DISCLAIMER

The views expressed are my own and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.
TODAY’S OUTLINE

● The congressional mandate
● Promoting maximum employment
● Lessons from the Great Recession
● The current economy
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?
“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
PROMOTING MAXIMUM EMPLOYMENT

THE FEDERAL OPEN MARKET COMMITTEE (FOMC)
PROMOTING MAXIMUM EMPLOYMENT

THE FOMC TODAY
MONETARY POLICY TOOLS

• Federal funds rate
• Federal Reserve balance sheet
• Fed communication
HOW THE FED USES ITS TOOLS

Higher Fed Funds Rate
Smaller Balance Sheet

Lower Fed Funds Rate
Larger Balance Sheet

More Jobs &
Higher Inflation

Higher Investment &
Consumption

Lower Interest Rates

Higher Interest Rates
Lower Investment &
Consumption

Fewer Jobs &
Lower Inflation
LESSONS FROM THE GREAT RECESSION
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.
LESSONS FROM THE GREAT RECESSION

UNEMPLOYMENT RATE

PERCENT

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LESSONS FROM THE GREAT RECESSION

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LESSONS FROM THE GREAT RECESSION

PCE HEADLINE AND CORE INFLATION
12-MONTH PERCENT CHANGE

Source: U.S. Bureau of Economic Analysis.
LESSONS FROM THE GREAT RECESSION

UNEMPLOYMENT RATE

PERCENT

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LESSONS FROM THE GREAT RECESSION

UNEMPLOYMENT RATE

PERCENT


Unemployment Rate

Proxy for Maximum Employment

2.3 to 5 million jobs
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
CURRENT ECONOMY

NONFARM EMPLOYMENT

MILLIONS, LEVEL

Note: Dashed line represents CBO’s projected nonfarm employment in January 2020.
CURRENT ECONOMY

UNEMPLOYMENT RATE

PERCENT

CURRENT ECONOMY

UNEMPLOYMENT RATE

PERCENT

CURRENT ECONOMY

UNEMPLOYMENT RATE BY RACE/ETHNICITY

PERCENT, 16+

CURRENT ECONOMY

UNEMPLOYMENT RATE BY EDUCATION

PERCENT, 25+

CURRENT ECONOMY

CHANGE IN EMPLOYMENT BY WAGE: U.S.
PERCENT, SEVEN-DAY MOVING AVERAGE

PLEASE BE PATIENT
WE ARE VERY UNDERSTAFFED

THANK YOU!

Now Hiring

Cooks
Wait Staff
Bartenders

Apply NOW!

Ask Bartender for Application or call
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
CURRENT ECONOMY

LABOR COSTS

12-MONTH OR FOUR-QUARTER PERCENT CHANGE

CURRENT ECONOMY

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

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?