



Fed's Mester says not troubled by low inflation, confident it will pick up

November 16, 2017

Washington (Reuters) - Cleveland Fed President Loretta Mester said on Thursday she feels inflation is poised to pick up, clearing the way for the Fed to continue its gradual process of raising interest rates.

“I am not as troubled by where inflation is today. There is good reason to believe it is going to come back up,” Mester said at a monetary policy conference at the Cato Institute. Given the depth of the 2007 to 2009 economic shock, she said, an extended period of weak inflation “should not have been unexpected.”

The Fed is expected to raise interest rates at its December meeting, with trading in fed funds futures indicating a greater than 90 percent likelihood of a hike.

Fed policymakers have wrestled in recent months over whether recent weak inflation suggested broader weakness in the economy or was the result of other forces that might cause the Fed to slow its tightening of monetary policy.

But recent data has shown inflation beginning to rise, with job and wage growth, and continued household spending, indicating a recovery that remains on track.

Mester said the recovery was “well-established,” and warranted a continued gradual approach to raising rates.

The bulk of Mester’s comments addressed long-term issues confronting the economy, particularly the aging of the population and an associated slowdown in the growth of the labor force. Without more workers, Mester said, economic growth will be lower than otherwise, interest rates may be held down, and even variables like inflation may change its behavior. Mester, joining what has become a common refrain among Fed officials, said that given low birth rates the solution lay in a “sensible immigration policy.”

“We cannot cut ourselves off and not allow immigrants into the country,” Mester said. “There are different ways to do it...But it seems clear that if we want our workforce to be growing we cannot wall ourselves off to people with skills.”