

Opening Remarks

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Thanks for the introduction, and thank you for the invitation to join you here today. It's a pleasure to be here.

I'll kick things off with some basics about the Federal Reserve System and the Federal Open Market Committee (FOMC), and with some words about my current thinking about monetary policy. But the plan is for us to spend the bulk of our evening on your questions. One key point before I start: The views I express this evening are my own and are not necessarily those of others in the Federal Reserve System, including my colleagues on the FOMC.

In terms of basics about the Fed: I like to tell people that the Fed is a uniquely American institution. What do I mean by that? Well, relative to its counterparts around the world, the U.S. central bank is highly decentralized. The Federal Reserve Bank of Minneapolis is one of 12 regional Reserve Banks that, along with the Board of Governors in Washington, D.C., make up the Federal Reserve System. Our bank serves as the headquarters for Federal Reserve operations in the ninth of the 12 Federal Reserve districts and includes Montana, the Dakotas, Minnesota, northwestern Wisconsin and the Upper Peninsula of Michigan.

Eight times per year, the FOMC meets to determine the appropriate stance of monetary policy. (I won't get into too many details of what that term "stance of monetary policy" means, although I'm sure that I'll be taking questions about it later.) All 12 presidents of the various regional Federal Reserve banks—including me—and the governors of the Federal Reserve Board contribute to these deliberations. However, the Committee itself consists only of the governors, the president of the Federal Reserve Bank of New York and a rotating group of four other presidents. I'm not one of those four presidents this year. In this way, the structure of the FOMC mirrors the federalist structure of our government, because representatives from different regions of the country—the various presidents—have input into FOMC deliberations.

As I've said, at its meetings, the FOMC determines the appropriate stance of monetary policy. But what does the word "appropriate" mean—that is, what is the FOMC seeking to achieve through its monetary policy choices? Congress has charged the FOMC with making monetary policy to achieve two objectives: to promote price stability and to promote maximum

employment. The FOMC has interpreted the first goal, price stability, to mean keeping inflation close to 2 percent.

In order to meet these objectives, the FOMC has targeted a fed funds rate—that is, a short-term interbank lending rate—near zero for over six years. There has been a lot of conversation recently about the desirability of initiating a gradual increase in the fed funds rate sometime in 2015. In my view, we should judge the desirability of such a policy decision through the lens of the FOMC’s objectives. Right now, personal consumption expenditures (PCE) inflation is running well below 2 percent, and my current outlook is that it will continue to do so for several years. Based on this outlook, raising the fed funds rate in 2015 would be inappropriate, because such an action would serve to further delay the return of inflation to target.

The labor market improved rapidly in 2014. But that one good year certainly does not make up for the several preceding disappointing ones. The FOMC can best fulfill its congressional mandate of promoting maximum employment by doing what it can to facilitate further labor market improvement like we saw in 2014. Again, this consideration argues against raising the fed funds rate in 2015.

Thus, under my current economic outlook, the FOMC can best achieve its objectives by keeping the fed funds rate target at its current level during this calendar year. I want to emphasize that this conclusion is fundamentally an optimistic one. The data on inflation and employment show that we could produce and consume more as a country by utilizing more of our available human resources. Monetary policy can—and should—be used to help make that desirable outcome happen.

Thanks for listening. I look forward to taking your questions.