The housing price situation remains quite challenging.

QUESTION: One of the questions that I'd like to bring up, if I may, is the issue...

ABBY JOSEPH COHEN: Can you identify yourself?

QUESTION: Yes, my name is Peter Georgescu. Among other things, I work with an organization called Just Capital. So I'm curious particularly as it relates to productivity increases if you folks at the Fed are taking into consideration the beginning of a fundamental change in the way businesses operate, particularly the structure of capitalism as it is.

Perhaps slightly beginning to move away from a single focus stakeholder, called a shareholder. And therefore, a much greater emphasis on how workers are being treated in our country and to the degree to which the theory is that if you take good care of your people, they become seriously more productive and therefore profitability increases and so forth. I'm curious about your particular interest in observing how this evolution is beginning to happen because it could be, it could support, it could encourage, whatever. I'm not sure it's in your mandate but to the degree to which you are focusing on this.

SUSAN M. COLLINS: So I certainly think that understanding dynamics and the implications that they have for productivity and for a firm's health and also implications for our workforce are very important for us. There are people who are doing work in the Federal Reserve that would touch on that. I don't know that I have the kind of full complement of the range of work that's being done or what the scope would be.

But there certainly is interest in understanding some of the shifts in the relationships that workers have to production and to the firm and understanding different approaches to that and the extent to which they make a difference in different ways. But again, the breadth and the scale of that and what impact it might have at a broader aggregate level I can't really speak to.

QUESTION: Thank you. This is really interesting. Doris Meister, the Head of Wilmington Trust. My question is around the Fed's efforts on the research front and all the work you do to really get an assessment on the impact of gen AI on productivity. So we're all undertaking, you know, and most larger companies have efforts underway to identify use cases and start working with tools or developing tools. And we're all starting to see glimpses of just how profound this is going to be. Could you comment a bit on the Fed and how you're all looking at this and what efforts you're making to research the productivity impact in particular?

SUSAN M. COLLINS: Yes, I'll just say a bit about that because I would say it's really still evolving. So we're all absolutely looking at it. And I talk to some academics who are particularly interested, there's a range of views about how big an impact it will actually have, how quickly we might see it, whether it'll be more concentrated in some parts of our economy, which types of activities it will either benefit most and what kinds of changes. I think it's just really early days.

I'm very excited about the, I'll say explosion, of potential use cases and some of the experimentation that's underway. But I think it's just too early to have too definitive a sense, but we're certainly extremely interested. We have various, kind of exploratory initiatives underway, as you said, like many, many organizations do. And I think we can learn from each other in terms of how to think about this and how to leverage it.

And again, I'm going to go back to that mission of a vibrant, inclusive economy. It could increase vibrancy. I hope that we can marshal the opportunities in ways that help inclusivity as well so that it really increases our productive capacity in ways that help to raise living standards and that can have benefits more broadly.

ABBY JOSEPH COHEN: Ed Cox, do you have a question?

QUESTION: Ed Cox, Secretary of the Economic Club. If I try and put present inflation in context, I think back to the 70s and what inflation was then. And I recently learned that the CPI is now calculated in a different way. And if we calculated it as it was back then, the present inflation would be 8% as opposed to its present 3½ or so. Can you explain the difference and which data is correct? Which is the right way of doing it?

SUSAN M. COLLINS: So I think what I would say there is, that goes back to why I look at a constellation of data. There are lots of different, I mean, so there's a concept which is how quickly prices are rising, but how you actually create a measure of that, there are lots of assumptions that you can make along the way in terms of how you, you know, do you make adjustments for whether, exactly what's in the basket of goods is changing or not? So what adjustments you make or not, what you hold constant, those decisions do make a difference in terms of the numbers that you get. And there are also differences between the PCE and the CPI in that context.

I tend to look at all of it and try to understand what the patterns and trends are from that standpoint. And so, you know, it kind of takes you into the weeds to talk too much about the specific changes that got made or not. But I do think it's an important point to recognize that there are different indicators, different labor market indicators as well, and different indicators of economic growth, and if you want to think about financial stability, it's not one indicator. And recognizing that, to me, it speaks to the importance of not just focusing on a particular number but recognizing that we get a better picture if we look at a range of different indicators and assess the trends. So that goes back to the holistic approach again.

ABBY JOSEPH COHEN: And if I could just jump in, as an old-time government economist who worked with the CPI data for the Federal Reserve Board down in Washington when I started my career, one of the reasons the CPI was so popular, it was easy to calculate. You know, it was a fixed basket. And people actually went out and surveyed prices in supermarkets and so on way back when. And so it was a metric that was designed to be easy to calculate on an ongoing basis. That doesn't mean it was the best metric.

And I would say that some of the metrics that are used today are far better. They're much more robust. They're much more dynamic. I think they're much more reflective of what goes on. I'll give you one example. When I was at the Fed, there was one month when the CPI just jumped. And why did it jump? There had been a lot of rain in California and so the price of iceberg lettuce basically quadrupled because the iceberg lettuce fields flooded. If you went to a typical household and you said, did that bother you, they said, no, we just switched to romaine. But that doesn't get reflected in the CPI basket.

Did you have anything else you'd like to address with us? We have another minute.

SUSAN M. COLLINS: One minute. So, you know, I would just say again that I think, you know, not to be repetitive, but I do think that taking the time to assess more broadly, and I think your first question actually talked about the, kind of range of responses. You know, each new piece of information is part of that broader constellation. And so, you know, I do think that the trajectory, I think there's a reason why I continue to be that realistic optimist. The realism is important in terms of the risks and the uncertainties. At the same time, there's good reason to be optimistic and to kind of be patient as we assess all of the data and make sure that we adjust appropriately.

And one other thing that I'll say is that I appreciated the opportunity to talk a bit about the breadth of what the Federal Reserve does. I think most people really don't have a clear understanding. At the moment, monetary policy is in the news all the time, so I think that is well known. But the range of the work that we do and why we do it, and so I appreciate to have the opportunity to talk about that broader mission and some of the many ways that we are public servants to support a vibrant, inclusive economy. So thank you, it's really been a pleasure.

ABBY JOSEPH COHEN: And thank you for the great work you do.

PRESIDENT BARBARA VAN ALLEN: That was a very insightful conversation. Thank you, and it really was an honor to host you. Thank you for being here today. Next week we have Francois Villeroy de Galhau, the Governor of the Banque of France, joining us on April 16th. Jamie Dimon joins us April 23rd. And that is proving to be a very popular event so please, if you're interested in attending, get your tickets soon. On April 30th, we have Jared Bernstein, the Chair of the Council of Economic Advisers, joining us.

And then looking forward into May, we have Julieanna Richardson, who is the Founder and President of the HistoryMakers. She'll join us for a webinar May 2nd. We have Dr. Ed Yardeni on May 21st. And on May 30th, we have a luncheon featuring our Club Chair, John Williams. I also want to mention, I don't have the date here, but we did yesterday confirm, by popular demand, Glenn Hubbard and Larry Summers, so they'll be joining us shortly as well. So all the events are listed on our website. We have many more to come.

I always like to take a moment to thank our members of the Centennial Society that joined us today as their financial contributions help to make our programming possible. So thank you everyone for joining us today. We look forward to seeing you again, hopefully next week. And for those in the room, please enjoy your lunch. Thank you.