ACHIEVING MAXIMUM EMPLOYMENT

August 19th , 2021

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FEDERAL RESERVE BANK OF MINNEAPOLIS

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TODAY'S OUTLINE

- The congressional mandate
- Promoting maximum employment
- Lessons from the Great Recession
- The current economy

THE CONGRESSIONAL MANDATE

The Federal Reserve Act mandates that the Federal Reserve conduct monetary policy "*so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates*."

Dual Mandate: maximum employment and price stability

What is maximum employment?

THE CONGRESSIONAL MANDATE

"Maximum employment is the highest level of employment or lowest level of unemployment that the economy can sustain while maintaining a stable inflation rate."

—Board of Governors

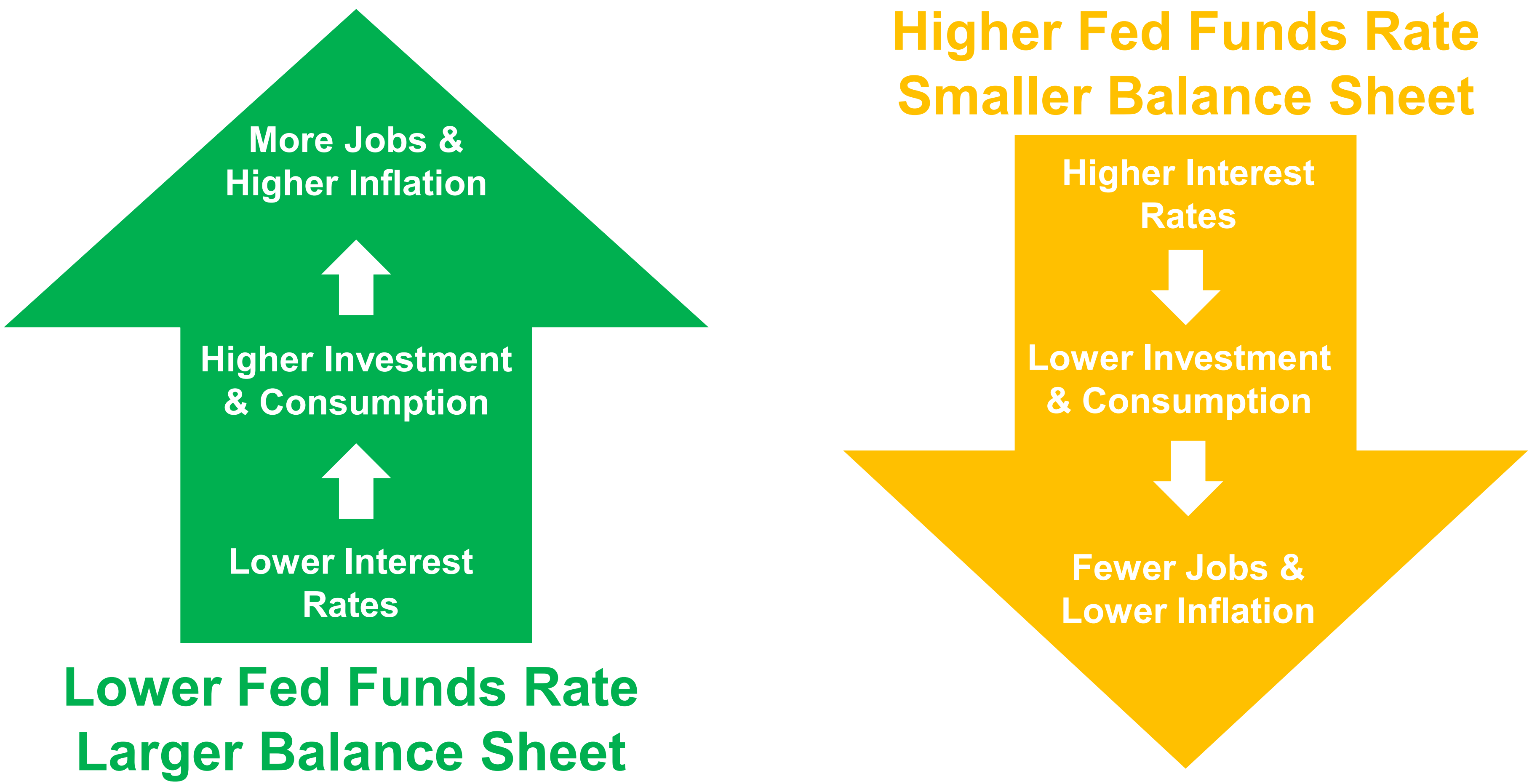
THE FEDERAL OPEN MARKET COMMITTEE (FOMC)

THE FOMC TODAY

MONETARY POLICY TOOLS

- Federal funds rate
- Federal Reserve balance sheet
- Fed communication

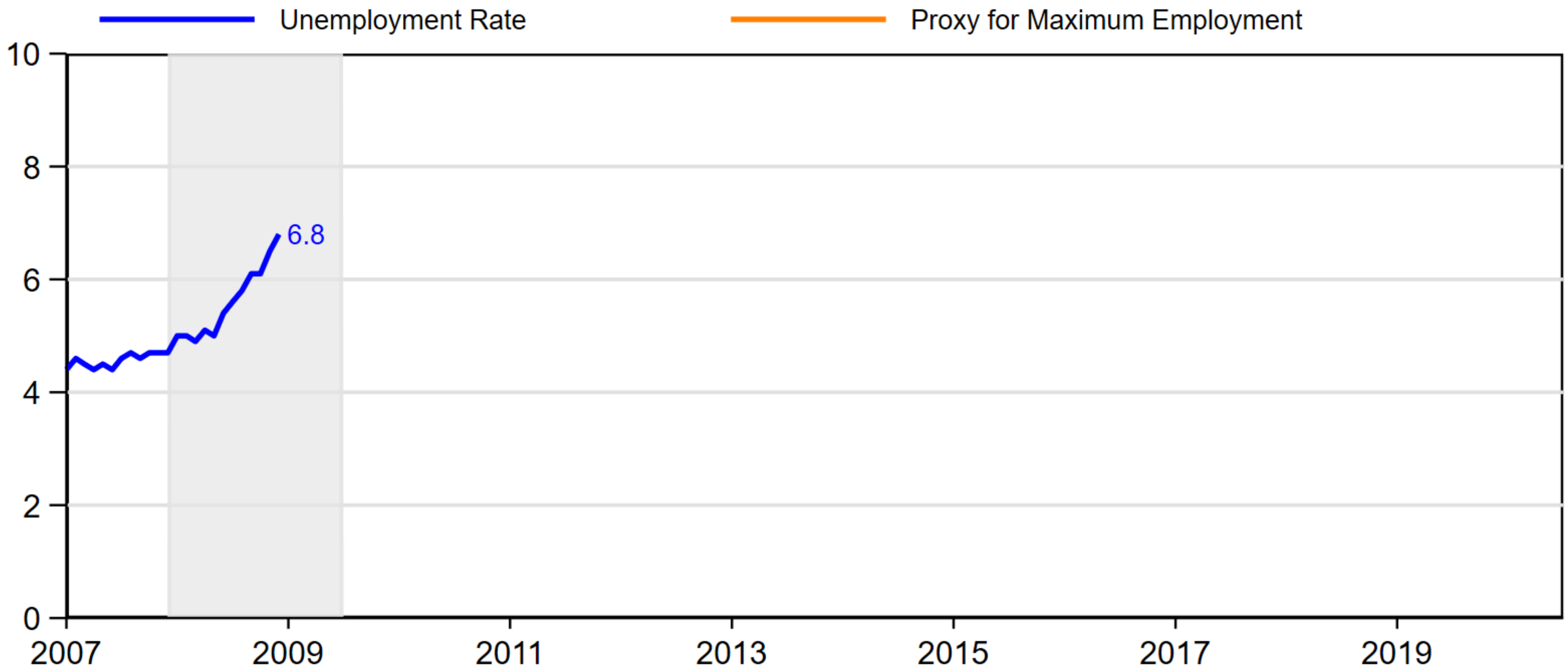
HOW THE FED USES ITS TOOLS



LESSONS FROM THE GREAT RECESSION

UNEMPLOYMENT RATE

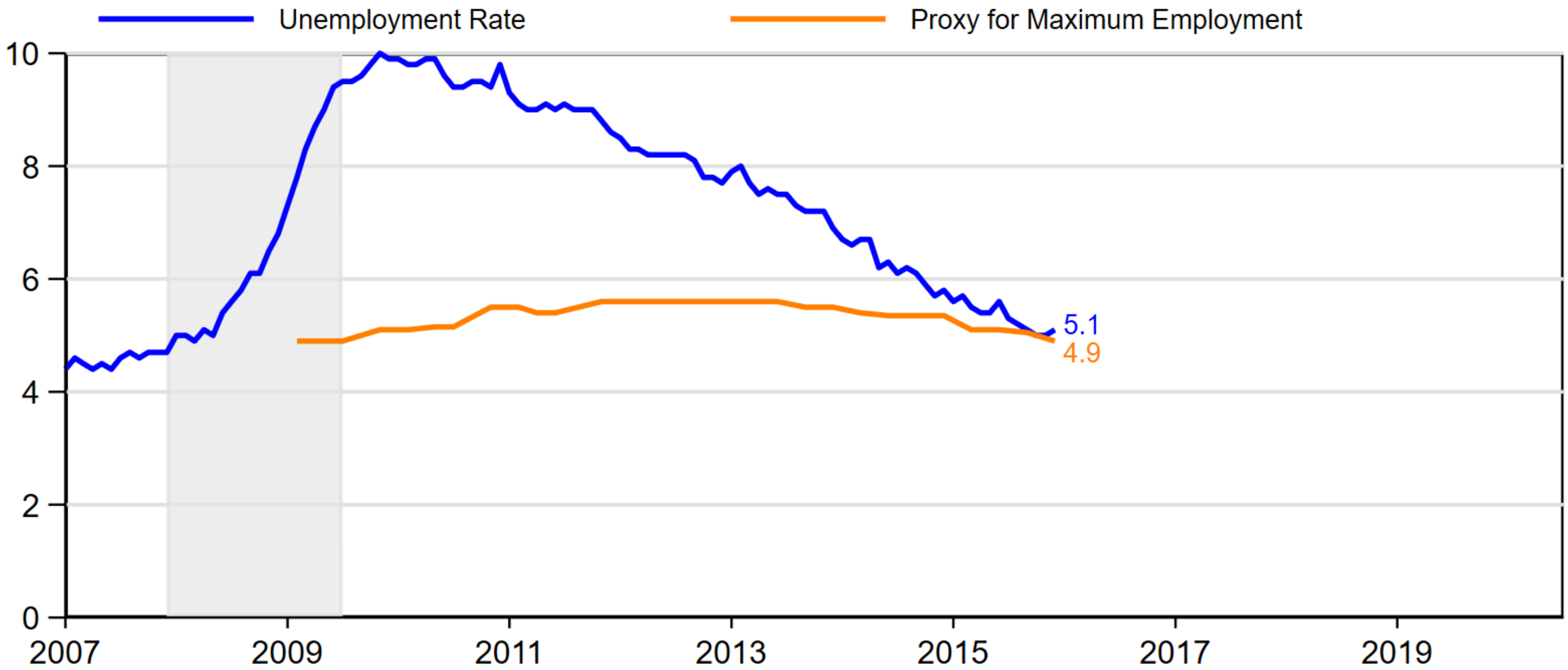
PERCENT



Note: Estimate of maximum employment is the midpoint of the SEP projections for the longer-run unemployment rate.
Source: U.S. Bureau of Labor Statistics, Federal Reserve Board.

UNEMPLOYMENT RATE

PERCENT



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UNEMPLOYMENT RATE

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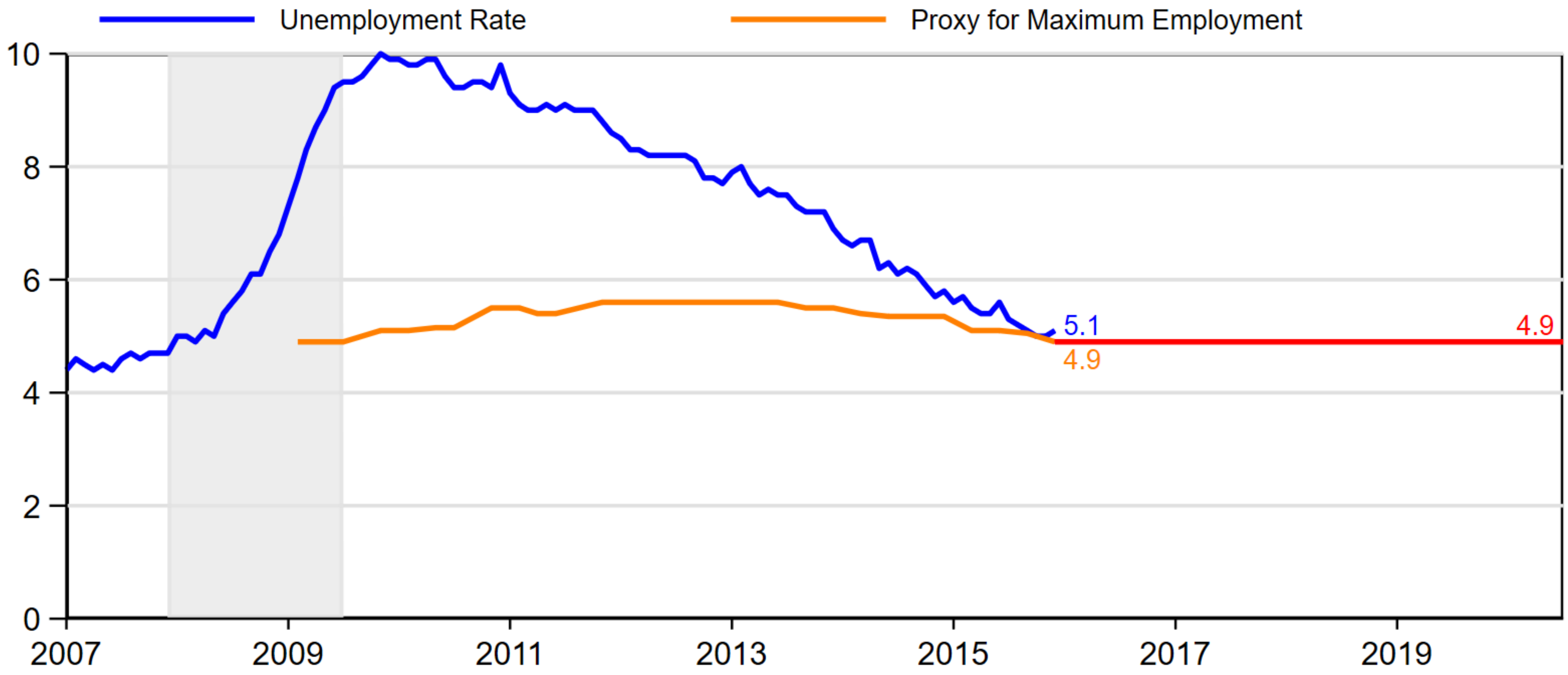

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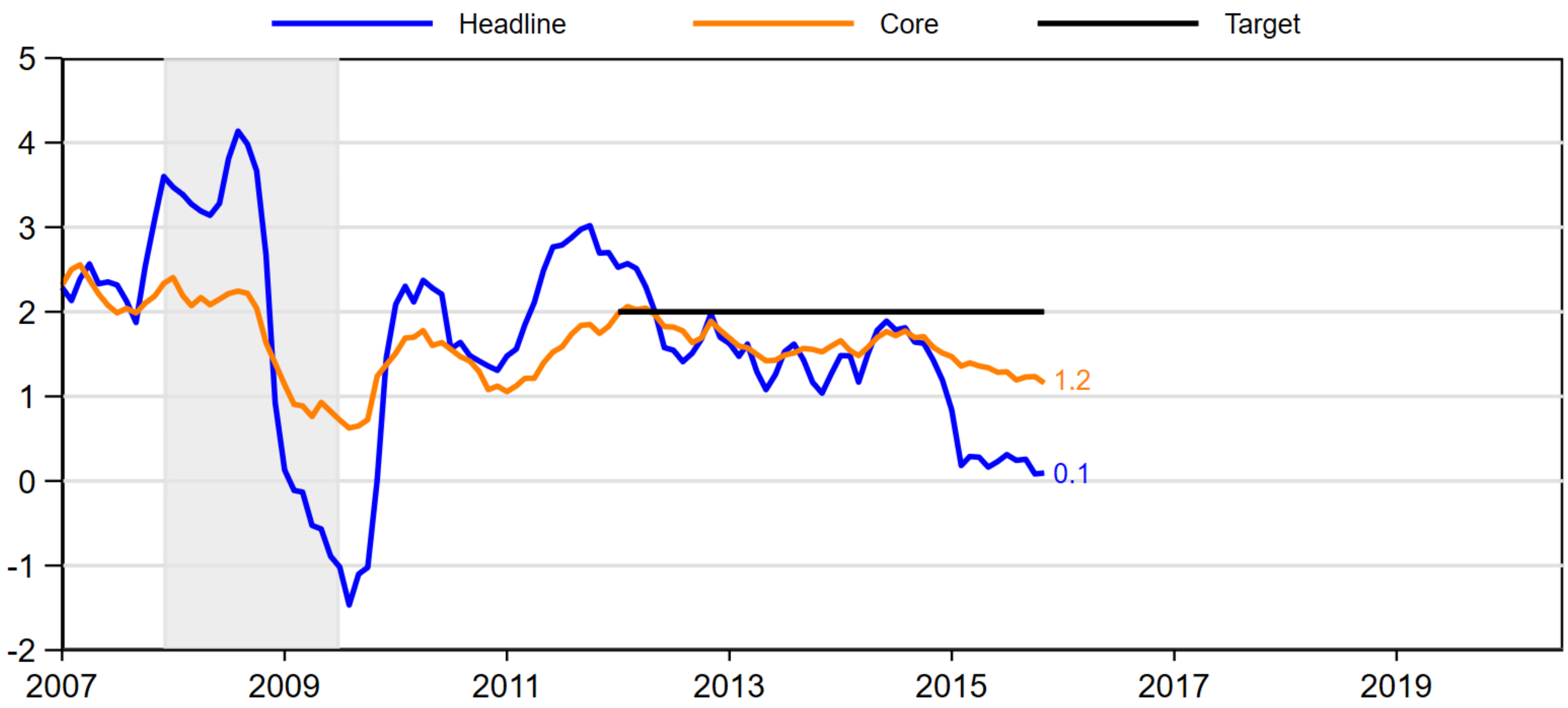
PCE HEADLINE AND CORE INFLATION

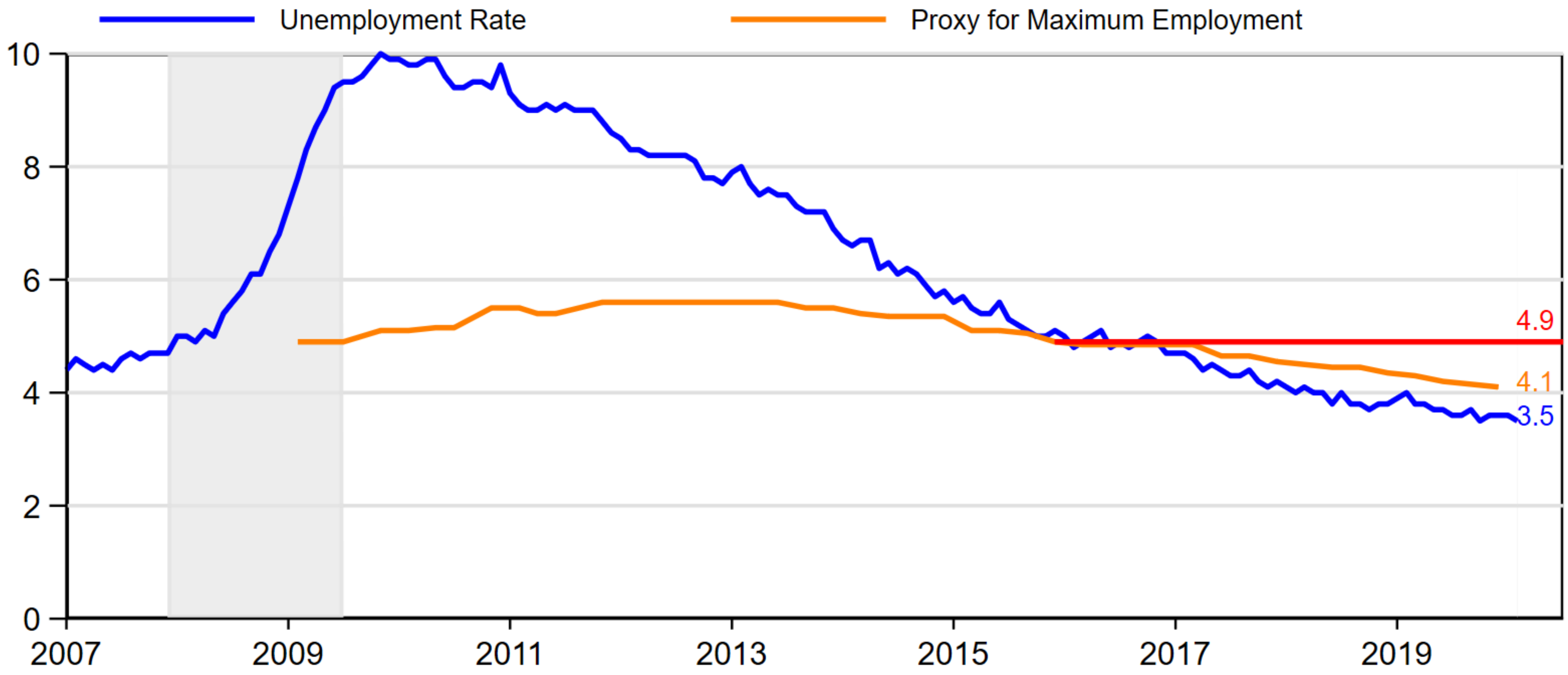
12-MONTH PERCENT CHANGE



Source: U.S. Bureau of Economic Analysis.

UNEMPLOYMENT RATE

PERCENT



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UNEMPLOYMENT RATE

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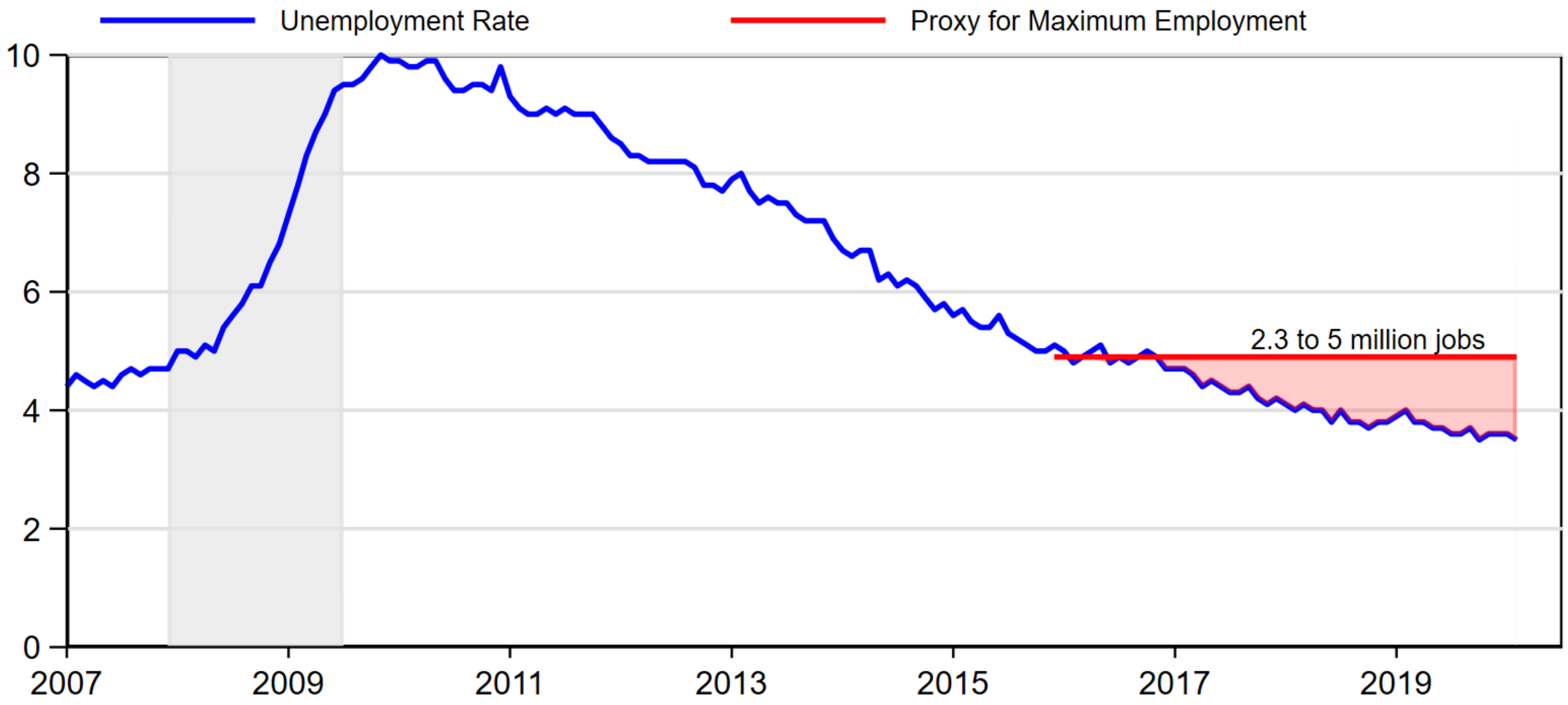
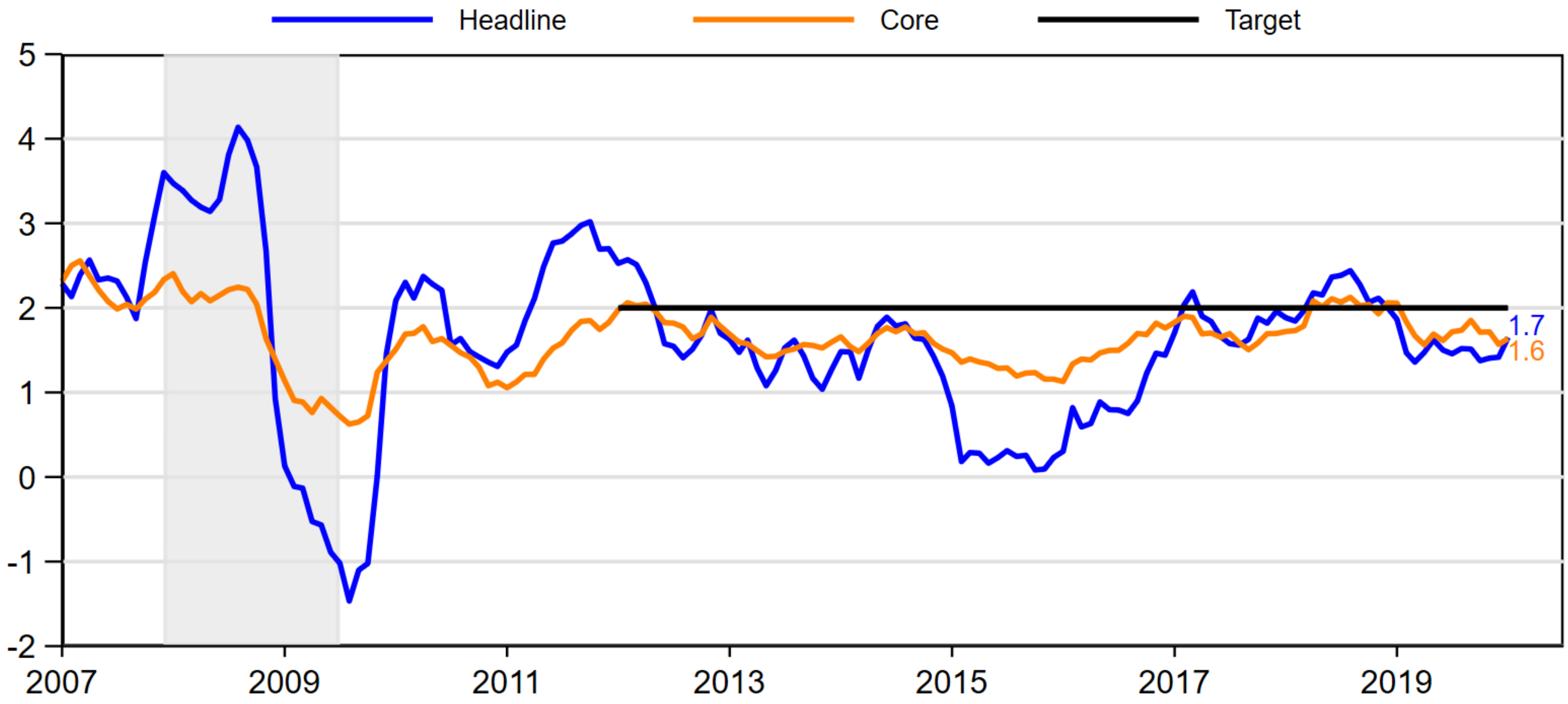


Source: U.S. Bureau of Labor Statistics, Federal Reserve Board.

PCE HEADLINE AND CORE INFLATION

12-MONTH PERCENT CHANGE



Source: U.S. Bureau of Economic Analysis.

LESSONS FROM THE GREAT RECESSION

Key lesson: misjudging maximum employment resulted in overly tight policy—fewer jobs and below-target inflation (dual mandate)

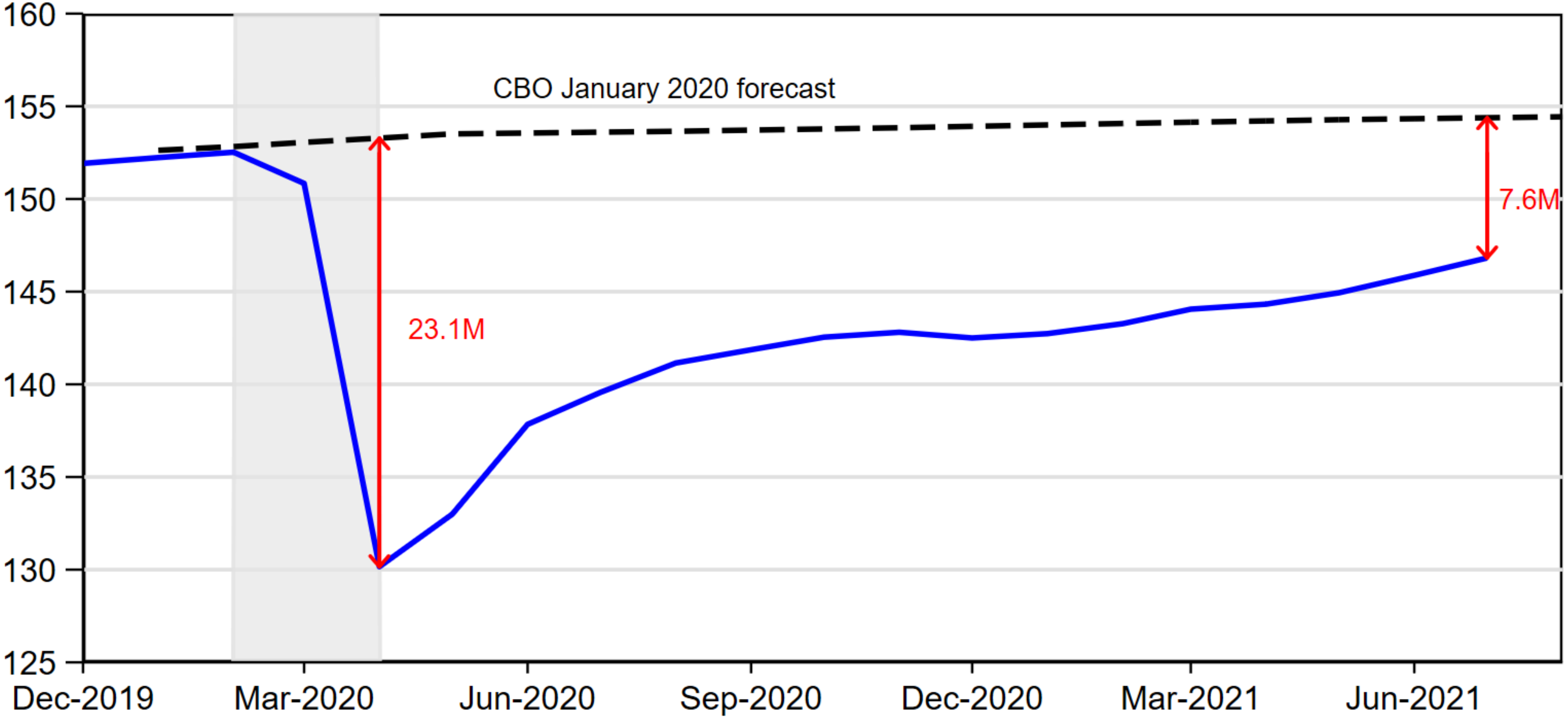
Key revisions to monetary policy framework:

1. Inflation should *average* 2% over time
2. Policy informed by shortfalls in employment, not deviations
3. Maximum employment defined as a broad and inclusive goal

CURRENT ECONOMY

NONFARM EMPLOYMENT

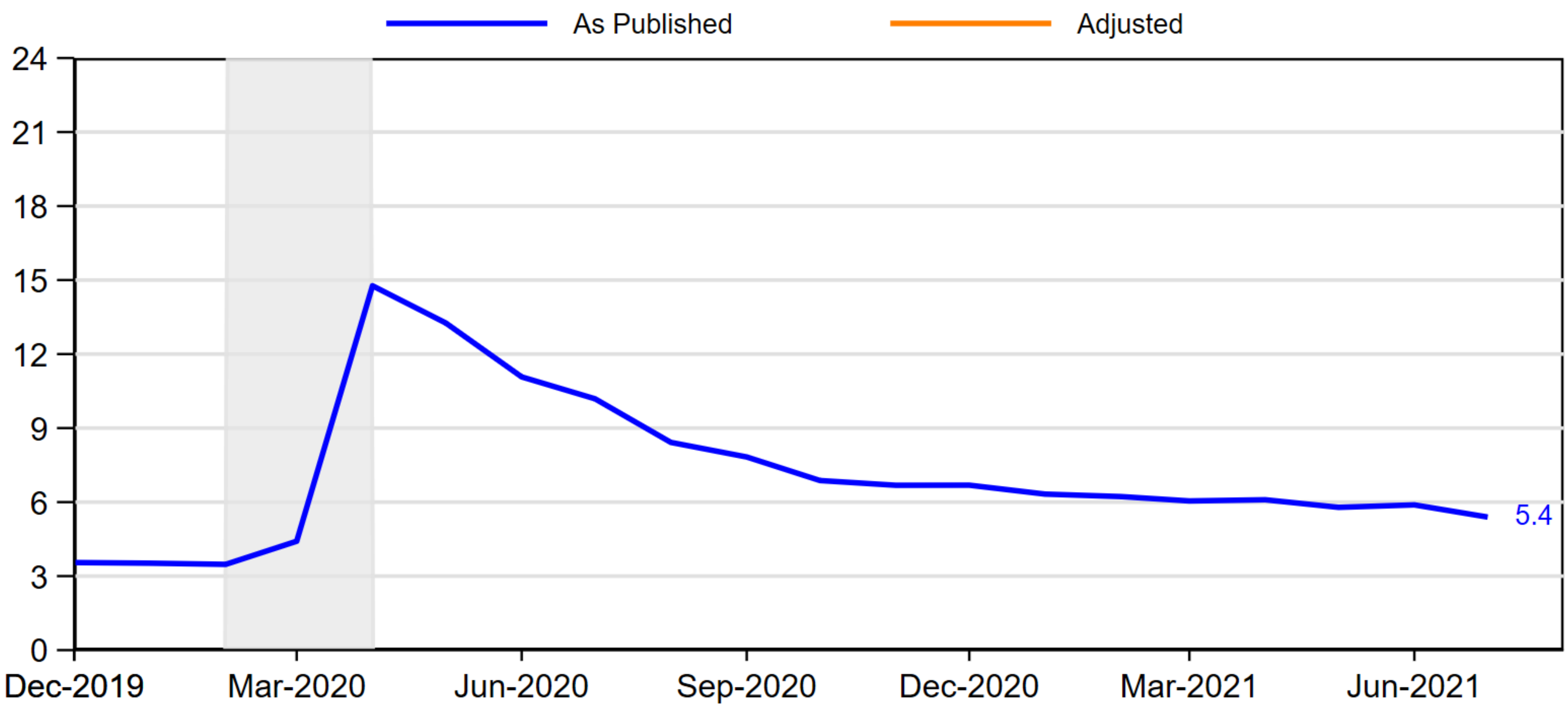
MILLIONS, LEVEL



Note: Dashed line represents CBO's projected nonfarm employment in January 2020.
Source: U.S. Bureau of Labor Statistics, Congressional Budget Office.

UNEMPLOYMENT RATE

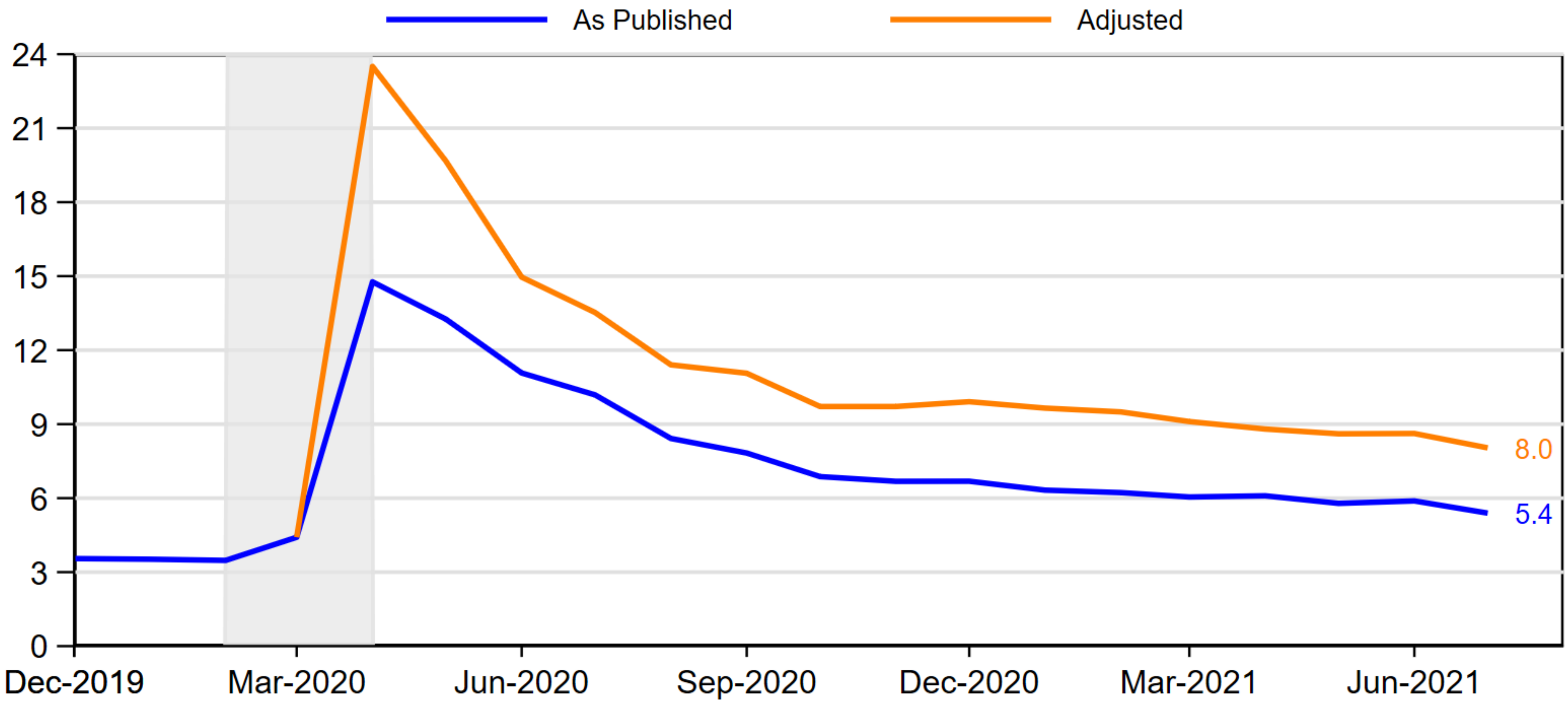
PERCENT



Source: U.S. Bureau of Labor Statistics.

UNEMPLOYMENT RATE

PERCENT



Source: U.S. Bureau of Labor Statistics.

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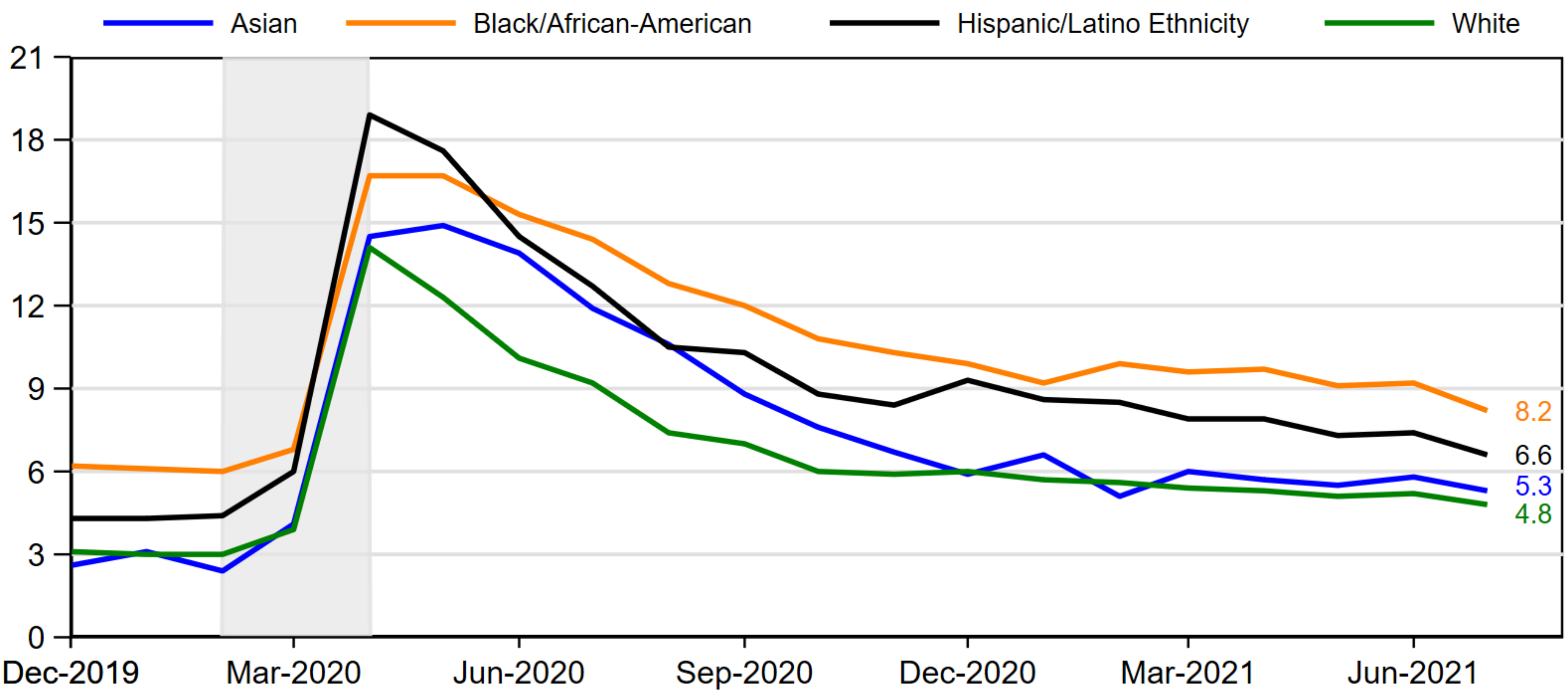
UNEMPLOYMENT RATE BY RACE/ETHNICITY

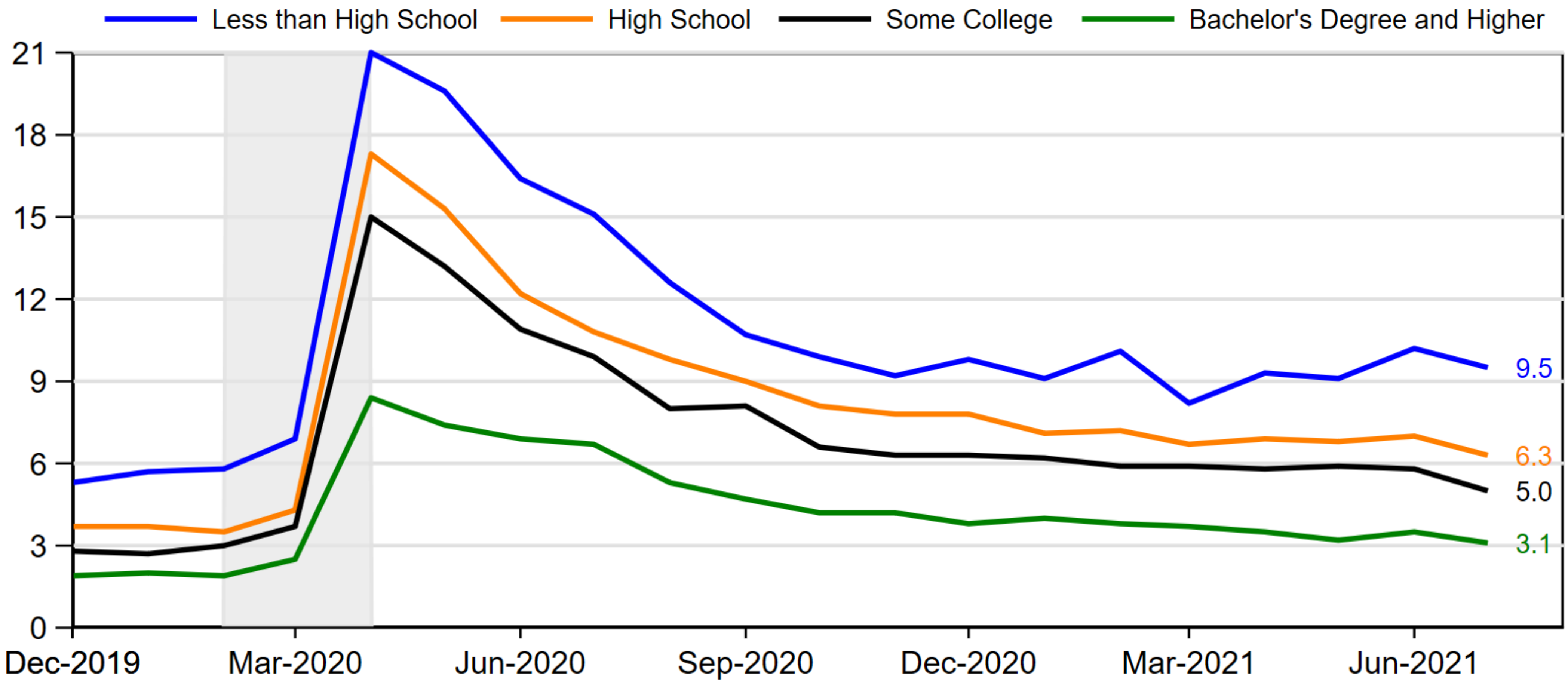
PERCENT, 16+



Source: U.S. Bureau of Labor Statistics.

UNEMPLOYMENT RATE BY EDUCATION

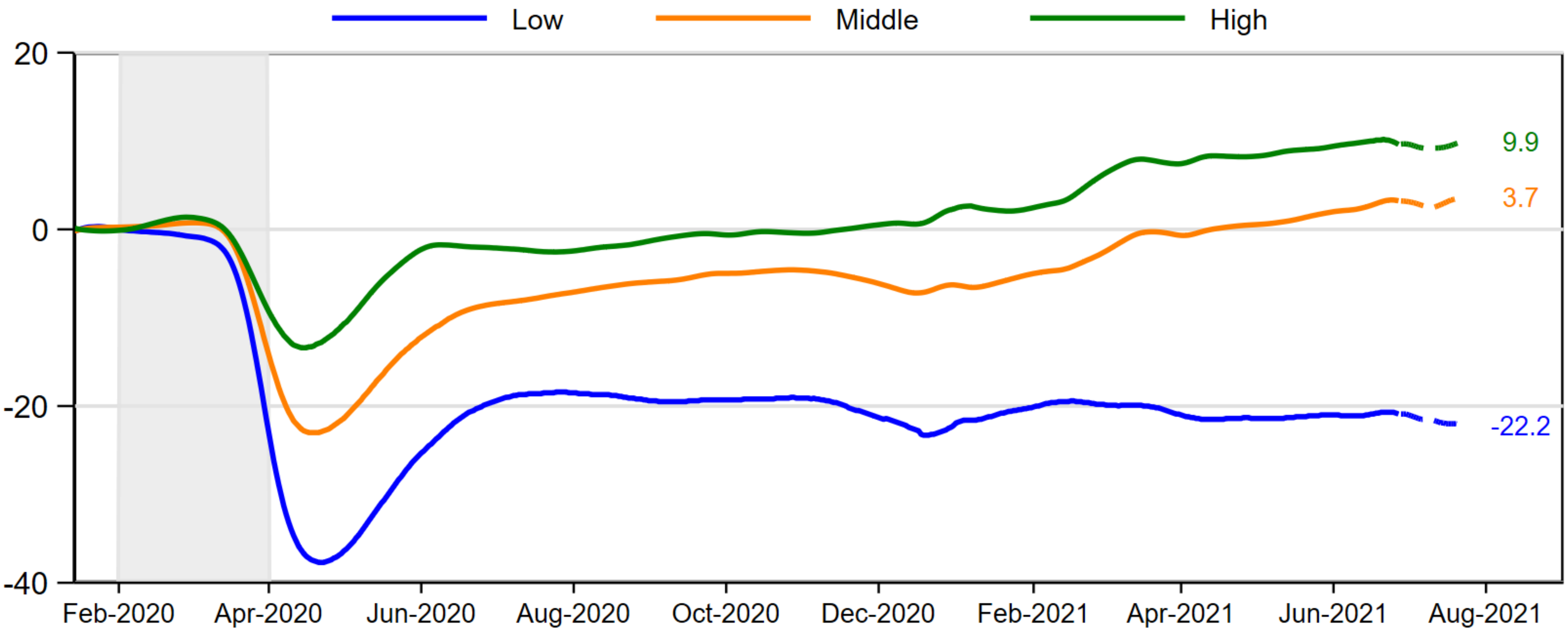
PERCENT, 25+



Source: U.S. Bureau of Labor Statistics.

CHANGE IN EMPLOYMENT BY WAGE: U.S.

PERCENT, SEVEN-DAY MOVING AVERAGE



Note: Compared with January 4–31, 2020. Dashed line includes forecasted data. Opportunity Insights defines low-wage as <$27K, medium-wage as $27K–$60K, and high-wage as >$60K.
Source: Opportunity Insights Economic Tracker.

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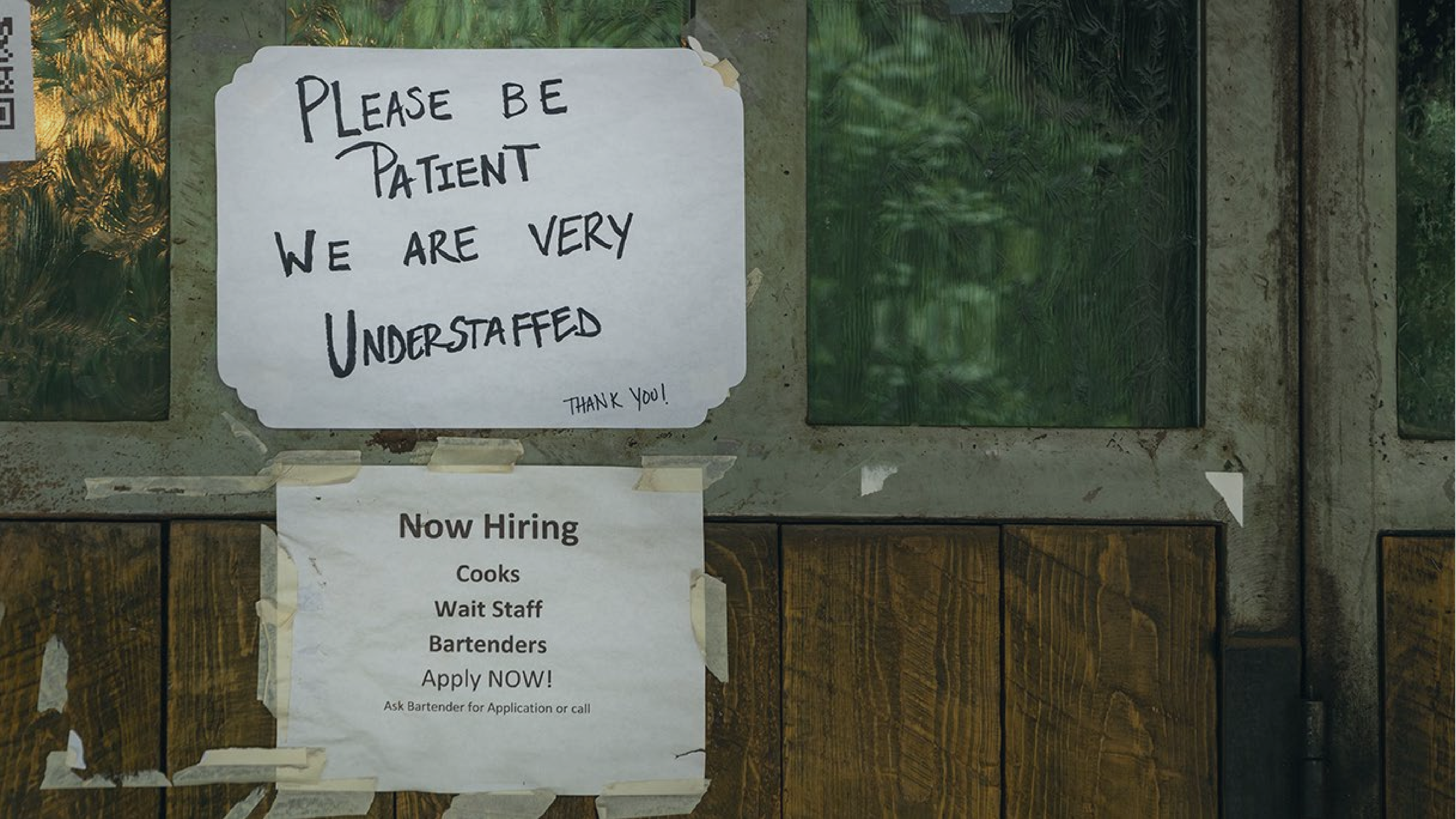
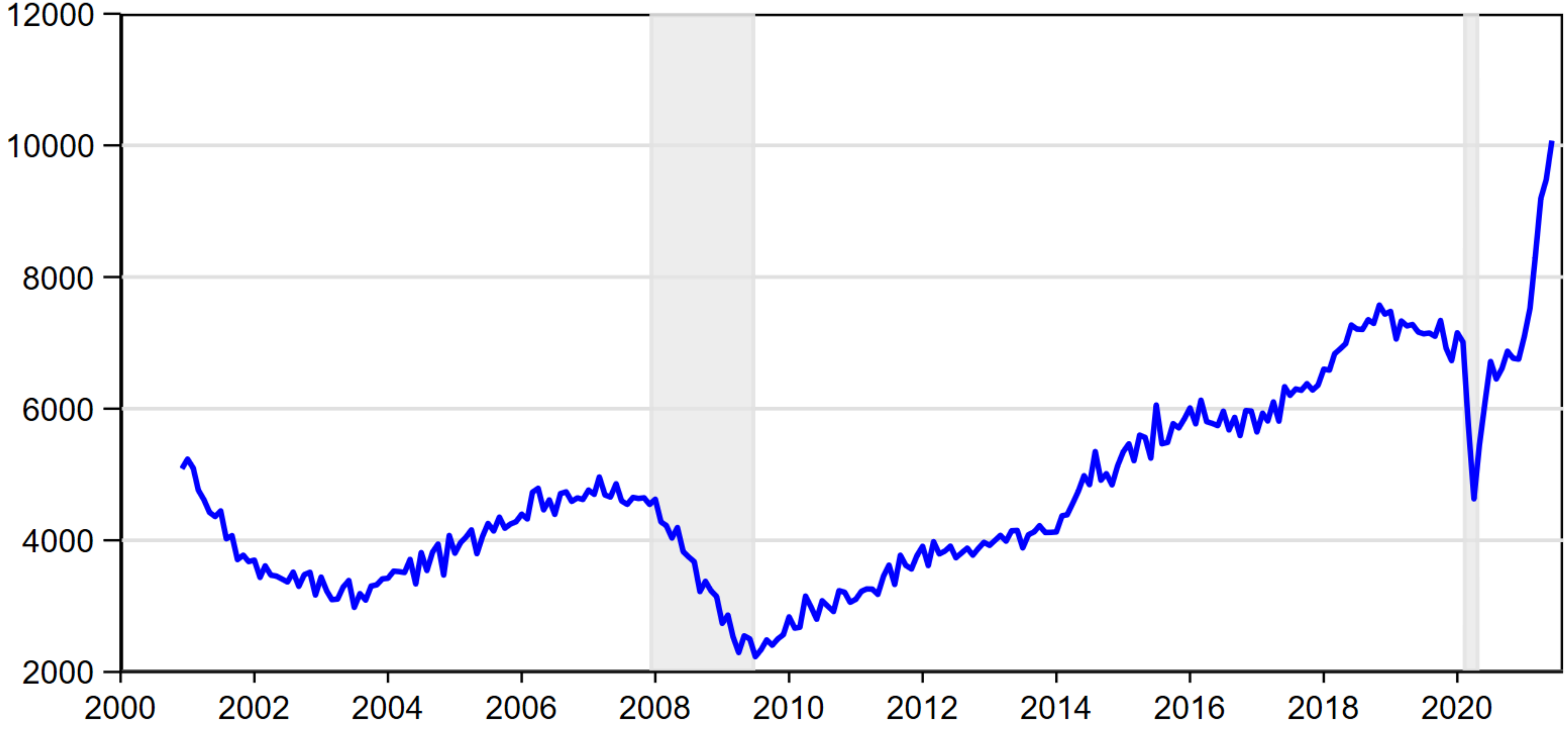

PLEASE BE PATIENT
WE ARE VERY UNDERSTAFFED
THANK YOU!
Now Hiring
Cooks
Wait Staff
Bartenders
Apply NOW!
Ask Bartender for Application or call

JOB OPENINGS LEVEL

EOP, SA, THOUSANDS



Source: U.S. Bureau of Labor Statistics.

INCREASING LABOR DEMAND OUTPACING RETURN OF LABOR SUPPLY

Unprecedented reopening is rapidly increasing labor demand

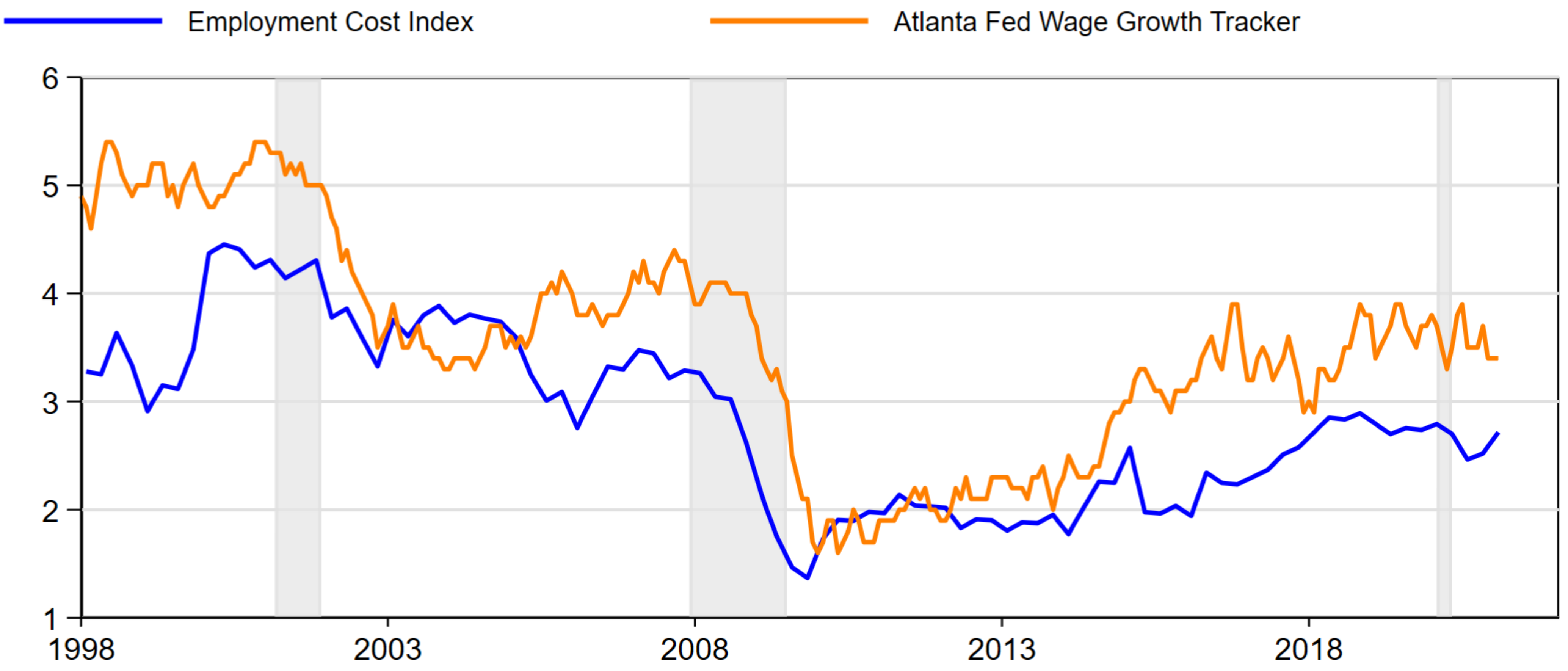
Labor supply is still constrained by fears, caregiving, benefits, restructuring, retirements. . . .

Supply constraints expected to ease in coming months

Delta variant may further delay return of workers

LABOR COSTS

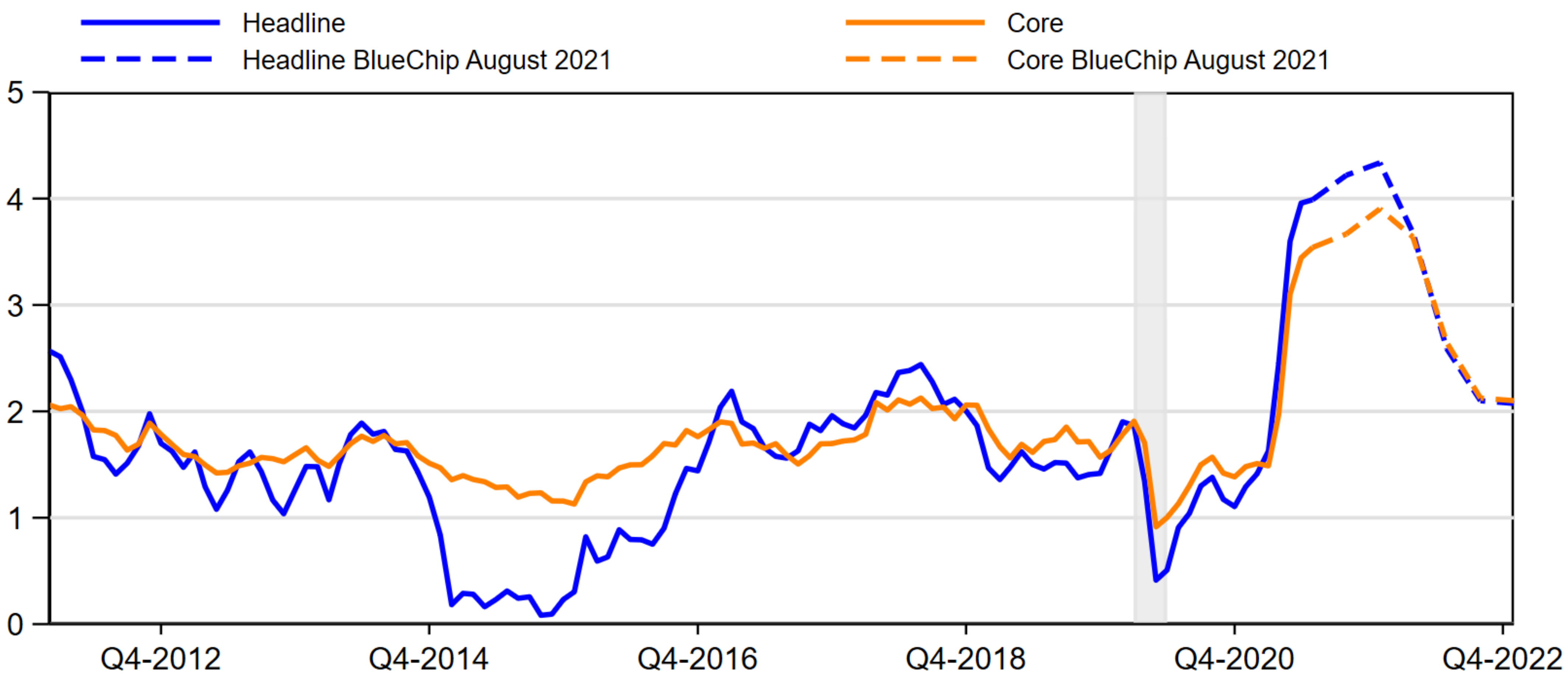
12-MONTH OR FOUR-QUARTER PERCENT CHANGE



Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Atlanta.

PCE INFLATION

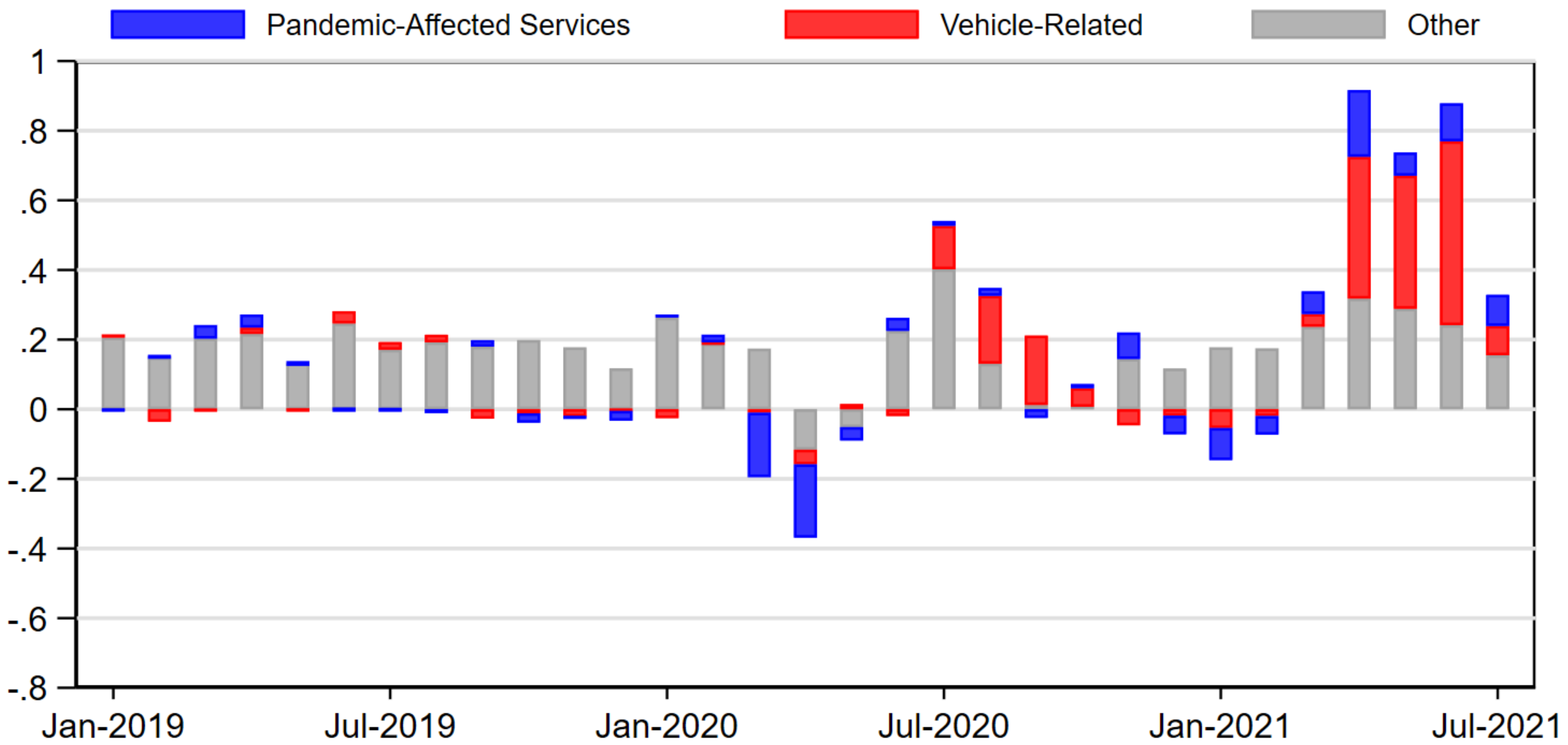
12-MONTH PERCENT CHANGE OR Q4/Q4 PERCENT CHANGE



Source: U.S. Bureau of Economic Analysis, BlueChip.

CONTRIBUTIONS TO CORE CPI INFLATION

PERCENTAGE POINTS, MONTHLY RATE



Source: U.S. Bureau of Labor Statistics.

TAKEAWAYS

The Fed has a dual mandate: maximum employment and price stability

The Fed has adjusted its framework to more effectively promote job growth and 2% average inflation

The Fed will continue to use all its tools to support a strong recovery in pursuing its congressional mandate

THANK YOU!

QUESTIONS?

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