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Fed's Clarida Says U.S. Is Testing Edge of Full Employment, Price Stability

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November 15, 2019

Federal Reserve Vice Chairman Richard Clarida said Thursday that the U.S. economy may be testing the edge of full employment, in remarks that noted the central bank's tool kit for influencing the economy is in a good place.

The U.S. economy is "operating at or close to maximum employment and price stability," Mr. Clarida said. He noted that the current jobless rate of 3.6% may be within the range of "plausible estimates" for the lower end of the range of what constitutes full employment.

But even as the jobless rate tests a level that should in theory help spur higher levels of inflation, price pressures still aren't much of an issue, the official said. His comments came from the text of a speech he was to present at a conference held by the Cato Institute in Washington.

"Although the labor market is robust, there is no evidence that rising wages are putting excessive upward pressure on price inflation," Mr. Clarida said, adding "wages today are increasing broadly in line with productivity growth and underlying inflation."

Mr. Clarida also noted that when it comes to where the public sees inflation pressures going in coming years, "U.S. inflation expectations today do reside at the low end of a range I consider consistent with our price-stability mandate."

Mr. Clarida didn't comment on the interest-rate outlook, in remarks that came a day after Fed Chairman Jerome Powell told Congress that more rate cuts seem unlikely for now "as long as incoming information about the economy remains broadly consistent with our outlook of moderate economic growth, a strong labor market" and stable inflation.

Much of Mr. Clarida's speech was devoted to the Fed's ongoing review of its policy-making system. The central bank has held a series of events around the country to solicit feedback on how well it's helping the economy achieve its full potential. Officials are also trying to figure out how to better conduct monetary policy in a world where inflation has been persistently low, and short-term rates haven't been able to rise to the levels they once did.

The low level of rates means the Fed runs a higher risk of having to lower rates back to zero levels, where they were during much of the financial crisis and its aftermath. Then the Fed turned to other stimulus strategies like long-term bond buying and explicit guidance about the future path of rates. It has been exploring whether that regime needs an overhaul, but thus far, officials like Mr. Clarida and others aren't hinting big changes are to come.

“We believe our existing framework, which has been in place since 2012, has served us well and has enabled us to achieve and sustain our statutorily assigned goals of maximum employment and price stability,” Mr. Clarida said.

Fed officials agree the current monetary policy framework “is flexible enough to allow the [Federal Open Market] Committee to choose the policy actions that best support our dual-mandate objectives in a wide variety of economic circumstances,” the official said.

In his speech, Mr. Clarida said the policy review will likely be complete in the middle of next year.