

Peterson Institute for International Economics

The US economy and monetary policy: A conversation with Alberto Musalem

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[00:05:41.19] - Esther George

Good morning, everyone, and welcome to the Peterson Institute for International Economics. My name is Esther George, former president and CEO of the Federal Reserve Bank of Kansas City and currently a board member here at the Peterson Institute. I also, in his absence, want to thank Adam for the invitation to host today's conversation with Alberto Musallam, who is the president and CEO of the Federal Reserve Bank of St. Louis. I would also mention that Peterson is also going to host events later this month that will feature two other Federal Reserve officials. On September 25th, they will host Michael Barr. Who is a governor on the Federal Reserve Board. That's September 25th at 1 o'clock. And the next day will be followed by Tom Barkin, who is the president of the Richmond Federal Reserve Bank. He will be speaking on the 26th at 9:00 AM. I'll also mention the format for our program today. After I introduce our speaker, he will make some remarks, And then Alberto and I will take the stage and we'll have a nice conversation about— I don't know what is going on in the world today as it relates to the Federal Reserve, but we will also allow a bit of time so that we can take a couple of questions at the end.

[00:07:06.50]

I am pleased to introduce Alberto Musallam, who is the President and CEO of the Federal Reserve Bank of St. Louis. As you know, in this role, he participates in the Federal Reserve's Federal Open Market Committee, or the FOMC, which meets at least 8 times a year to set the direction of U.S. monetary policy. He also importantly oversees the activities of the 8th Federal Reserve District, which is headquartered in St. Louis with branches in Little Rock, Arkansas, Louisville, Kentucky, and Memphis, Tennessee. As a regional Fed president, Msallim makes public outreach a priority, talking regularly with people and communities across his region about the economy. And of course, engaging with Main Street provides him with important insights as he represents the district at the monetary policy table. President Msallim is an economist, He is an executive with nearly 3 decades of prior public and private sector experience in economic

policy, markets, and finance. Prior to joining the St. Louis Fed, he served as CEO and co-chief investment officer of Evans Asset Management. He was also an advisor, a senior advisor at the New York Fed, and he has held positions at Tudor Investment Corporation, And of course, at one point, an economist at the IMF.

[00:08:36.38]

Alberto has a PhD in economics from the University of Pennsylvania, and he also holds master's and bachelor's degrees in economics from the London School of Economics and Political Science. Please join me in welcoming him to the podium.

[00:09:05.40] - Alberto Musalem

Good morning. I'd like to thank the Peterson Institute of International Economics for the kind invitation to speak with you today. I'm especially looking forward to an engaging discussion with Esther George. I have long admired her exemplary service to the nation as president and CEO of the Federal Reserve Bank of Kansas City. She set a high bar for every Fed official. Before taking Esther's questions, I would like to begin by offering a few observations about economic conditions and monetary policy. These are my personal views and not necessarily those of other FOMC participants. The pace of economic activity picked up in the second quarter, propelled by higher consumer spending and solid growth in business fixed investment. Real GDP grew at an annual rate of 1.4% in the first half of 2025, which is somewhat below estimates of long-run potential. I expect output growth at a similar rate in the second half of 2025 before it returns to potential in 2026 or sooner. The policy uncertainty that has held back business and household spending continues to lift, and I expect some stimulus to growth from fiscal policy. Financial conditions are also broadly supportive of economic activity.— and consistent with a modestly restrictive setting of monetary policy.

[00:10:23.26]

The equity market is buoyant, credit spreads are low, and corporate profit margins are elevated by historical standards. Also, net capital market issuance and bank lending continues to grow at a healthy pace. However, mortgage origination and refinancing activity remain sluggish despite a recent decline in mortgage rates. Rising inventories, slowing home price appreciation, and a low turnover suggest the weak housing market poses some downside risks to the pace of economic activity. The August employment report on Friday will provide a fresh look at the labor market. As of today, available data indicate the market is close to full employment. In addition to the unemployment rate, the vacancies-to-unemployed ratio Initial claims for unemployment insurance, the pace of job-to-job transitions, and the Employment Cost Index are among

measures consistent with the labor market near full employment. Payroll growth has slowed in 2025, reflecting both lower demand and supply of labor. Estimates of the breakeven pace of job growth have fallen with the recent decline in immigration and a lower labor force participation. Break-even estimates are currently in the range of 30,000 to 80,000 jobs per month, compared with estimates above 100,000 in prior years. Looking ahead, I expect the labor market to gradually cool and remain near full employment, with risks tilted to the downside.

[00:11:56.39]

Throughout the year, businesses have said that uncertainty about the impact of tariffs and other economic policies made planning difficult and left them hesitant to add to payrolls. With the pace of hiring low, any increase in layoffs could produce a more substantial labor market weakening than would occur in a more active labor market. While I'm not hearing from businesses about an imminent increase in layoffs, real GDP growth that is somewhat below potential and profit margin pressures related to tariffs could contribute to such an outcome. Recent data have further increased my perception of downside risks to the labor market. This includes a higher proportion of long-term unemployed workers, rising unemployment rates for demographic groups that are more sensitive to the economic cycle, and substantial downward revisions to payroll growth estimates. The upcoming preliminary Quarterly Census— Census of Employment and Wages, or the QCEW benchmark revisions, may reveal an even lower pace of recent payroll growth. Through July, core inflation is running closer to 3% than to the Fed's 2% target, reflecting some tariff effects. As a baseline, I expect these effects of tariffs will work through the economy over the next 2 to 3 quarters, and the impact on inflation will fade after that.

[00:13:19.32]

Through July, the pass-through of tariffs to consumer prices has been modest at around 20%. Below-trend real GDP growth and stable long-term inflation expectations should limit the persistence of inflation. I expect inflation will resume convergence towards 2% in the second half of 2026. However, there is considerable uncertainty, and I perceive a reasonable possibility that above-target inflation could be more persistent. Indirect effects on non-imported goods and services or second-round price increases stemming from tariffs could cause the adjustment process to take longer. The pass-through rate could rise as inventories of goods purchased before tariffs are drawn down, whereas final tariff rates become more certain. Some firms tell me they have been absorbing cost increases while tariff rates have been in flux to avoid making multiple pricing adjustments. But they expect to eventually raise prices. Also, the public is already sensitive to inflation. A prolonged period of inflation above the Fed's target could increase the risks that elevated near-term inflation expectations seep into longer-term expectations. Now that I've summarized my views on the outlook and balance of risks, let me

conclude with a few comments on monetary policy. The current modestly restrictive setting of the policy rate is consistent with today's full employment labor market and a core inflation— and core inflation nearly 1 percentage point above the Fed's 2% target.

[00:14:59.07]

Multiple Taylor Rule specifications currently prescribe a policy rate around today's level of the federal funds rate and above estimates of the long-run neutral rate. From this starting point, policy must be forward-looking and based on the evolving economic outlook and balance of risks. When the maximum employment and price stability goals are not complementary, it is important to take a balanced approach. This means appropriately weighing the probability of missing on each goal, the potential size of each miss, and the different time horizons needed to return employment and inflation to levels consistent with the Fed's dual mandate. Pursuing a balanced approach requires care. For example, putting most of the weight on the labor market goal runs the risk of unwarranted or excessive policy easing, causing a further steepening of the yield curve, a rise in the term premium, or an increase in inflation expectations. Any of those potential outcomes could do more harm than good to the labor market. And contribute to more persistent above-target inflation. Although longer-term inflation expectations are anchored today, markets are sensitive to these risks, as evidenced by increases in the term premium and in some measures of long-term inflation expectations. At the same time, putting most of the weight on the inflation goal runs the risk of not providing enough support to maintain a full-employment labor market at a time when downside risks have risen.

[00:16:35.03]

Again, balance is key. As always, in the coming weeks and months, I'll continue to update my outlook and my assessment of the balance of risks to seek a forward-looking path of interest rates that best positions monetary policy for achieving and maintaining maximum employment and price stability for all Americans. Thank you.

[00:17:11.01] - Esther George

My equipment here. All right. Thank you very much, Alberto, for those remarks. There are a number of things we will want to pick up. On the themes that you talked about. But before we get into the meat and potatoes of policy or the economic outlook, I thought we might talk a little bit about your role at the St. Louis Fed. You've been there over a year now. You're no stranger to the Fed. You've been at the New York Fed. But one of the designs of the Federal Reserve System was to set up these 12 regional banks. And I'm curious what your observations have

been in this job as it relates to— are there regional differences? What is it that you learn in these regions that you bring to the table that offers some diversity of views in that aspect?

[00:18:13.32] - Alberto Musalem

So the, the district that I represent, the 8th District, is comprised of about 50 million people spanning 7 states or parts of 7 states. With very diverse communities, very diverse types of businesses, industries. And one of the most consequential and fun parts of the job has been to interact with all of the people, communities, and businesses that, that I represent. And I know that's the case for other presidents also, and I'm sure it was the case for you too, Esther. You know, in doing so, a few things happen. People know that their voice is being heard through the Federal Reserve Bank in their district, and that's the case in St. Louis, and I'm sure it was the case in Kansas City— is the case in Kansas City still. And so, they have a conduit to express their views on the economy, and that's very important. For us at the Federal Reserve, the insights we get when we visit with folks around the district are extremely valuable. We have a saying at the St. Louis Fed that, you know, anecdotes become data. You know, the stories you hear from businesses today show up in the data 3 to 6 months later.

[00:19:28.29]

So it's a very important source of information for me in the job. And I would say the insights that I gain in interacting with all parts of my district are of several types. They're regional, they're local, They're national and they're global because there are businesses that are of global reach and there are businesses that are of local and regional reach. So we get a tremendous amount of benefit and information in representing the folks that we do. Now, you mentioned the federated distributed structure of the Federal Reserve System with 12 reserve banks. From my standpoint, that's the genius and the cornerstone of the system. It allows the 12 Reserve Banks to bring different types of information that they're hearing from different parts of the country. It's a complex economy, \$30 trillion economy with many moving parts, and to have that broad representation means that monetary policy is done with— in a very effective way by considering conditions all over the country all the time. And the other part of the benefit of the structure, in my view, is by insulating monetary policy decisions from any political influence or pressure by having this distributed system.

[00:20:52.38] - Esther George

Thank you. Along those lines, when I think about the St. Louis Fed— so you mentioned gathering anecdotes, which eventually turn into data. I agree with that. But you also are a bank that has invested in data. And I think many people in this room or listening today will know about

FRED, the Federal Reserve Economic Database that the St. Louis Fed continues to maintain, has a vast amount of, of series of data there. I'm curious, as we hear about data today, is it reliable? Are you getting the kinds of information you need? How you think about the the contribution that Fred makes, that the St. Louis Fed makes to our ability to look at data across a lot of different series.

[00:21:41.04] - Alberto Musalem

So, the St. Louis Fed has been committed to providing data to the public for a long time. It's a tradition that began in the '60s. And we invest a lot of time, resources. We're very proud of educating the public about the state of the economy through Fred, We also have a lot of economic education resources, you know, websites for teachers, for students, for people that are looking to get financially literate. So, this is all part of a broader effort to educate the public about how the economy is doing. FRED is a very valuable public good. In it, you can find data. Data about the US economy. There are 800,000 series there, and about the global economy. And, you know, I think you mentioned data integrity at one point. You know, FRED is only as good as the data that we collect and disseminate. And so data integrity is key for the economy. And it's really important that We seek opportunities to improve the timeliness and quality of the data that is used by policymakers, market participants, households, businesses to make informed decisions. You know, a reason, not the only reason, why the U.S. is the most dynamic, largest economy with the deepest capital markets in the world is because it's also the best measured economy in the world with the best data.

[00:23:15.40]

So people, businesses, policymakers, market participants can make very informed decisions, which leads to good outcomes, which contributes to a very dynamic economy.

[00:23:29.28] - Esther George

So linked to that trust in data, if you will, and thinking about how you measure the economy, I can't ignore the issue today, which is the Fed is in lots of headlines and a lot of questions about trust in the institution, thinking about its independence, how it goes about its work. We see Congress working on bills and proposing different things that might affect the Federal Reserve. Of course, the Fed completely accountable to that, to that body, all the way to fundamental challenges. I think about the Fed's independence and other things. So when you're out and about in your region, what do you hear from people? What is your message? I mean, you mentioned the structure has a role to play in that. Are there other things that you tell people in

the region, that you tell your employees when they see these things that you think are important to communicate?

[00:24:25.39] - Alberto Musalem

So what we're doing now is we're focused 100% on congressionally mandated current law, the dual mandate of maximum employment and price stability. You know, this is a mandate that it comes from a long tradition. The Fed was created in— in 1913 through the Federal Reserve Act. It was by Congress. It was then somewhat reformed in the 1935 Banking Act, also by Congress. And then there was the 1977 Federal Reserve Reform Act, also by Congress. And so, what I tell people, to answer your question directly, is that we remain squarely focused on current law. You know, we have a legal obligation obligation to fulfill current law with Congress and through Congress with the American people. What I tell folks is that's what, in our bank and outside the bank, in the region and in the country and here today, I told them that that is what we are focused on. That is the responsibility we have, and that's the authority we have. It's as simple as that.

[00:25:40.56] - Esther George

Stick to it. Stick to it. Let me shift gears a little bit. So a lot of attention today on what's going to happen in September. You offered some comments, and we can get into some of that later. But I want to start with what the Chairman talked about at Jackson Hole when he said we have a— we've modified the framework. The framework sort of sets the context for what the committee's focused on and how it will go about its work. I'm interested in any observations you have about the changes that were made, the discussion that follows. Why is that document important to the work that the FOMC does?

[00:26:21.48] - Alberto Musalem

I view the framework as, as a set of guidelines or context, I think, as you said, that guides the committee in making decisions. I don't view it as a set of constraints. I view it as a guiding light that Says, you know, in certain situations, here's how you ought to think about the economy. And in that light, there are a few changes. I was supportive of the whole framework. There are a few changes that I think punctuate what these guidelines are going forward. Number one, in my view, the framework is now more forward-looking. It's more forward-looking because it's raised the prominence of inflation expectations. In how we're viewing, you know, the guidelines of how we're going to behave. Inflation expectations are very important because they capture the forward-looking behavior of businesses, households, market participants, all of whom make economic decisions every day. So that's an important change of focus. And inflation

expectations are critical because anchored inflation expectations are the foundation for price stability, which is the foundation for maintaining maximum employment over time. So, I thought that was a subtle but very important innovation. Also, the framework is now, I think, more robust to different economic conditions.

[00:27:51.19]

The framework now considers both situations when the economy is away from the zero lower bound on interest rates, in other words, in normal times, as we are today, and also situations where it might be constrained by the zero lower bound on interest rates where the economy was for the 10 years prior to the pandemic, and also considers all policy tools available in that situation. So it's a more robust construct, I think. The other thing that I think we improved on materially is on the definition of what maximum employment is. It's now, I think, a tighter definition that leads to less problems of communication interpretation of what maximum employment is and isn't.

[00:28:41.35] - Esther George

My own sense, it returned a bit to its roots from 2012 in some aspects.

[00:28:47.15] - Alberto Musalem

I think it is closer, yes.

[00:28:49.20] - Esther George

So alongside the framework review, a lot of people were focused on the communications. That come out of the FOMC, whether there'd be changes to the dot plots, whether there'd be, you know, other innovations around that. Will that come later? Is that something that you think is important to continue to focus on for this FOMC?

[00:29:14.05] - Alberto Musalem

We've had some discussions on what communications might look like in the future. I have my own views on that, which I'm happy to share. And so there is a possibility that there'll be a different or innovations to the communications framework going forward. My own views are that, you know, policymaking by design or by the fact that it happens surrounded by uncertainty, and I think that when you have that amount of uncertainty when you're making policy, you have to bring humility to the table. And when you bring humility, communications ought to be both about the baseline scenario, the baseline case, and also about alternative situations so the public can

better understand what those alternative situations may be and what the reaction function of policymakers may be if the baseline case doesn't materialize. A case in point is today, as I said in my remarks, my baseline is that inflation will fade after 2 or 3 quarters— tariff inflation, that is. But I also said there's a reasonable possibility that it could be more persistent. And communicating those alternatives, I think, is good for the public's understanding of what the scenarios and the potential policy reactions may be.

[00:30:49.29]

So that's number one. Number two, related to the SEP, you know, the SEP is always a topic of intense conversation.

[00:30:58.25] - Esther George

Pro-SEP, or you want to get rid of the dots?

[00:31:00.12] - Alberto Musalem

Well, let me share what I think. I think the SEP is a valuable communications tool. I think it could be made more valuable in a few ways. Number one, We ought to communicate very clearly with the public that the SEP is not an output of the meeting, it's an input into the meeting. Folks take it as an output though. So that's number one. Number two, I am in favor of connecting the dots, meaning in an anonymous way every meeting and from meeting to meeting always anonymous, let's say with a number, where one meeting I'm number 12, next meeting I'm number 5. So people can't tell what exactly I am doing, but they can tell what the connection is between the inflation outlook of a particular participant, the unemployment outlook of that participant, the growth outlook of that participant, and the interest rate path of that participant. In doing so, the market and households and businesses would be able to understand our reaction function better. In terms of the different scenarios that different people have in mind for the economy and what the optimal policy would be. So I think that would be— that would improve knowledge about the reaction function.

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And lastly, another tweak I would think useful for the SEP is right now it's calendar-based. You know, it's the forecasts— or not the forecasts, the projections are for particular years. I think they should be rolling horizons. So that when we get closer to the meetings towards the end of the year, the information isn't— you know, the SEP doesn't become all that important. It's always a rolling 1-year horizon, a rolling 2-year horizon, rolling 3-year horizon, as opposed to calendar-based. I think that would improve its effectiveness.

[00:32:50.23] - Esther George

Something that the public should expect this year? Have you set a date?

[00:32:55.26] - Alberto Musalem

As I said, we've had some conversations.

[00:32:57.23] - Esther George

You're just getting started.

[00:32:59.17] - Alberto Musalem

I don't want to prejudge the outcome or the timing of when that might happen.

[00:33:05.04] - Esther George

Well, let's turn to the— what I called the meat and potatoes today, which is to talk about the US economy, the policy outlook here. And so you touched on these themes both broadly. You talked a little bit about what you're hearing in the district. I guess if you were going to say these parts of the economy look pretty resilient, they're doing OK, others— maybe you have your eye on as concern? How would you describe what you're seeing today?

[00:33:32.51] - Alberto Musalem

What I see in the data and also in communications with the public, businesses, households is, you know, the investment in anything related to artificial intelligence, data centers, energy generation, energy distribution, you know, that related set of activities is very strong. You see it in the CapEx data and the GDP numbers. You see that that's the part of CapEx that is very strong. You know, equipment, IT, R&D, intellectual property, all those areas are very strong. I hear from companies that produce components for electricity generation and, and distribution saying that their order books are very, you know, very good. So I think that's a— those are areas of strength for the economy. Areas that are challenged are agriculture is very challenged right now. And, you know, my district, we have a broad representation of agriculture. I know you had that also in the Kansas City Fed. The fact there is that output prices have not kept pace with input costs, interest input costs and non-interest input costs because of the recent inflation. So the profit margins are not beneficial there and negative in many cases. And also the sector is facing increasing competition from other countries, for example, Brazil and Argentina.

[00:35:06.30]

I also, of course, and I said in my remarks, I'm looking and focused on the, on the housing market and the real estate market and construction. There, it's a similar story. It's non-interest costs. You know, the costs of replacing a home or building a home are higher now than they were in the past because of the recent inflation. In addition, mortgage rates and financing rates are more elevated than in historical context. And there are supply restrictions from Not in My Backyard zoning restrictions around the country that are preventing a higher supply of homes. And in addition, some builders are reporting some labor shortages of skilled labor related to the recent reduced immigration flows. So it's a, it's a challenged sector. I'm keeping my eye on it.

[00:35:58.46] - Esther George

So you've described there a couple of things trying to decipher as a policymaker. What are the cyclical components here? What are structural changes? How do you think about some of these structural changes coming about? You certainly have talked about those in the labor force. We hear a lot about productivity that may be coming along. What is your take on looking at those two aspects of the economy?

[00:36:23.04] - Alberto Musalem

I'll focus on the structural because the cyclical, I have a sense you're going to ask more about that in a minute. So structurally, there are 3 or 4 things I'm focused on. One is, of course, the AI. Innovation— AI holds a tremendous promise of higher productivity in the future. Thus far, we don't see that productivity yet in the macro data. In micro studies, you see evidence of much higher productivity, particularly for programming and for customer service and for risk management and for fraud detection. You see a lot of evidence of higher productivity. The AI, I think, in the end will be a very positive force. There'll be a transition period where some jobs get replaced and new jobs get created. We see in the data already that the job creation for young software programmers, for example, has declined. And that's directly attributable to AI replacing those jobs. Now, with any technology, new jobs will be created to replace the jobs that were lost. And there's a great paper by David Autor of MIT from 2018 that says, that 60% of the jobs that existed in 2018 did not exist in 1940. Well, think of that.

[00:37:43.07]

So that's the new jobs that are created every so often in the economy. So I expect the same thing to happen with AI, but there'll be a transition period. I already talked about immigration. Lower immigration flows are already reducing— contributing to a reduction in the— growth of the labor force. Some industries are telling us that they're feeling that— construction, hospitality,

and agriculture are feeling that. We also hear of some weakness in demand in Hispanic communities, for example, coming through. Retailers tell us that. I'm also focused on changing trade, international trade flows, you know, redirection of trade, changing trade flows could have implications for the efficiency of production of goods, imported goods and exported goods. That could have implications for prices and quality of goods. And the last structural thing that I'm focused on is for some time now, for years, maybe decades, the US has been on unsustainable fiscal trajectory. Which over the arc of time could challenge financial stability, could challenge growth, and could challenge inflation, which are three things we care about. So I'm looking at that. However, the recent tariff revenue running at about 1% of GDP is helpful in that regard.

[00:39:21.50] - Esther George

Let's get into policy a little bit as we think about how this economy is unfolding. And you emphasized a lot in your remarks the balance of risk here and thinking about where you may see downside in one part of the Fed's mandate, where you judge there may be upside. And so you can, you can wait until clarity comes. I have a feeling just in my own experience, you're always hoping that next data point would be the point of clarification. It rarely was. And so you'll have to make decisions in this time of uncertainty. I wondered if you'd talk a little bit more about your own views on how do you balance those risks? Are you taking a risk management approach? Are you waiting to see data that will more definitively cause you to lean in one direction or the other?

[00:40:14.47] - Alberto Musalem

Funny, I always also am hoping that that next data point will provide more clarity.

[00:40:18.52] - Esther George

Always. Thank you.

[00:40:20.16] - Alberto Musalem

So, let me just go back to a few things. I think it's important to talk about where the economy is today and get clarity on that as a launching point to then talk about the outlook and the balance of risk, which is your question. Where I see the economy today is an economy that is at full employment. The labor market's at full employment. And I expect the labor market to continue to cool in an orderly way over the next few quarters. That's my baseline case. GDP in level terms is at potential, but it is growing slightly below potential, although I expect it to resume potential growth rate next year, as I said during the talk. And inflation currently is almost an entire full percentage point above the FOMC's 2% target. As I said, I expect some of that is tariffs. I

expect the effect of tariffs to fade over the next 2 or 3 quarters, but there's uncertainty around that. So that's the where we are today and the outlook. In terms of balance of risks, there is a risk of a faster deterioration in labor market than the gradual deterioration that I am expecting.

[00:41:40.58]

There are some indications that the labor market is cooling. We're going to get a very important data point— well, we're going to get JOLTS right after this talk, and we're going to get the labor market report on Friday. And then next week, we're going to get the QCW benchmark revision. So, all of those three things will tell me more about how the labor market is today. In terms of the balance of risk, what I've been doing over the last 2 months is I've been revising my assessment of downside risks to the labor markets slightly higher, as I've seen some deterioration in some of the underlying full employment numbers. And I've been revising my assessment of the risk of persistent above-target inflation slightly lower, in part because the pass-through so far of tariffs onto inflation has been low, only around 20% as measured by St. Louis economists. And that's 20% of a theoretical full pass-through scenario. That's low. But there's still uncertainty. You know, we could have more rounds of tariffs. The pass-through could increase. Over time, and there's only been really 3 months of data. So May, June, and July data after the tariffs were raised meaningfully in April.

[00:43:12.56]

So 3 months of data. Companies told us it would take 3 to 6 months of data, 3 to 6 months for them to fully address and manage tariffs. Well, we're right in that 3 the 6-month window. So, I think we would benefit from further data to form a more solid view on the impact on inflation and growth.

[00:43:36.19] - Esther George

Anything about inflation expectations before I open it up to the group here that you're keeping an eye on? Household expectations, business sentiment, obviously, I know policymakers look at market expectations there. Are you watching those?

[00:43:52.18] - Alberto Musalem

I know you're watching them very carefully. Yes. So I'm going to reiterate, inflation expectations are a critical variable. They are very important for many reasons. Anchored inflation expectations allow the central bank, in this case the Fed, to be responsive to growth and unemployment as well as to inflation. If inflation expectations are not anchored, then the central bank can do less to support the labor market than it would if inflation expectations were

anchored. So it's a very important variable. And as I said earlier, without anchored inflation expectations, it's very hard to have stable inflation. And if inflation is not stable, it gets harder to have maximum employment. So it's a very important variable. I look at them every day. I look at them in the morning, at noon, and in the afternoon. And I look at them in all their different types. I look at short-term, long-term survey measures of households, survey measures of businesses, market implied, TIPS, swaps, all kinds, yes.

[00:45:13.51] - Esther George

The whole gamut.

[00:45:15.03] - Alberto Musalem

Right now they are anchored, but we need to keep an eye on them.

[00:45:20.02] - Esther George

Why don't we turn to the audience here and see what questions they might have. We have time just for a couple, so let me— when I call on you, would you say your name and your affiliation, please?

[00:45:34.49] - Audience

Barry Wood. Economics columnist. I guess flattery would be that the independence of the Fed is emulated by 1997 with the Bank of England and 1998 with European Central Bank. How important is central bank and specifically Federal Reserve independence?

[00:46:01.05] - Alberto Musalem

I believe central bank independence is very important. Central bank independence leads— the evidence suggests, and my own experience suggests— in a previous career, I worked with many countries around the world, and I also worked in an investment management company that invested in many countries around the world. And what the academic literature says and what my own experience says is that countries with more independent central banks but accountable central banks— that's also very important— tend to produce on average lower inflation and more stable inflation, and higher growth, more stable growth, lower unemployment, more stable unemployment. So it tends to produce better economic outcomes. And the reason is central banks that tend to be more independent can better control inflation and maintain inflation expectations anchored, and that allows them to also support growth in the labor market when needed. Central banks that are not independent tend to have difficulty controlling inflation

and tend to have difficulty keeping inflation expectations anchored, and therefore are less able to support the real side of the economy, so growth and, and labor market when required.

[00:47:22.10]

Now, very importantly, central bank independence requires accountability to Congress and to the American people, transparency and communication. In the case of the Federal Reserve, it's very important to say that the Federal Reserve cannot choose its mandate. The mandate is given to the Federal Reserve by Congress, so it's a congressionally mandated set of goals. What the Fed is independent to do is to choose how to achieve those goals. So it's operational independence. That's a very important distinction to make, or clarification to make.

[00:48:06.29] - Esther George

Time for one more question, I think.

[00:48:11.25] - Audience

Bob Thompson, Professor Emeritus, University of Illinois. You mentioned how depressed the agricultural sector is in your district. Is there, is there a strong correlation between how well industries in your district are doing and their export dependence? Agriculture is very export dependent. It's confronting a lot of headwinds in the export market. Is that, can that be generalized to other export goods dependent sectors?

[00:48:43.21] - Alberto Musalem

So in my district, we have, you know, agriculture is very well represented. We also have logistics. You know, two of the biggest— three of the biggest logistics companies in the world happen to be in my district. And so trade and movement of goods and goods is very important for the district I represent. So I would say, yes, international trade conditions are very important. When I talk to the companies that are in my district, I hear about international trade conditions, you know, freight rates, ocean freight rates, shipping rates all the time. And folks in the district are very attuned to international trade conditions.

[00:49:30.44] - Esther George

All right, Alberto, thank you very much for being here at Peterson, for talking about this. As a former policymaker, good luck as you go to your next meeting.

[00:49:41.56] - Alberto Musalem

Thank you, Esther. Thank you all.

[00:49:44.11] - Esther George

Thank you.