

A conversation with Tom Barkin, president of the Federal Reserve Bank of Richmond

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[00:05:50.28] - Roger W. Ferguson Jr.

Well, good morning everyone and welcome. We're very fortunate today to have Tom Barkin, who is President and CEO of the Federal Reserve Bank of Richmond, speak about the U.S. economic outlook. Let me give you just a little bit of background on Tom. I've known him for quite a while. So Tom took his position at the Richmond Fed in 2018. In the role, as all of you know, he's the Fed's chief monetary policy— a member of the board of the Federal Open Market Committee representing the Richmond District. He's also responsible for Richmond's bank supervision and also for the Federal Reserve's technology organization. One might think of all these roles as president of the Fed anywhere as being on the ground, and in his case, he's on the ground in the Fifth District. For those who don't know, the Fifth District includes, um, own Washington, D.C., uh, as well as South Carolina, North Carolina, Virginia, West Virginia, and Maryland. Um, and his engagement in the district, I think, has really, uh, raised the Fed's profile in a very, very positive way. Prior to joining the Richmond Fed, Tom was a senior partner and CFO at McKinsey Company, where I think that's where we first met.

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Everyone knows McKinsey, I hope, as a worldwide management consulting firm, and he oversaw McKinsey's offices in the southern US. Tom's earned his bachelor's, MBA, and law degree from Harvard University, so he's sadly undereducated. So with that introduction of my good friend and, and, uh, today's conversation partner. Let me bring up Tom Barkin.

[00:07:31.20] - Tom Barkin

Thanks, Roger. Really appreciate the chance to be here with you. I thought what I'd do is talk about the economy today and where I think it's headed. But I always learn from questions and comments, and so we'll do some Q&A at the end, and I look forward to learning from you. As always, these are my thoughts and not that of anybody else at the Federal Reserve. So, when I was trying to think about how to describe the economy today, I thought back to about 30 years

ago. At that time, I participated in an outdoor team-building program designed for executive development. And Roger, I think you might have actually been there. One of the tasks was to climb a telephone pole. And then stand on top of it. And you might wonder what that has to do with team building. I was younger then, but I didn't run to the front of the line. Instead, I watched colleague after colleague climb the little metal pegs on the side, but then lose their balance as they tried to climb off the last peg and stand on the top of the pole. They had harnesses, don't worry. It was windy.

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The pole was swaying ever so slightly. And every time someone looked down to try to push themselves up and climb onto the top of the pole, they saw the movement on the ground and lost their nerve. In time, some figured out the trick, which is you have to keep your eye on the horizon. If you didn't do that, you know, you would get nervous. But if you did focus on the horizon instead of focusing on the pole swaying and the ground seemingly moving, you could stand with confidence. Now, this story came to mind while I was thinking about the economy because it fits what I see. The ground may look shaky on both sides of our mandate, which might cause some distress that the economy will lose its balance. But if you focus on the horizon, the path forward feels more stable. So let me take each part of our mandate in turn, and I'll talk about what looks shaky and then give you my case for why you shouldn't lose confidence. Let's start with the labor market. For the last 6 months, I've been describing businesses as trying to drive through fog. With uncertainty so high, it's hard to put your foot on the gas.

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It's also hard to step on the brakes. They felt no choice but to pull over and put on their hazards. They haven't been cutting back, but they also haven't been leaning in. They're not firing, but they're also not hiring. Instead, they're cautiously downsizing through attrition. This sustained caution has put downward pressure on employment. As I'm sure you've seen, recent job growth numbers have been low, with the 3-month average coming in at just 29,000. The hiring rate is near its Great Recession lows. The unemployment rate has ticked up to 4.3%. Beyond the numbers, it also seems there's been a noticeable shift in the labor market. If you ask businesses how they see the market today, they'll tell you they see it balanced. But as they describe that balance in more detail, it doesn't seem so. With the exception of skilled trades, labor feels quite available with plenty of quality applicants per opening. I've been particularly struck by two food processors, processors who each lost hundreds of employees to the revocation of temporary protected status and yet were able to backfill those positions with little difficulty. These aren't the

most attractive jobs, to say the least. If they can be replaced with short notice, that's a sign that the labor market has started to seem a little wobbly.

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But with all that said, if you look at the horizon, there are reasons to be more sanguine. First, labor supply is also shrinking, and it's shrinking about the same rate as labor demand. Border crossings have plummeted. Some estimates that immigration will be down by over 2 million this year. Hundreds of thousands are expected to lose temporary protected status. In my generation, the baby boomers, continues to age. Now they are, I'm not. Um, over the past 3 years, the number of people over 65 and out of the labor force has increased by almost 1.3 million a year. So there may be fewer people— there may be fewer jobs to fill, but there are also fewer people vying to fill each job. And the data reflects this. While the job growth has fallen considerably, the unemployment rate has stayed relatively stable. The second reason to be more sanguine is that demand remains solid. It could even get a boost from stimulus embedded in the recent tax bill. After they hunkered down in the spring, recent data shows, including some data we got this morning, that consumers resumed spending over the summer. Especially those with higher incomes. And why wouldn't they resume spending?

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Unemployment is still low. Nominal wages are still increasing. Asset valuations are near all-time highs. On the business side, the under— underlying dynamics remain healthy there as well. Of course, that differs by sector with data centers and power generation booming and residential and agriculture struggling. Second quarter earnings were strong. Stock prices keep climbing. Uncertainty seems to be coming down as the path for government policies becomes clear. Um, our recently released CFO survey, which we run in collaboration with the Atlanta Fed and Duke University, found that business optimism has ticked back up near the levels they hit at the end of last year, which were the highest since 2021. All of that bodes well for the economy, but even if demand were to weaken, I doubt we'd find companies as overextended as they've been before the downturns we remember. Businesses have been cautious for years now in the wake of interest rate hikes, premature recession forecasts, and more recently, policy uncertainty. After years of low hiring, they should have fewer extra workers and therefore be less likely to need to resort to sizable layoffs. Net, that means the downside in the labor market should be limited. So let's turn to inflation, where I see a similar dynamic.

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Uh, inflation remains above the Fed's target. Came in this morning, 12-month at 2.7%. Core inflation came in at 2.9%. And you may see this morning's PCE reading as reassuring, but annualized, it too would be above our target at 3.2% headline and 2.8% core if you just annualize the one month. Inflation has now been over target for 4.5 years. And we know tariffs are affecting input costs, as are other costs like rising healthcare premiums. For months, businesses have been giving reasons why prices do not yet reflect tariff pass-through. They point to transit time, to inventory buildup, to longer-term contracts. But while the impact may be delayed, they're clear they plan to pass on what they can over time. In the context of inflation already above target, that can make the outlook for inflation seem shaky as well. But again, I'm more sanguine looking at the horizon. For one, price setters seem reluctant to make price increases too visible. Nobody wants too much attention. Additionally, productivity growth seems to be improving significantly. Employers who got caught short a few years ago invested in automation and new processes to reduce their dependence on labor. Deployment of new technologies like AI is having an impact as well, particularly on coding, call centers, and newer employees.

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And businesses reluctant to hire are finding ways to get work done with less. Higher productivity growth helps businesses offset margin pressure in a way that limits inflation, as we saw in the second quarter when earnings grew despite higher costs and limited price pass-through. And perhaps most fundamentally, while consumers are still spending, this isn't 2022. Consumers aren't as flush with excess savings. They're making choices. They're trading down. They're repairing rather than replacing. They're moving to private brands and value retailers. They may also be trading off funding front-loading of, say, an iPhone by cutting back on a vacation. And this consumer pushback should limit the magnitude of price increases as well. So the ground may look shaky today, but there are good reasons to think countervailing forces will limit the downside. I would note, though, that the numbers may look a little unusual during this period. GDP growth could slow, as population growth stalls without triggering a tick up in unemployment. Job growth numbers could look low while unemployment stays relatively stable. The mix of relative price changes across categories could shift. Since 2022, with inflation above our target and the labor market healthy, it made sense for us to focus our attention on inflation.

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You could say we were climbing the pole at that point. The direction was clear. You follow the pegs up. Now, with inflation risk still elevated but the downside risk to employment rising, we face a more challenging situation. We're at the top of the telephone pole, if you will, with our two mandate goals in tension. Our focus is more about balance. At our last meeting, we cut the Fed

funds rate by 25 basis points to just over 4%, moving toward a more neutral policy stance. This should help support the labor market while maintaining pressure on inflation in the interest of keeping the economy on path to that more stable horizon. Thank you. And I think we're going to take some questions.

[00:16:28.18] - Roger W. Ferguson Jr.

Thank you very much. It's nice to meet you. You have a balanced outlook, and it was very much a balanced speech. So let me focus on, first, the economy. You said a couple of things that I want to probe. One is on the consumer. It seems like the consumer is a tale of two cities. There are those of us who are better off and seem to be driving things. And then there is the lower group— not sure how big that group is— that is much more cautious, maybe more strained. What risk do you see in that? I've heard a lot of folks saying, you know, it doesn't take much of a change in the stock market or anything else to throw the consumer overall into a more cautious path. So do you see risks in that very bifurcated consumer outlook?

[00:17:19.28] - Tom Barkin

So first of all, I totally agree with you that the lower-end consumer feels much more constrained than the higher-end consumer. I talked to an airline a couple weeks ago who said the front of the cabin is full and the back of the cabin isn't. And I think that's how I think about what's happening with spending. Now, the dynamics underlying both lower end and higher end spending are still reasonably healthy. People have jobs, as I said. Real wages are up. For the higher end, the wealthy market is OK. Leverage ratios aren't— consumer leverage isn't particularly stressed on a historic basis. And so I think that's fine. The real question is, are people going to keep jobs? Because I think if you're going to see consumer spending drop down, it's that precautionary drawing in of breath that happens when either you lose your job or you're worried about losing your job. And I think the labor market matters, especially for this 80%. They're getting by. They're not happy about inflation, so they're trading down and making choices. But they're still spending. But when they pull back is when you start worried about what your incomes look like.

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3, 6, 9 months from now. And that's why I think the unemployment rate is so important there.

[00:18:31.26] - Roger W. Ferguson Jr.

Okay. So let me take you to that question. Two press conferences ago, I believe Chairman Powell said something that I— I don't know if he repeated it at the most recent one, but it was to

your point that the unemployment rate is really a thing to watch because there's so many dynamics going on on both supply and demand. The message that tells you how strong or weak the economy is, is the unemployment rate. Some might argue we're roughly at full employment. So, you know, what's the concern about the labor force that the Fed has if we are roughly at full employment?

[00:19:08.03] - Tom Barkin

Well, I will say, and you know this, in the last 50 years, this is only the third period where we've had unemployment this low.

[00:19:15.16] - Roger W. Ferguson Jr.

Right.

[00:19:15.29] - Tom Barkin

So late '90s, under your stewardship, in 2019 and '20, early '20, and then, of course, the last year or two.

[00:19:25.01] - Roger W. Ferguson Jr.

Exactly.

[00:19:25.21] - Tom Barkin

And so on a historic basis, unemployment's quite low. And I'd say we've been hearing this low hiring, low firing thing for some time, but the jobs data wasn't giving much cause for concern. Still, we had 150,000 or so job gains a month, unemployment rate very stable. What has happened over the last 2 months, and you can't run away from it, is that a bunch of revisions have come in that have shown that job growth has been much more modest. I gave the numbers, 29,000 over the last 3 months. The unemployment rate has started to tick up. And so while the level is still at a place that historically should not be a cause for concern, the trend is starting to move in the wrong direction. And that's what you worry about is just the trend. Just normalize yourself and close your eyes and go back 3 months ago and today, and you look at our mandate variables, you have to say unemployment looks a little bit shakier, inflation's a little bit better than you would have forecast 3 months ago.

[00:20:27.03] - Roger W. Ferguson Jr.

Okay, so let me do one more on the nature of the economy and then go to the place where you took us, which is policy. So the other thing I'm hearing as I travel around among business leaders is also very much the tale of two economies. The tech economy, things around the tech economy booming. I've heard from a number of people in different kinds of manufacturing and heavy equipment and big transportation that they are, as one person said, we've been in recession for a year and a half. So how do you think about, one, does that comport with what you're hearing, very uneven story in the business sector. Maybe you're not hearing that. And secondly, if you are hearing it, how does that play into policy, similar to the Tale of Two Cities for consumers, so to speak?

[00:21:16.09] - Tom Barkin

So it's definitely true, and I referenced it, different sectors have different views on it. And on the people who carry goods, when prices went up in goods, volumes went down. And if you're in freight and transportation or cardboard boxes, you care a lot about units. You don't care that much about dollars. And so that has definitely been an issue in that space. As you know, policy is kind of a blunt instrument. You could raise 25 basis points. You could lower 25 basis points. One will stimulate the economy a little bit more in interest-sensitive sectors than overall. One will constrain the economy a little bit more in interest-sensitive sectors. And you can't really solve sectoral problems with monetary policy. That's really the role of, well, first of all, the free market, and then I think, you know, secondarily fiscal. You know, the part of the economy that's booming the most, as you referenced, is AI, data centers, energy provision, you know, thought broadly. No question about it. And, you know, if you look at the numbers for the year, you see a huge increase in that kind of investment. No one should be against that. That sounds like good investment, takes the economy forward.

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It's good. Unclear how much job creation comes in the near term out of that. In fact, as I mentioned, AI could go the other way, at least in the near term. And so we'll see what this means in terms of the labor market. But in terms of GDP, as I said, you're seeing—, you know, still reasonably healthy growth, even as the job growth numbers aren't coming along with that.

[00:22:55.17] - Roger W. Ferguson Jr.

Okay, so let's take a backward look at policy. At your most recent meeting, with one dissent, the FOMC voted to reduce rates by 25 basis points. Chair Powell talked about that as a risk management cut. So how should we in the public think about this concept of a risk management cut?

[00:23:16.09] - Tom Barkin

Well, again, I go back to 3 months ago. You would have said labor market was quite healthy. Inflation was at risk— was higher than target and at risk from some of the cost— input cost increases coming from tariffs and otherwise. You go 3 months further along, you might still think inflation's at risk, but that risk hasn't really manifested itself yet. At the same time, the unemployment rate has ticked up and the job growth numbers have come down. And so that risk is a little bit more salient. And so, you know, how do you navigate policy? You could have a good debate about whether that reaches the line of a cut or not. You know, is it a tenth of a cut, a third of a cut, a half a cut, a cut, a cut and a half? That's all a very reasonable thing for debate. But what doesn't seem to debate to me is that the move— you've got to move a little bit toward the employment side of the mandate, given what we've learned over the last— 3 months. And so that's how I see it. It's a little bit of a move. We'll get more information as the months go on, and we'll see whether you'd continue that or back off.

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I mean, there's a lot of different ways you could go. But I take each meeting as a time. And I think the more risk to the labor market, it made sense to do something about it.

[00:24:29.25] - Roger W. Ferguson Jr.

So again, thinking about policy, but putting it in a broader context, you've referenced a few times as the Chair Powell, complication that comes from the dual mandate. I would presume no one would say we should change the dual mandate. You can say that if you want. I think people might take that as newsworthy. So, but how should we think about the dual mandate when you get into these situations where it sort of makes your job somewhat more difficult?

[00:25:01.17] - Tom Barkin

Yeah. Well, I like to say monetary policy is easy 75% of the time. Inflation's high and unemployment's low, raise rates, or you get the opposite, you lower rates. And if inflation's low and unemployment's low, maybe you take a longer vacation. But if inflation is going up and unemployment's going up, you know, that does create a real tension. Our framework has talked about you try to balance, you try a balanced approach where you weigh how far you are off of target and how long it'll take to return to target. But in truth, it's hard to navigate that. Part of why I've sort of trying to make the point that I'm relatively sanguine about the horizon is you could talk yourself into, oh my gosh, the labor market's about to collapse. I don't think that's going to happen. Inflation expectations are about to un-anchor. I don't think that's going to happen. I

actually have a much more balanced view of how this is playing out. And I think you can proceed thoughtfully and try to weigh what you're learning on both sides of the mandate. And if you will, navigate deliberately through the shoals here. That's how I see it given the environment we're in.

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But we may learn more as we go.

[00:26:14.29] - Roger W. Ferguson Jr.

Is it fair to say you've moved from the phrase that the chair used to use a few times, wait and see? And it sounds like what I'm hearing, it's decision-making meeting by meeting. You're not trying to give— It seems to me the Fed's not trying to give forward guidance, but you're trying to suggest that incoming data and changing forecasts will play. And so, in some sense, every meeting could be, you know, quote, "live," i.e., you know, something might occur depending on the incoming data. Is that a fair interpretation of where you are?

[00:26:44.08] - Tom Barkin

I mean, I think meeting by meeting is a very reasonable way to think about it. You know, what's hard about the data, of course, is it comes in a month late and it's revised 3 times. We'll see what we learn. It's hard to make too many choices on one particular data point. But I think there's a bigger picture here about, are we seeing these tariff pressures result in price increases of a scale that you start to really worry about consumer expectations? And are we seeing this hiring slowdown affect the labor market in ways that make you really worried about the health of the labor market. As I said, right now, I'm reasonably sanguine on both of them. But it wouldn't take a ton to convince me not to be sanguine on either side. And we will learn a lot more on how these policies work in practice, what impact they have on prices or layoffs. I think there's a lot of opportunity to learn here.

[00:27:47.18] - Roger W. Ferguson Jr.

But how should we think about the fact that inflation has been running above target for quite a while? The most recent forecast from the SEP, if I recall it correctly, most of your colleagues— and I don't know where you were— seem to think that it will take another couple of years for inflation to get back down to something that sort of rhymes with 2. That's got to be sort of a little gut-wrenching. But how do you analyze why inflation has been so sticky? And then let me ask question 2. In the context of inflation being sticky, long-term inflation expectations have been relatively contained for sure, which I think gives everyone confidence. So talk about the inflation

picture, why you think we are where we are, and then market expectation of inflation expectations being so, so much anchored around a very good number.

[00:28:41.07] - Tom Barkin

Yeah, so it's certainly uncomfortable to have inflation over target. I'd be much, much more comfortable at target. So I just want to acknowledge that. Um, I do think that, um, when inflation is experienced by businesses and consumers, it takes longer than you'd think to erase that from their memory. And one of the things I did a couple years ago was go back to the inflation rate after Volcker, because those of us who remember, remember that as an awfully aggressive jolt to the system. And in our memory, it wiped out inflation for the next 50 years. But the truth is inflation in 1986 was 4%. It wasn't 2%. Now, there wasn't a 2% target, but it was still higher. And I think there are all kinds of effects that happen in real life. Catch-up for wage gains, people who didn't increase prices in the first round but now feel like they need to, costs that are passed on that need to be recovered, or even just new frames of mind about how people price. And if you go back to 2018 and '19 when I was new in the job and I was interviewing businesses about tariffs, and I said, well, you're going to pass it on, the typical answer was, Well, I'm going to try to pass it on with these small customers, but when it comes to the big box retailers, I don't think they're going to accept it.

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People were absolutely fixed in their belief that they didn't have any pricing power. So then '22 happened and people passed on prices and we all accepted it, not happily, but we all accepted it. And I think that changed people's courage mindset. Takes a while to tamp that back down. I can't tell you how many people I've talked to who hadn't raised prices in 10 years, but then raised them in 2022, and now they're in a price increase cycle. So I just think it takes time to get down to 2%. And some of that's a lag factor. And then whatever the impact of tariffs will be on pricing is another thing. So if you go back to, I'll call it March, you saw an inflation rate that was coming down nicely. Wasn't quite at 2%, but it did rhyme with 2, 2.3 or 2.4. And you could talk yourself into, hey, we're right on the path here. And then you've got this tariff situation, which, as I said, some will get passed on, some will be funded by productivity, some will be funded by—or will be prevented by customer pushback. And so I think you just have to keep a nuanced eye on whether this is a temporary situation that will come back.

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Or something gets more embedded. Long-term expectations, I think, are just a question of, do you have confidence in the Federal Reserve to do what it needs to do when it does? And so I

take reassurance from the fact that they really haven't moved, but I don't ever assume that they can't move. And so you've got to make sure that, as you describe policy, you're keeping your eye on inflation as you're looking at the other part of the mandate as well.

[00:31:42.18] - Roger W. Ferguson Jr.

So I've read reports of some of your colleagues making statements that might be interpreted as, you know, maybe the 2% inflation target's perhaps a little too restrictive, and maybe we might be open to, you know, a higher inflation target. How do you think about— so let me finish. Like, some might argue— I'm not— but some might argue that the actions of the FOMC suggest that Maybe they are a little more comfortable with inflation target that's slightly above 2% because you're willing to cut in the face of inflation. Looks like even today's data doesn't seem to be moving aggressively or predictably in your— in the direction of the 2%.

[00:32:26.28] - Tom Barkin

Well, we've got a 2% target, as you know, that was widely litigated within the Fed and across the Fed. It's been announced. It's been highly successful. Both in the US and around the world. By the way, we've been at 2% or just below for most of the last, you know, 30 years. And so I think it's a very— I think there's a lot of unanimity that— and we just went through a framework review where I guess we could have talked about it. We didn't change it. So I think there's a lot of support for a 2% target, no question. How one operationalizes it is always a question. I mean, I'll confess, When we were at 1.7 or 1.8 in 2019, I gave a speech that said, like, why are we looking at decimal points? Maybe we should just declare victory that we're at 1.7 and 1.8. Why do we have to worry about this? I'm not sure I won that argument at the time, but I was making that argument. And so I sort of feel the same way, you know, if you're at 2.1 as if you were at 1.9. The only issue is you kind of got to hit the target.

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Before you can range around the target. And so I do think there's still an imperative to hit the target, and then we can have a conversation about how much to worry about 1.9 or 2.1. But that's after you've gotten there, not before you've gotten there.

[00:33:43.26] - Roger W. Ferguson Jr.

You've just mentioned, um, the review that, that the Fed just had, and it seemed to me that you made a change. Um, the last time before the review, there's this notion of if you've under-hit the target, you have the opportunity, willingness to over-hit for a little while to go above 2. That seems to be removed. Is that correct? And how should we interpret that change? And this

seems like a little bit of Fed insight. I think all of you sort of understand the nature of the change because this is a very Fed-inside group as I look at you.

[00:34:20.02] - Tom Barkin

So I think it's OK. Well, I think, you know, I really applaud the Committee for changing the framework in the way we did. If you, you know, go back to 2019 when we started debating the framework and in early 2020 or mid-2020 when we finalized it, it feels like a different world then. I mean, unemployment had been low with no inflation pressure for a long time. Inflation had been under 2% despite a very accommodative monetary policy, what seemed like it. It looked like we were in a low r^* world for a long time. And there were lots of thoughts about, you know, how do we get out of that? It just doesn't seem like that's the number one question we have today with inflation above target and all the other stuff. And so, you know, I really applaud the Committee for taking a fresh look and saying, you know, that that old document felt a little bit too focused on one of the many states the world could be in as opposed to all of the states of the world. So this goes more to what I would call a quasi-constitutional level. It's more big picture.

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It talks about how we handle multiple states of the world. It still acknowledges that there could well be environments where the lower bound is an issue and a low r^* world could be an issue. And if so, I think it says we would use all of our tools as required. But we've backed off of a prescriptive makeup formula, and I think that's a good move.

[00:35:44.05] - Roger W. Ferguson Jr.

OK. Let me now— I'm going to open up for questions here in a few minutes, so get yourselves ready. You mentioned in your talk AI. I'd love to get your thoughts generally, not just about AI short term, but AI and productivity growth longer term. And importantly, a longstanding debate among central banks. If we are on the cusp of a major improvement in productivity because of AI, How do you think the Fed should think about that and respond to that in terms of what is the so-called equilibrium real interest rate?

[00:36:20.29] - Tom Barkin

So AI seems to be the topic of the moment. It seems like a pretty powerful technology, not a new technology. Credit scoring is AI. And it obviously will have the opportunity to create jobs, enhance jobs, and eliminate jobs. You know, one of the more interesting applications of AI— I talked to an industrial manufacturer the other day who thinks he can actually bring people into

the workforce to do jobs they couldn't have done before because they'll have an AI assistant who can help them do the job. Think of machine maintenance, where what you do in machine maintenance basically is work through a checklist. And— but you need qualified mechanics, and everybody's short qualified mechanics. And he was making the point that I can actually use AI to get people who aren't qualified mechanics to be qualified as mechanics. I thought that was— Interesting. That doesn't enter the public conversation the way not having analysts work on your briefings does. But I think it should. There's also a big piece of it that I think is going to enable growth, whether it's sales planning or sales targeting or creating pitchbooks or whatever, that— means, you know, more revenue for companies, but also have more hiring.

[00:37:32.28]

So I'm not a person who thinks this is necessarily net job destructive. It might be in some, but I think it's more job reallocated. But we'll see, um, you know, where that plays out for productivity is I think we're going to have a lot more productivity because I think we're in a short labor world for the next generation. And that's not the world that I grew up in. We were in a long labor world because of demographics, the baby boom generation and immigration, and women more fully participating in the workforce, and people living longer and healthier and working. So if you go back to the '90s, workers were everywhere and jobs were short. I think we're actually going to have a short worker environment because demographics going the other way. If you look at the enrollment cliff, it's a mess. Fertility is not going to change anytime soon. Immigration is going the other way. And so I think employers, on their list of priorities, is just going to rise significantly, how do I get more out of less? And if you believe that, then you think you get a lot more productivity. Obviously, strong productivity, as you guys demonstrated in the '90s, strong productivity can allow you to— let an economy flourish because you may get a lot less inflation.

[00:38:52.11]

I was looking the other day, though, and in the late '90s, inflation was under 2%. Yes, it was. Yeah, I kind of— for some reason, I thought when I hear all the stories, I always thought inflation was 3% then. But it was 1.8% or 1.7% or 1.6%. So maybe a little bit less risk than otherwise you'd think. And at least all the stuff I've done, the neutral rate says higher productivity, is a higher R^* . And so, you know, you may have less inflation, you may have a higher neutral rate, and, you know, we'll sort of play that out as we go.

[00:39:23.08] - Roger W. Ferguson Jr.

Okay, so two more questions for me. How do you think about the interaction of fiscal policy and monetary policy? And I'm going to ask— let me be pointed about the sub-questions. One

around— one question obviously is, size of the Fed's balance sheet, the risk concern, et cetera, of the Fed monetizing debt. Then the second interaction you've already talked about, which is there are also other elements of policy that one might describe as fiscal that have to do with the behavior of the economy— deregulation, immigration, et cetera. And those things are coming into play with some people in and around the Fed saying, you know, these policies are giving us more flexibility to do this or that. So how should we as a public think about how you personally think about that interplay between policies outside the Fed and the Fed's mandates and roles?

[00:40:25.10] - Tom Barkin

Yeah, so we don't make fiscal, obviously. The folks who are elected make fiscal, and we just make policy in the context of fiscal. And so there's a lot of things that— of things that fiscal can do that support growth and a lot of things that fiscal can do that restrict growth, and a lot of stuff that fiscal can do that support employment or not, or are inflationary or disinflationary. But we don't try to judge it. We just try to add it up and make policy against it. So that's the fiscal question. And your other question was? Well, also this— Oh, the monetization of the debt.

[00:40:57.29] - Roger W. Ferguson Jr.

Monetization of debt, the size of the balance sheet. Range of questions some people worry about.

[00:41:02.14] - Tom Barkin

Well, so I mean, we certainly have shown a willingness to expand the balance sheet when necessary in times of economic crisis. I think a great way to preserve the ability to do that is to then bring the balance sheet back after the economic crisis. And that's what we're in the middle of doing now with what's often called quantitative tightening. I think that's a healthy thing to do until you get to the point where liquidity has been drained back out of the system. The other thing you may have been pushing at is just the deficit question. Right. And it does make me think hard about long-term rates and short-term rates, because we really only control the short end of the curve. A year ago, we reduced rates 100 basis points over 3 months, and the long rate actually went up. And I've wondered a lot about how much of that is just the supply and demand of Treasuries. What drives the long rate? It's supply and demand. And the supply of Treasuries is going up as the deficits go up. That would suggest that they're going to raise rates. And the demand for Treasuries, I don't know what's driving it.

[00:42:11.01]

I've seen some stuff that suggests that foreign demand is still healthy, but the rest of the world 2 years ago was paying negative interest on their sovereign debt. And I don't know, if I was an investor in Switzerland or Japan and my option was to have negative interest rates or to take some currency risk and get positive interest rates, I might actually take the currency risk. And so as they start paying positive interest rates, maybe that does do something on the demand side as well. So supply and demand moves as it does. And if you If we keep issuing more Treasuries as the deficit grows, that can't be good for long rates.

[00:42:49.10] - Roger W. Ferguson Jr.

Okay. Thank you. Let me open it up for questions now, if there are any. Please, there's a mic back there. Please step to the mic and introduce yourself and then ask your question. Can someone help make sure the mic is turned on?

[00:43:07.08] - Tom Barkin

On, but— There you go. That's like my own personal hell, which is to be asked to speak to a mic and then have the mic turned off. Yes. I got it now. Thank you so much, President Barkin. You talked about the framework review.

[00:43:18.19] - Roger W. Ferguson Jr.

Would you take a moment to introduce yourself, please? Sure. Thank you.

[00:43:21.08] - Audience

Pedro da Costa for Market News. Thank you. I have a question about the frame— so the framework review is now finished, but Chair Powell had mentioned that following that, there would be some reassessment of perhaps communication strategies around the forecast consensus statement. Can you give us any more specifics on that? And can you give us any idea of things that you'd like to see in terms of changes?

[00:43:45.23] - Tom Barkin

I don't know when we'll talk about the communication stuff. I know he said that. I guess I will say that there seems to be high dissatisfaction with Fed communication now from all directions. I don't know whether that means we're going to change anything, but there are people who want more and people who want less and people who want different. And so I'm open to the world of what we visit, but it seems to be a lot of people talking about it.

[00:44:14.29] - Roger W. Ferguson Jr.

The question has to do with the dot plots. Right now, there's 19 separate dots that are on an institutional forecast.

[00:44:21.27] - Tom Barkin

My personal view on the dot plot is I get a lot of personal value out of the process of investing in, thinking about, and developing it. It really grounds my policy. Forecast with my economic outlook in a way that is an incredibly useful give and take with my team. So I really value the process of developing my dot. I don't believe that the— I believe that the dot plot is a chart that obscures the story. And so it's not clear to me that we're adding to the quality of our communication by publishing a dot and by sending you guys out there to say the Fed has forecast to or promised to. I go to lots of meetings where people go, well, I know you guys have promised 2 more rate cuts for the rest of the year. I'm like, well, it was a dot plot. Even the chair at his press conference says, I want you to think about what this is and what this isn't. So I don't think more transparency is the answer to that question. I think the answer might be thinking about different communication mechanisms. Next question.

[00:45:30.02] - Audience

Nick Timoroso, The Wall Street Journal.

[00:45:32.29]

Tom and Roger, I'd also be interested in your answer to this if you want to jump in. As you know, the 12 Reserve Bank presidents have to be reappointed to new 5-year terms by next February, and there's a lot of attention right now, of course, on Fed independence. Federal Reserve Act and the public-private structure of the system has been seen as an important mechanism that insulates rate-setting decisions from political control. So, my question is, what would it mean for Fed independence if Reserve Bank presidents were not reappointed based on factors other than very clear job performance-related issues?

[00:46:11.24] - Tom Barkin

Well, you don't know anything about my reappointment, though. I was just kidding. We do have a process every 5 years. I went through the process. 5 years ago. The process today feels like the process 5 years ago. It's a thoughtful process with both my board and the Board of Governors, and I trust the process for this time. And I, I don't have a lot of speculation about other possible outcomes.

[00:46:39.24] - Roger W. Ferguson Jr.

And I won't speculate outcomes, but your question gives me a chance as a former Fed official and still a supporter of the institution to emphasize the very really big importance of independence of the Fed. I'm not going to put anyone else on the spot to talk about it, but it's pretty obvious that markets expect an independent Fed, and there's been very, very good performance because of an independent Fed. And so I think it behooves all of us to continue to push on the expectation the Fed will maintain the independence that it's had for now roughly 70 years.

[00:47:14.08] - Audience

Good morning and thank you. My name is Cullen Hendrix and I'm here with the Peterson Institute. Thank you for joining us. So pending the outcome of the Supreme Court's decision, we may be facing a future in which there's going to be a large revenue hole created if the IEPA tariffs are struck down, as well as a refunding of somewhere on the order of \$150 to potentially \$170 billion, given that about 90% of the incoming revenue is coming from the IEPA tariffs. Is that going to make your life harder, easier, or is it a push? Thank you.

[00:47:51.26] - Tom Barkin

Finally, somebody who cares about whether my life is harder or easier. I mean, the first thing is I don't know what the Supreme Court might or might not do in this case. And what they might or might not do includes what the remedies are. And so it's awfully hard to speculate about how that all plays out. I'm just trying to think about it live. If the remedy does turn out to be some amount of refunding, then I would assume there's a bunch of interactions between importers and retailers or other intermediaries about prices that have been charged and how that's going to get refunded.

[00:48:37.08]

And that strikes me as an awfully difficult process to navigate. But would that be disinflationary, assuming it's not replaced? Sure. If it's replaced, would that be disinflation? Maybe not. So I think you'd see businesses scrambling on both the recovering and then the allocation of that recovery. And that's probably comparable to how they scramble when they're imposed in the first place. But I'm speculating.

[00:49:03.06] - Roger W. Ferguson Jr.

But I assume overall, as with everything else, as you just said in my answer— and answer my question, It's a fiscal policy story. You'll take it into the entire admixture that you go through. From a policy standpoint, absolutely.

[00:49:17.05]

Next question, please.

[00:49:19.14] - Audience

Matt Donnell with the Fox Business Network. Thanks so much for sharing your time with us this morning. I wanted to ask on yesterday's GDP reading, quarter 2, and how that impacts your view of the path for interest rate policy for the rest of the year. And on that note, I also wanted to ask, Would you be willing to share which dot you were in the last summer of economic projections? Based on your comments, it doesn't sound like you're penciling in a hike, and I think we know where Governor Myron's dot is. So do you look more towards the 1, 2, or is it live, as you said?

[00:49:52.11] - Tom Barkin

Well, so I don't talk about my dots, so sorry about that, but I'll try to give a better answer to your first question. So the second quarter GDP is important to look at together with the first quarter GDP, because first quarter was -0.6, second quarter is now 3.8. The economy did not swing that wildly between the first and second quarter, but there was an awful lot of front-loading that happened in March that then got reversed in the second quarter. And the way the stats work, the extra imports deducted in the first quarter added.

[00:50:28.13]

So I think it's good to look at them together. And if you add them together and divide by 2, you get about 1.6% growth, which is about where I think the economy is in the first half of the year. And that's about what potential growth is, plus or minus. You have an economy that's still moving along, but not as strongly as it was in 2024, 2023. Part of that is the stuff I've talked about. Uncertainty, low hiring, low firing. There was some pullback from an awfully strong fourth quarter last year from a consumer spending standpoint. You had some weather issues in January. You had the uncertainty around the April tariff thing. So I think that's the economy you've got in the first half. I've kind of written all that down. That's all policy from the first half of the year. So it doesn't really change my view on policy going forward, which has to be— informed by, you know, your forecast for where the job market's going and where the inflation is going. And that's what I tried to talk about today.

[00:51:29.13] - Roger W. Ferguson Jr.

Next question, please.

[00:51:30.23] - Audience

Thank you for this opportunity. I'm Goro Uy from TV Tokyo, Japanese broadcasting company. President Biden, so I would like to ask about employment situation. So in the past, the number of jobs needed to keep the economy at cruising speed has changed.

[00:51:49.04]

So in the current economic situation, so what level of job gains would you consider favorable?

[00:51:57.22] - Tom Barkin

I think your question is, where do I see the break-even jobs right now? Yeah. Yeah. Is that— OK. Well, most of the analysis that's being done has said that if it was— when I started in 2018, 2019, the common wisdom was 80,000 to 100,000 a month. We had a lot of immigration over the last couple of years. People were using numbers that looked more like 150. Most of the numbers that the analysts are using now look more like 50, given what I talked about with immigration and the like. I think, though, I sort of put together the jobs gains and the unemployment rate and say, if over the last 12 months the unemployment rate's ticked up by 0.1%, and if during that time the average jobs gains were so-and-so, you can kind of do that. So somewhere in the 0 to 50. Range based on what we're seeing today. I think one of the challenges you're going to have is a lot of these factors aren't static. So immigration has gone down. Is that what it's going to be for the next several years?

[00:52:58.08]

Or is that— we had a big change, but what is it going to be for the coming years? I don't know that I could predict that. And similarly, the participation rate for people over 65 came down during COVID From the peak it had before 2019. Is it going to stay down? In which case, what I talked about the baby boomers is real. Or is it going to drift back up as it did in the 2017 to '19 frame? So there's some real questions about the going forward. But at this moment, I'm sort of in the 0 to 50 range.

[00:53:28.27] - Roger W. Ferguson Jr.

This will be our last question. Thank you.

[00:53:31.29] - Audience

Thank you. Greg Robb from MarketWatch. Parochial sort of question about the DC economy. Are we in recession now, or have we been, and are we going to be in one? Where, where is growth in this region, and what's going to be driving our growth here for the next couple of years?

[00:53:51.05] - Tom Barkin

Yeah, so I do think in my district, uh, you know, the economies of North and South Carolina are growing quite nicely, you know, up over 2% a year. Um, and the, you know, DC metro economy would be a relatively weak spot. Part of that, obviously, is the federal job situation, also contractors, also eds and meds, which sort of feel threatened by a number of the recent funding changes. And so I think the number nationally is 150,000 or 200— well, there's been a lot of federal jobs lost, and then there's 150,000 coming at the end of the month. That we know about. All that relates to— you see it in the restaurants, consumer spending. Houses on the market are more significant here, the growth in houses on the market versus other metros. So you definitely see that. I think of it as a sectoral restructuring, not unlike what you might have seen in Texas during the oil situation in the '80s or in the Rust Belt.

[00:54:54.12]

In the auto market in the 2010s, which is this is a town that is very focused on one industry. And that industry is not growing at the pace that it used to and probably shrinking. And so that has implications for the local economy. Good. Just to follow up, so you're trying awful hard to resist saying recession. Is that on purpose, or is that just too— yeah. Is it a recession? I feel like I should try even harder not to say it. No, I don't know. I mean, there's a whole definition for what a recession is that's an NB. I don't know how to even think about it. Do I think that the demand in this metro area is down? Yes. Is population and workforce growth down? Yes. Has the unemployment rate gone up significantly? Not a ton. Now, part of that, you could speculate. I think it's a lot of the federal government jobs that have been lost, or people retiring or moving. And so you're not seeing the part of a recession that would be driven by unemployment rate. You don't see that yet. Maryland unemployment is still lower than the national average. So is Virginia's.

[00:56:03.08]

DC Metro is higher, but it's always higher. So I definitely think we're seeing weakness on the demand side, weakness on the job growth side, but not weakness on the unemployment rate side.

[00:56:15.02] - Roger W. Ferguson Jr.

That will be our last answer, so please join me in thanking Tom Barkin for a great speech. Thank you.