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Opening Remarks

by

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at

"*Fed Listens:* Transitioning to the Post-Pandemic Economy," a plenary session at Policy Summit 2023: Communities Thriving in a Changing Economy, hosted by the Federal Reserve Bank of Cleveland

Cleveland, Ohio

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Thank you, President Mester. It is really a pleasure to be here in Cleveland to join you for this *Fed Listens* event. I'm especially pleased to be a part of today's discussions about how the economy continues to evolve in the post-pandemic environment.[1]

I find that I learn the most valuable information about economic conditions from those who are actually on the ground and working directly in the economy, so I am really looking forward to hearing from today's panelists to learn from their experiences and perspectives.

As those of you here today know, the Federal Open Market Committee (FOMC) met last week to discuss the economy and expectations for economic activity. I'll begin the discussion with my views on the evolution of the U.S. economy since the onset of the pandemic and on the implications of those developments for the FOMC's congressionally mandated goals of maximum employment and stable prices.

After the initial phases of the pandemic and the lockdowns and forced closures of most businesses, we saw strengthening economic activity accompanied by unacceptably high and persistent inflation. Over the past several years, as economic activity has continued to normalize, one consistent strength has been the resilience of the labor market. Jobs have grown at a solid pace, wages have increased for many workers, and we've seen continued low unemployment.

On the other side of our mandate, price stability, the U.S. economy experienced the most significant inflation in 40 years, reaching a peak of over 9 percent last year. The FOMC has made progress in lowering inflation, but despite the significant tightening of monetary policy, we continue to see unacceptably high levels of inflation.

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[1] The views expressed here are my own and are not necessarily those of my colleagues on the Federal Open Market Committee.

Recent research has argued that pandemic-related supply and demand factors, in addition to unusually expansionary fiscal policy, contributed to high inflation. And global and U.S. supply chain disruptions and shipping and logistics challenges drove up prices for a number of goods.[2] Many of the supply-side issues have now abated, and the FOMC has rapidly increased the federal funds rate to bring demand into better balance with supply. But while headline inflation has declined substantially, it remains far too high. Therefore, I believe there is more work to do to bring inflation down.

I supported the FOMC's decision last week to hold the federal funds rate target range steady and to continue to reduce the Fed's securities holdings; however, I believe that additional policy rate increases will be necessary to bring inflation down to our target over time. Although tighter monetary policy has had some effect on economic activity and inflation to date, we have seen core inflation essentially plateau since the fall of 2022, and I expect that we will need to increase the federal funds rate further to achieve a sufficiently restrictive stance of monetary policy to meaningfully and durably bring inflation down. I will continue to monitor the incoming data and to look for signs that inflation is on a consistent downward path as I consider appropriate monetary policy at future meetings.

I'm pleased to see that today's agenda for the Policy Summit includes a discussion of small businesses, which are a critical component of a thriving economy. One of the most dramatic changes in the economy since the pandemic has been a

[2] Both points, about the roles of fiscal and the supply side, are addressed in a new study by Bernanke and Blanchard. See Ben Bernanke and Olivier Blanchard (2023), "What Caused the U.S. Pandemic-Era Inflation?" paper presented at "The Fed: Lessons Learned from the Past Three Years," a conference held at the Hutchins Center on Fiscal and Monetary Policy, Brookings Institution, Washington, May 23, https://www.brookings.edu/wp-content/uploads/2023/04/Bernanke-Blanchard-conference-draft_5.23.23.pdf.

sustained increase in the creation of new businesses, most of them small. Small businesses were severely tested during the pandemic, and many stayed in business with substantial help from the Paycheck Protection Program. In the early stages of the pandemic, new business formation plunged and then surged as the economy reopened. This surge was followed by another sharp drop in the second half of 2020, and it seemed like business creation was headed back toward its long-term trend. Instead, new business formation again accelerated and now runs about 30 percent above its pre-pandemic trend.[3] Often, a tight labor market is associated with elevated rates of new business formation, but the extent of business startups has been highly unusual. Some have speculated that the shift to more remote work has encouraged more experimentation. Whatever the reason, entrepreneurship is the lifeblood of the U.S. economy, and I consider this to be a positive development.

Another topic on tomorrow's agenda is workforce development. Traditionally, businesses and educational institutions partner to identify skills and develop training programs for the skills needed in the workforce. Community development organizations and government can also play a role in enhancing worker skills to meet the demands of a high-tech economy and increase the labor supply. Since the vast majority of workforce development is financed by the private sector, it is critical to develop enduring relationships to identify and evolve skills training to meet the needs of today's and tomorrow's workforce.

Throughout the various stages of the economic recovery, due to the limited numbers of skilled job seekers, businesses reported a willingness to invest in providing

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[3] See Federal Reserve Bank of St. Louis (2023), "Business Applications: Total for All NAICS in the United States," Federal Reserve Economic Data, https://fred.stlouisfed.org/series/BABATOTALSAUS.

required worker training. It appears that now is a good time to identify opportunities for involvement and investment in these efforts. And I am interested to learn from those of you engaged in workforce development, those who work with small businesses, and everyone working to help your communities thrive in the post-pandemic economy.

Hearing this perspective is why the Federal Reserve Board started *Fed Listens* in 2019. While economic data can tell us a lot, learning about the experiences behind the data helps bring the economic data to life for me and for my colleagues. Through *Fed Listens* and other engagement with the public, we learn about how Americans are faring in the economy and about how our policy decisions affect individuals, businesses, and communities. Those views help us understand the economy better and enable us to make better decisions.

Thank you again, President Mester, for hosting today's event and for the opportunity to be part of this discussion.