THE ECONOMIC CLUB

OF WASHINGTON, D.C.

Excerpts from the Signature Event featuring The Honorable Jerome H. Powell, Chairman of the Board of Governors of the Federal Reserve System

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“2018 was a very good year for the U.S. economy. It’s the strongest growth we’ve had in more than a decade. By so many measures the labor market is very strong… We also see, though, the financial markets expressing a view of concern about downside risks really associated with global growth and with trade. So how do we put those two different signals together? I think we’re actually in a good place. I think where that leaves, us, particularly with inflation low and under control, is we have the ability to be patient and watch patiently and carefully as we see the economy evolve and figure out which of these two narratives is going to be the story of 2019.”

“If you look at the incoming [*financial*] data, right through the end of the year and into the beginning of this year, you don’t really see any evidence of a slowdown. We’re in a situation where we have factors pointing at different directions… When we have that, what we do is we apply sort of risk management principles. In other words, we’re not just concerned about the baseline case. We’re thinking about what the risks are and we are using our tools to address those risks… That means, first, there is no preset path for rates... Second, it gives us the opportunity to be patient and watch and see what does evolve. Are we going to see the more positive view that most forecasters have of this year? Or are we going to see slowing global growth and are we going to see that affect U.S. growth? … We’ll always use our tools to try to sustain this expansion and keep the labor market strong and inflation low.”

“In the short term, if government shutdowns don’t last very long, they have typically not left much of a mark on the economy… A longer shutdown is something we haven’t had. If we have an extended shutdown, and I do think that that would show up in the data pretty clearly,… we would have a less clear picture into the economy if it were to go on much longer.”

“I don’t see anything that suggests that the possibility of a recession in the near term is at all elevated. Recessions are most often caused by two things. One is inflation that is high enough that the Fed has to hit the brakes. We don’t see that. More common recently, in the last several cycles, it’s really been a matter of mounting financial imbalances, by which I mean asset bubbles, the housing bubble, the dotcom bubble, or just excessive leverage as you saw in the subprime mortgage area, where those things happen… We don’t see those risks.”

“The U.S. economy is solid… There’s good momentum going into this year. The principal worry I would have is really global growth. If you look at Asia, look at Europe, you’re seeing slowing in growth. And the question will be: How much does that affect us? It’s a tightly integrated global economy and global financial markets, and we will feel that.”

“I don’t think that the tariffs on either side have had much of a visible mark on either the Chinese economy or the United States economy… I will say this, though: if this process leads us to a fairer, more open, lower-tariff environment for trade, that’ll be good for the global economy and it’d be good for our economy. If instead it leads to a more protectionist environment where tariffs are higher and they’re mutual and they’re long-lasting, then that’ll lead to a less-productive economy here in the United States and around the world.”

“I am very worried about [*the federal government’s debt*]. But from the Fed’s standpoint, we’re really looking at a business cycle kind of length. That’s our frame of reference and the long-run fiscal non-sustainability of the U.S. federal government isn’t really something that plays into the sort of medium term that is relevant for our policy decisions. It’s a long-run issue that we definitely need to face and ultimately will have no choice but to face.”

“We want to have the balance sheet return to a more normal level, which is a level no larger than it needs to be for us to conduct monetary policy efficiently and effectively… That will depend on the public’s appetite for our liabilities, specifically currency. To us, that’s a liability and the public has a large appetite for currency and also reserves and other liabilities. So, it’ll be substantially smaller than it is now.”