Event Transcript

Q&A Session:
Policy Speech by Austan D. Goolsbee, President and CEO of the Federal Reserve Bank of Chicago

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Roger Ferguson, Jr.: Austan, thank you very much. I regret that I didn't know your Grandpa Jack. He was a man of great wisdom. I can see where you get some of your wisdom. Let me explain what we're going to do. Austan and I are going to have a brief Q&A session here, and then we're going to turn it to the audience. And we will definitely end on time at 10:00. So, let me start with saying, if I were put in position-- [inaudible 00:00:24]

All right. So, Austan, you put forth a great argument that one might describe as being, in the context of Hawk and Dove, very dovish. React to that.

Austan Goolsbee: Is that the question? Okay. I don't totally see it that way in the following sense. What I'm saying is in a moment of transition where there's supply shocks going on and where the credibility channel has made it so inflation expectations are moving, looking back at what happened in the 1970s, is not a great measure. And so, don't pay as close attention to what's happening to-- let's call it, wages, the unemployment rate, GDP growth in the short- run, these other-- just look at the prices.

Now, if you take the housing inflation example, there's one where if you see the housing inflation in the CPI going back up, I'm going to be pessimistic and say we're going to have to apply more monetary policy restraint. That's a Hawkish position. It's just-- don't pay as close attention to what traditionally you think of as-- if you think there's a relatively stable Phillips curve then, you're tempted to look at what's happening in the real economy as the measure.

The only thing that makes that dovish in your language, I think, is that at this moment of transition, we're going from one side to the other. And so, the argument, not to pay as much focus on the real economy side feels dovish, but it definitely doesn't have to be. If you start to see the lack of progress on the price side, we will have to raise restraint. That's what I mean. We will get rid of inflation.

Roger Ferguson, Jr.: Okay, that's fair. So, the most recent SCP.

Austan Goolsbee: Yeah.

Roger Ferguson, Jr.: It's not quite a forecast, but the dot plot where your colleagues imagine things might happen seems to most of us to suggest at least one more tightening in the cycle. And then keeping rates a little higher than reasonably expected also seems to suggest stronger growth and a little bit longer before we get to the inflation target by a year or so. Would you normally roughly agree with that outlook? Where would put another way without-- if you can disclose, where would your dots-- set of dots in all of that and in particular about, you know, the upcoming couple of meetings?

Austan Goolsbee: Yeah, so the SCP is kind of broken out by time periods and I've always been more of a fan. There's a history of the SCP and how useful is the SCP.

Roger Ferguson, Jr.: Right.

Austan Goolsbee: I think the use is much more focused on the short run. And for the rest of this year, there won't be more increases. There were some that there that would be one more, but that was it. We can condense down to a narrow range for this year. I don't like arguing about, speculatively, what do you think it'll be in a year and two years. Because it's like if they said, if you come up Lake Park in Hyde Park, Chicago, you come to 47th Street and you turn and get on Lake Shore Drive. If they ask you, are you going to stop at the stoplight? Like, well, depends if it's green or it's red, you know, I don't know. I'm not going to say.

And so, we're going to get observations. Looking out in the future. What I'm looking at are these four factors that I'm describing. I'm trying not to put too much weight on conventional measures of overheating on the real side of the economy. Let's look at the prices. So far, look, we'll see what happens tomorrow and we'll get another read of inflation going forward. But we made really excellent progress on inflation in a way that-- let's call it a traditionalist-- would have said was impossible.

If you asked nine months ago, will we get core inflation more than cut in half and the unemployment rate will be there? They would say, no, can't be done. So, I'm open. I haven't decided what I'm going to do at the next one. But at this kind of progress, I feel comfortable with-- what I've said before is we're moving to a period where the question is not how much more is the rate going to go up. It becomes, how are we going to keep it here?

Roger Ferguson, Jr.: Okay. So, let me then take you back to your speech. Your speech put heavy emphasis on a couple of topics. One, obviously supply shocks, et cetera, and then the other inflation expectations.

Austan Goolsbee: Yeah.

Roger Ferguson, Jr.: And you seem to put a lot of weight on a relatively rapid unwinding of the supply constraints and fortunately very targeted, very stable inflation expectations. Many people would have said, well, what about the demand side? What about fiscal policy? What about monetary policy that had been relatively accommodated for a period of time? No mention of the demand side in your speech. How does that play into your thinking; How we got to where we are and where we are?

Austan Goolsbee: This is the course. Is it a religious war? It's almost a religious war of -- was it supply? Or was it demand?

Roger Ferguson, Jr: Or both?

Austan Goolsbee: On looking back, I think you have to say it's both.

Roger Ferguson, Jr.: Right.

Austan Goolsbee: There was high demand. It's why I alluded to the international evidence and the fact that it's-- the inflation rate is not supposed to soar when the unemployment rate is 6% or when output is not above potential. That's strongly suggestive evidence that some major component is coming from the supply side. I do think that there was a demand-side component. And in a way, if you cut the supply side while increasing the demand side, you're going to have double problem.

But as you know, everything in a sense becomes Delta from last year. And so, if you're in the camp that says the main thing that happened was an overheating of the economy from too much stimulus-- monetary and fiscal, you kind of have the puzzle. It was $2 trillion the previous year that becomes zero the next year.

So, like, why didn't the inflation go away? And one answer might be, well, I got rolled into expectations, but it didn't. I showed you it didn't get rolled into expectations. So, that makes me think that there was a demand component, however, it wasn't as big and it has faded off now at this point.

Roger Ferguson, Jr.: Okay. So, I think it's helpful, though, since you didn't put in your speech to hear your thoughts on how demand played. And what I'm hearing you say is, obviously, there's both supply and demand in play here, but supply dominated the demand story.

Austan Goolsbee: That's what I think the evidence suggests at this point. Now, as it was happening in the moment, it was kind of hard to figure out. But I think looking back, it's mostly supply.

Roger Ferguson, Jr.: Okay. Let me flip to the other side, we've done supply and demand. You put a lot of weight on inflation expectations, Fed credibility, et cetera. Two questions in that regard. One is, as you well know, I think before you got to the system, there was a review, that I would argue, loosened slightly the 2% target by suggesting since we had undershot for a period of time, it might be okay to slightly overshoot for a period of time to--

Austan Goolsbee: Based it on average.

Roger Ferguson, Jr.: Based it on average, something like that. For those who are technicians, sort of flexible average inflation target. I think is long-term economy jargon for. How does that play into your thinking about success we've had thus far and inflation expectations? And though I hear you say very clearly that this is not a time to rethink the inflation target, I agree with you. Fed itself has sort of said, well, we're open to inflation, slightly above target for a period. How does that all play into your thinking?

Austan Goolsbee: That's why I said whatever target you pick and whatever measure of inflation, and that we can have a legitimate debate and we will. We've restarted Fed Listens. The previous framework that this average inflation came out of was the result of a Fed Listens process that went around the country. They talked to everybody and they came up with that framework. We've restarted Fed Listens.

We've done a bunch of events and I assume that we will develop a refinement of the framework. But for all of those debates, that has to happen once you hit the target that you set before. It can't be like, oh, you know what, let's give up because we didn't get it. I think, I mean, it feels that the world is not totally satisfied with how things went down after announcing "Let's have an inflation target", and then inflation went way up.

And then the question became, okay, you said you were going to tolerate a little band-- let's call it a band of uncertainty of-- inflation could be a little above. Did you mean this? You know how much it went up? Is this how long you meant? So I think we're going to have a legitimate debate about that. I think the fact now, you can have that debate when you're at the target or below the target. You can't give up the fight to get to the target before the job is done.

Roger Ferguson, Jr.: Right. So do I interpret that as the chairman had said 2% is the target. We're getting to 2%.

Austan Goolsbee: Yeah. Then the deeper question is, 2% of what? It's like, what's in the base and over what time period? And my thing with the inflation target, we will get back to the target. Once we've done that and we reengage, my thing about inflation targets is the false sense of precision to say 2.0, that's the target. And I was like, well, what about 2.1? No, no, 2.0. Inflation is an extremely noisy measure. So, I do think we got to think about that a little bit.

Roger Ferguson, Jr.: And to be fair, those who historically and maybe to this day think that announcing explicit quantitative inflation target probably may not be right.

Austan Goolsbee: Did it make sense? I'm sympathetic to that. And there's another argument that does 2%, wind you up at the zero lower bound too frequently? So, there's a balance you're trying to trade off, not hitting the zero lower bound versus if the target's too high above 2%. Is that effectively like not having a target? All of those are perfectly valid. And we're going to have that discussion once we get back to the target. That's the way.

Roger Ferguson, Jr.: Okay. All right. The message is clear. Before the audience, I'm going to ask this one more question and then turn it to you. So, get your questions ready. So, talked a great deal about where we are now, monetary policy. So, let me talk about sort of the rest of your job, which is you're overseeing, you know, a large staff and an important part of the country. What challenges, what lessons, any surprises, moving into this exalted position of being President?

Austan Goolsbee The exalted position. It's been lovely. It wasn't 100% a surprise because it's what I expected and everybody said it. But there is still-- it's a-- the Fed system is one of the most glorious mission-driven organizations in the entire firm.

Roger Ferguson, Jr.: More so than the University of Chicago?

Austan Goolsbee: So, the thing about being a professor-- I was 28 years professor at the University of Chicago, and I love it. And I love academia. And it's not solitary. It's much more solitary than-- it's not exactly a team sport. The typical moment of academics is you're sitting in front of your computer doing your work. You don't talk to co-op.

The Fed is absolutely a team sport, but at every level, in every division, and the reserve banks are more operational. I'd say they're not just the monetary policy component is one part of the job, but there's a whole district. We've got a community development function, and we're out engaging with the community. And there's just the management operation.

We got $20 billion of cash in a vault where we got Brinks trucks coming in every day. And we're filling the cash machines for our banks. At every level, people absolutely believe in the mission. And it's like, we're putting a man on the moon kind of a thing. And that's been wonderful. The only surprise, partly going the other way, I forgot the committees and the bureaucracy, and there something level. Oh, you want to do this?

Well, wait. We need to be approved by the Conference of Presidents umbrella. So, there's some of that, you know, getting back to the government policy. But the private sector, there are many things that the government or the Fed can learn from the private sector. And one thing that I think we've seen is management. To experts recognizing in the private sector is a thing the Fed already was, which is the importance of mission and that people feel like, "I'm a part of something that's bigger than just myself" -- just write my paper-- and they live it every day.

Roger Ferguson, Jr.: Good. I'm glad to hear it. And now, let me now open it up to the audience for your questions. There is a mic, obviously, in the front. Please step forward, identify yourself, and then ask your question.

Jeanne Whalen: I'm Jeanne Whalen from The Washington Post. Many of the big auto factories are in your district. And I wonder if your [inaudible 00:16:04] are on strike and how it would impact the economy?

Austan Goolsbee: Indeed, and I made a small allusion to that. We're the seventh district. We have the biggest auto production of all the Fed. We got Michigan, Indiana, Illinois, and Wisconsin. This strike is unlike most previous strikes. We got a lot of expertise on the auto industries. They've gone and analyzed previous strikes -- What happened to GDP? What happened to prices? and what are the economic impacts?

The thing to know, of course, is it matters a lot how long the strike goes. If you look at past strikes, if they're short enough, they almost don't show up because there's typically, for whatever it goes down, there's a very strong immediate rebound of production. So, if it all happens within-- let's say one month-- it almost doesn't show up in the quarterly GDP numbers. The longer it goes and the more spread across multiple companies, the more the short-run impact.

And the biggest extended strike is probably in 1970 against General Motors. General Motors market share in 1970 was about the size of the market share of all the big three today. Historically, there's not that large of an inflationary impact. But the caveats of this moment are a very different inventory situation and capacity situation among the competitors.

So, the thing we're trying to gauge is how long the strike lasts and how widespread it is, but also we saw during the Covid times that when there's extremely low inventory that can do wild short-run swings in prices of cars-- both used and new. And we're trying to get a handle on if this thing were extended, would we have a dynamic that is different than in previous strikes?

Roger Ferguson, Jr.: All right. Thank you. Next question, please, sir.

Fred Hochberg: Hello, Austan. Fred Hochberg. We're in the midst of a big energy transition. There's a lot of public sentiment against fossil fuels. We have climate change that's impacting food crops. We're anti-global right now. We don't like importing. We don't like immigrants. Construction-- she keeps talking about more and more inflation with a housing shortage. So, those seem like really strong headwinds from what you've talked about. How do we understand those concepts, what you said?

Austan Goolsbee: Yeah, but you got mixed some short-run ones and some deep, longer-run ones. I'm mostly just thinking about the next four months aspect. And all I will say is each of those headwinds, as they're playing out in the next four months, is already baked into the cake. So, I'm not disputing significant headwinds and we could add some more on there. It's just that our strength has so far been outweighing those headwinds.

And it takes us to a deeper plane to-- if we start contemplating the climate risks and some of the other long-term growth risks-- population growth in the United States. And what does it mean if we're going to decouple-- all the countries are going to decouple from each other and trade is going to become unpopular. And if we were to reduce immigration on some permanent basis, those would be serious challenges. But they're just not in the thing that-- Feds got a job and Feds is going to do its job and that is about stabilization-- economic stabilization.

Roger Ferguson, Jr.: Any more questions from the audience?

Austan Goolsbee: Uh-oh. Uh-oh. Look at the time.

Roger Ferguson, Jr.: Yeah, absolutely. We have plenty of time for a question. David.

David: I'm thrilled to meet Grandpa Jack today. Previously you had introduced us to Uncle Bob. I can't wait till your next speech to hear the next colorful member of your family--

Austan Goolsbee: From the Abilene. You know.

David: -- to get their wisdom. You were very clear this morning about-- in your statement, that today is not the right time to rethink the 2% inflation target. I guess I'd like to hear-- draw you out of a little about whether you think there ever will be an appropriate time to rethink the inflation target, what those circumstances might be, and what the analytical considerations are that would drive your thinking of them.

Austan Goolsbee: Okay. As expected, I would expect no less cogent and lays it out for both short-run and long-run. I think we should think about-- I wasn't that big of a fan way back when-- before I ever was in the Fed, I wasn't a huge fan of an explicit numbered inflation target at a level of precision 2.0%. Partly, I thought that feels like it makes it risky that we hit the lower bound-- zero lower bound, and has the false sense of precision.

So, that's a backdrop to say. Once we're to either a clear path to the 2% or we actually observe 2% in some way that you can declare without falsity-- we did it, we're back-- then I think it'd be perfectly appropriate to have the discussion about the 2% target. I know within the Fed it feels like, people think that was well debated. When from not in the Fed, I feel like it wasn't. I feel like if you talk to most people, they'd be like, where did 2% come from?

Some guys ahead would, well, let's have a more fulsome discussion about those factors. And I still feel like if you had inflation-- of the experience we had pre-COVID where we went year after year, let's call it, of inflation at 1.8, 1.8, 1.8. If you get a whole bunch of years in a row, the uncertainty band ought to be shrinking. It ought to become clear we're not at the target where if it's like, oh, we got one month, it was one, and then one month was three, and then one month was something else-- that uncertainty.

I want the uncertainty band to kind of be applied to the target, that's my own. But I feel like the Fed Listens/Framework Development, if that's being done in a context where inflation is not, obviously, above where we want it to be. It would be perfectly appropriate to think about it at a moment like that.

Roger Ferguson, Jr.: Yes. A few more questions, please.

Tim Russell: Tim Russell, The Street Journal. Since you all met at the Open Market Committee last week, 10-year treasury yields gone on quite a run. It's up maybe 30 basis points just in the last week. Can you talk about how you're thinking about financial conditions tightening and how, like that, especially if it's existing or for it to continue, how does that trade-off for Fed funds increase your view of the growth outlook ahead?

Austan Goolsbee: You're right to highlight. I would be calling you. What do you think is behind the increase in long rates? I can't give you a specific formula of what's the Fed funds equivalent of a long rate increase. They're clearly related. We're still trying to process why this is happening on the long end. It was a relatively subtle change to the SCP. So, just to set the stage of why there's a bit of a puzzle with this.

The new SCP comes out. It's a little different than before, but it's a subtle difference. And then the long rate starts moving quite a lot. If you look at what it could have been, that expectations of future inflation were coming unhinged or changing, but it doesn't look like it was that. It could be that there's some change. Do they anticipate something is going to happen at rates that's very different from what they thought before? Might be. But as I say, the SCP didn't change that much.

Is there some strange thing going on in the marketplace and there's some liquidity issues? I'm still trying to chew on that. As a summary, long rates heavily influenced economic decisions, especially the long decisions like business investment and mortgages and things that are interest rate sensitive. The Fed has always known that. It's why we're at the zero lower bound. They first start engaging in QB if they're trying to say, well, maybe we can cut rates. Maybe we can cut long rates if we can't cut short rates anymore.

So, if that happened-- if that continued, we will have to take that into account as a form of financial conditions and monetary tightening. I think it definitely is that. And so, we should just incorporate it into our model. But I can't give you a number of-- if that goes up 50 basis points, does that mean you would do 25 basis points less six months from now? I don't have that kind of precision.

Roger Ferguson, Jr.: It's time for one more from the audience if there is one. Okay, let me then take the prerogative of asking the last question, which is we focus heavily on the real economy, monetary policy, and financial conditions tightening. The other thing the Fed is always thinking about is the so-called financial stability period of some instability in the banking sector-- hoping that's behind us. How does that play into your thinking, in general, and about the current conjuncture?

Austan Goolsbee: When it happened in March, anybody who was working there through the financial crisis, as they say, you couldn't get that awful smell out of your nose of like, oh, boy, this feels like the weekend. And they scramble and they're thinking it was like, oh, man, if this is the beginning of some deterioration up to and potentially including a financial crisis. But at the least, some credit crunch of the form that has followed that kind of thing before that we would need to incorporate that into our monetary thinking because that's monetary tightening. It's like monetary tightening.

I've been pleasantly surprised, maybe even stunned, but definitely pleasantly surprised that that shoe didn't drop. But whenever you raise rates 500 plus basis points in a year, they're going to be tightening credit conditions. The question was always, is there going to be something more than what we normally expect in terms of credit tightening that comes from financial instability? And so far, we really have not seen that. It's been pretty much on target with what we'd expect.

We'll see how it plays out the commercial real estate, which is on the balance sheets of a lot of banks, and that's tied into the whole-- are people coming back to the office? Are they going to stay working at home forever? So, we still just have to see how that plays out. But I would say this one, if you'd asked in March, by September, what will we be talking about-- we probably would have thought, oh, boy, we're really going to be talking-- all we're going to be talking about is the bank credit crunch. And it really hasn't played out that way.

Roger Ferguson, Jr.: The President strikes me as a good time to stop. Thank you. Austan Goolsbee. I invite you to thank our speaker, Austan Goolsbee. Thank you.