

ACHIEVING MAXIMUM EMPLOYMENT

NORTH DAKOTA STATE UNIVERSITY EXTENSION ANNUAL OUTLOOK MEETING

August 16th , 2021

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FEDERAL RESERVE BANK
OF MINNEAPOLIS

DISCLAIMER

The views expressed are my own and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.

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TODAY'S OUTLINE

- The congressional mandate
- Promoting maximum employment
- Lessons from the Great Recession
- The current economy



THE CONGRESSIONAL MANDATE

The Federal Reserve Act mandates that the Federal Reserve conduct monetary policy “*so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.*”

Dual Mandate: maximum employment and price stability



What is
maximum
employment?



THE CONGRESSIONAL MANDATE

“Maximum employment is the highest level of employment or lowest level of unemployment that the economy can sustain while maintaining a stable inflation rate.”

—Board of Governors



PROMOTING MAXIMUM EMPLOYMENT

THE FEDERAL OPEN MARKET COMMITTEE (FOMC)



PROMOTING MAXIMUM EMPLOYMENT

THE FOMC TODAY



MONETARY POLICY TOOLS

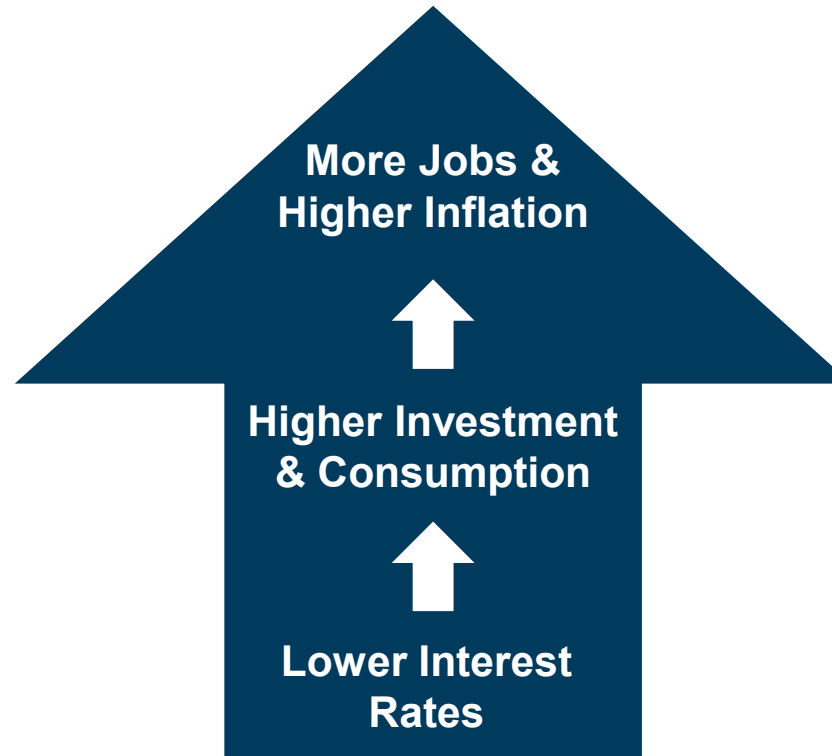
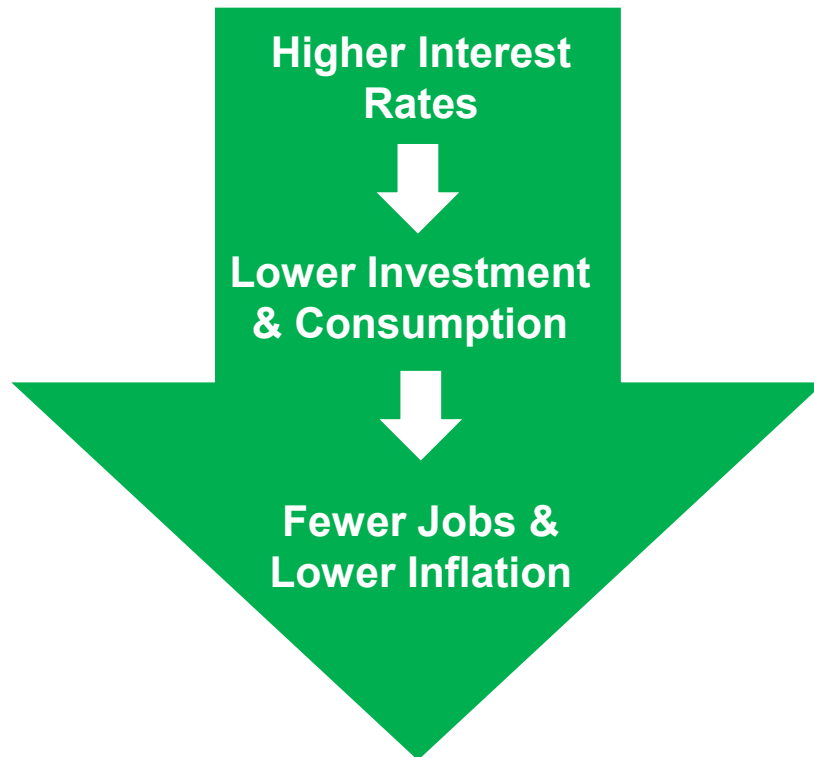
- Federal funds rate
- Federal Reserve balance sheet
- Fed communication



PROMOTING MAXIMUM EMPLOYMENT

HOW THE FED USES ITS TOOLS

**Higher Fed Funds Rate
Smaller Balance Sheet**



**Lower Fed Funds Rate
Larger Balance Sheet**



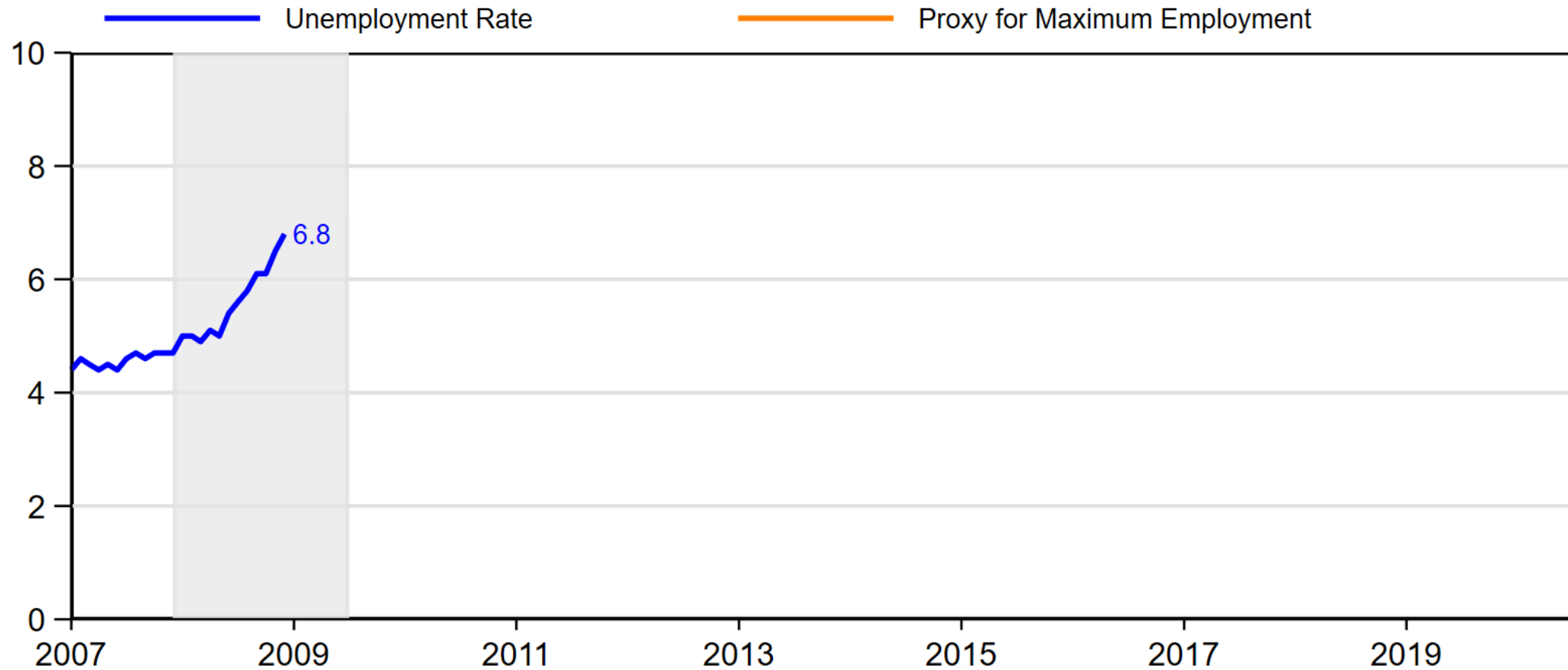
A woman in a dark suit is crouching in a hallway, holding her head in her hands. The scene is overlaid with a blue tint. The text "LESSONS FROM THE GREAT RECESSION" is centered across the image in white, uppercase letters.

LESSONS FROM THE GREAT RECESSION

LESSONS FROM THE GREAT RECESSION

UNEMPLOYMENT RATE

PERCENT



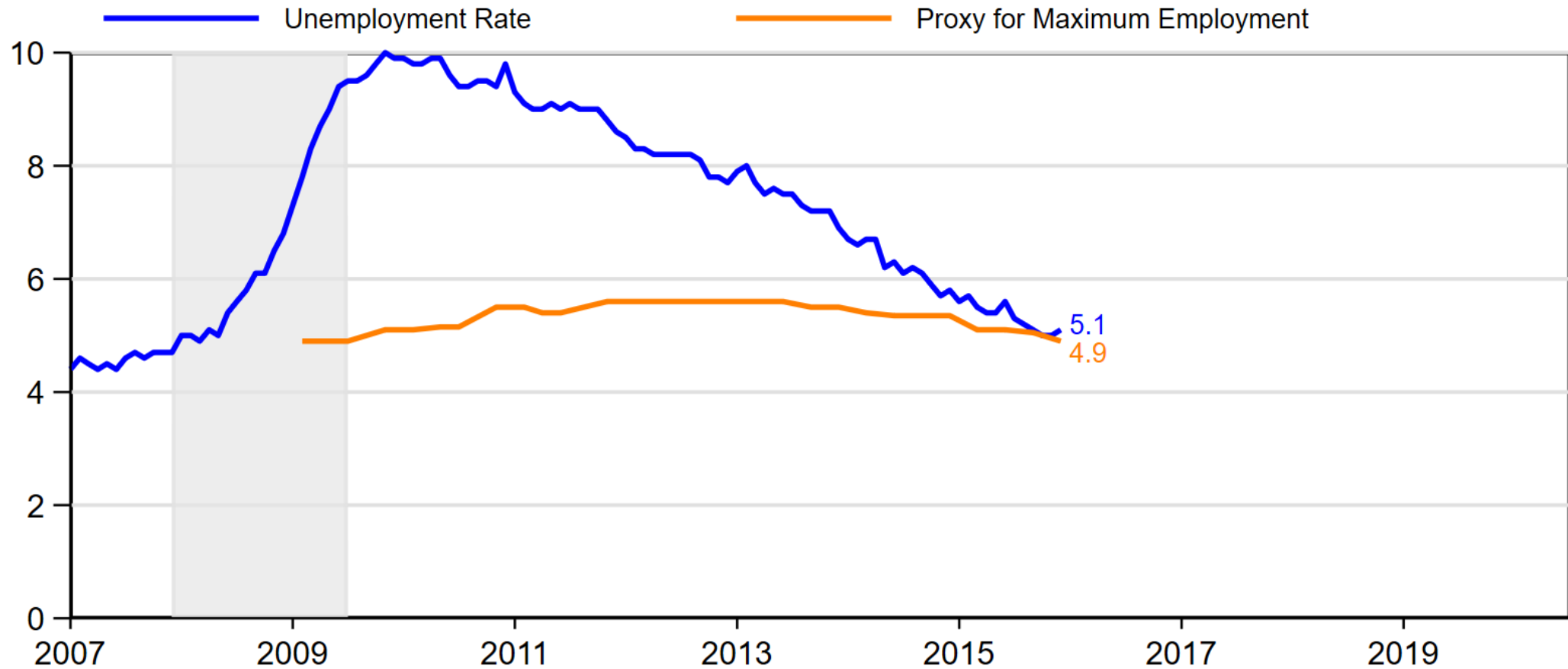
Note: Estimate of maximum employment is the midpoint of the SEP projections for the longer-run unemployment rate.
Source: U.S. Bureau of Labor Statistics, Federal Reserve Board.



LESSONS FROM THE GREAT RECESSION

UNEMPLOYMENT RATE

PERCENT



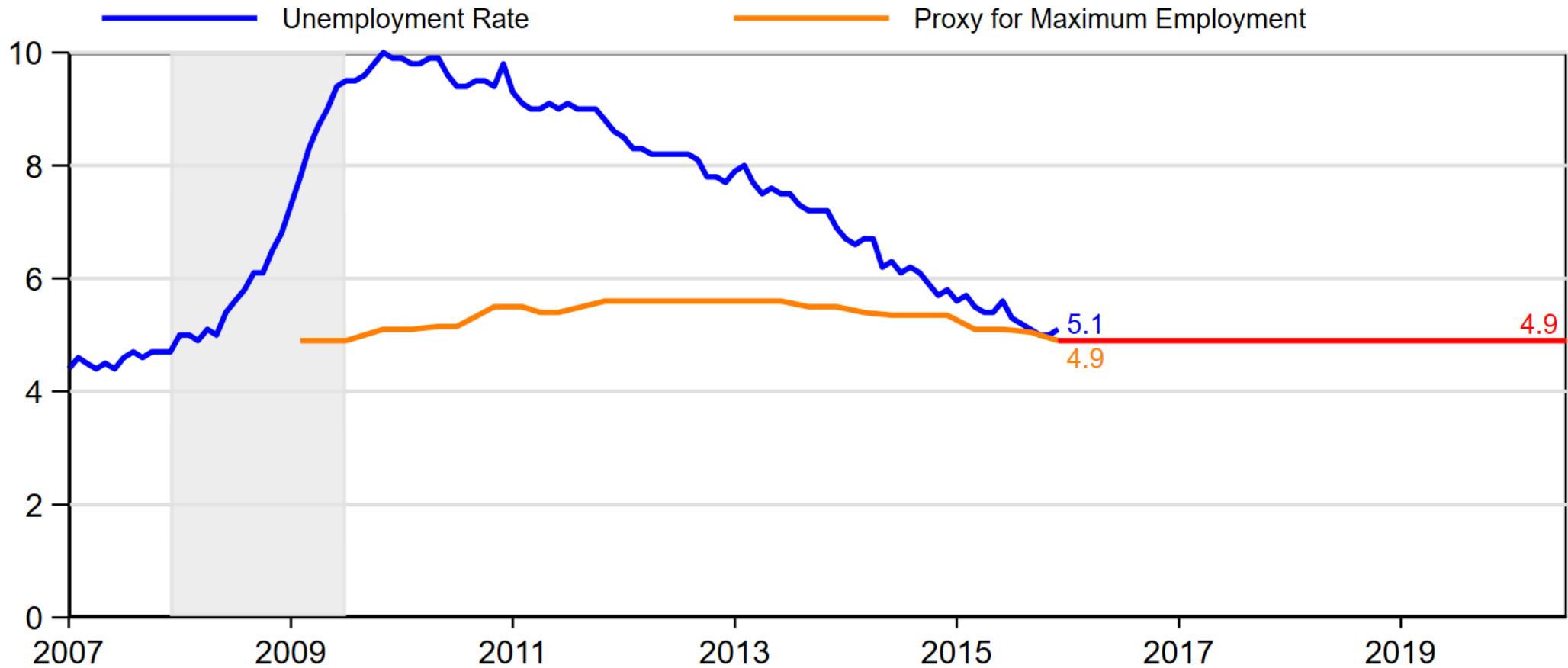
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LESSONS FROM THE GREAT RECESSION

UNEMPLOYMENT RATE

PERCENT



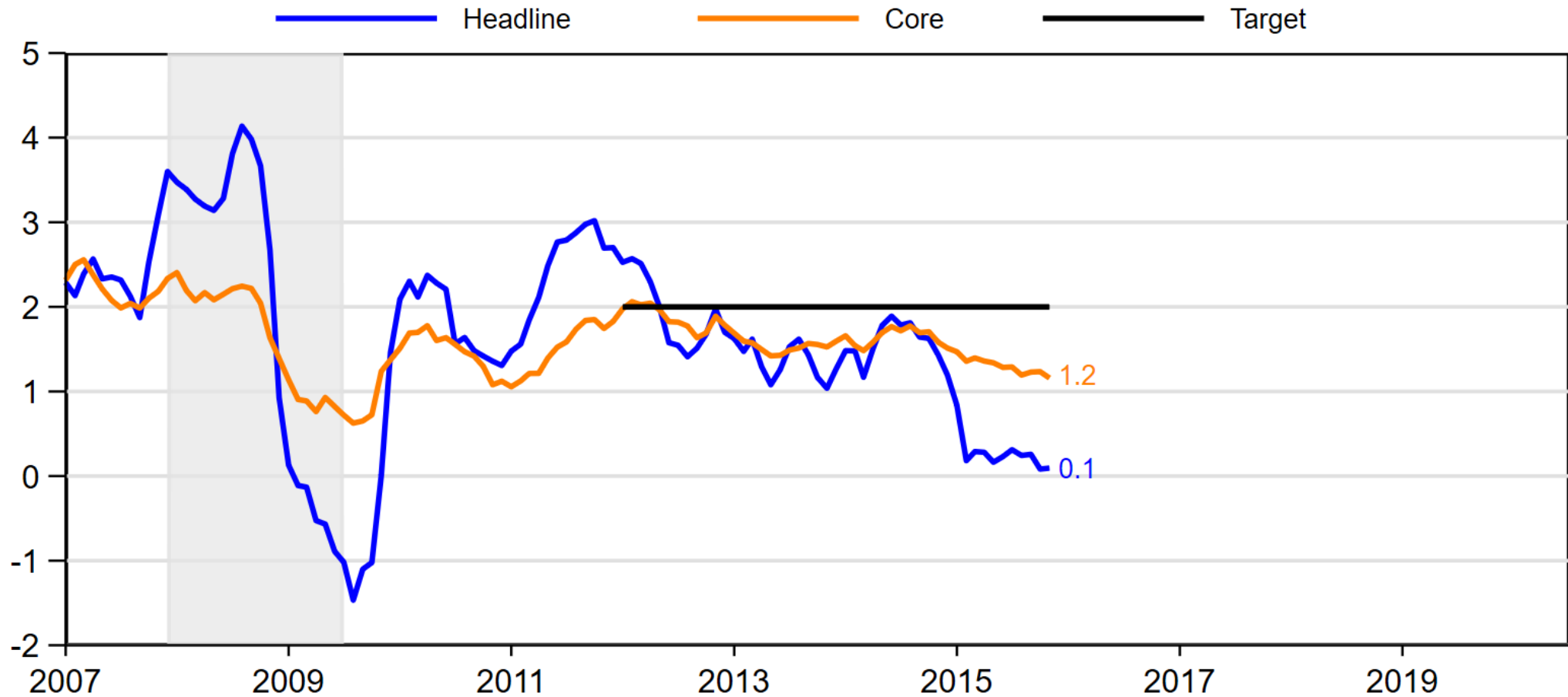
Note: Estimate of maximum employment is the midpoint of the SEP projections for the longer-run unemployment rate.
Source: U.S. Bureau of Labor Statistics, Federal Reserve Board.



LESSONS FROM THE GREAT RECESSION

PCE HEADLINE AND CORE INFLATION

12-MONTH PERCENT CHANGE



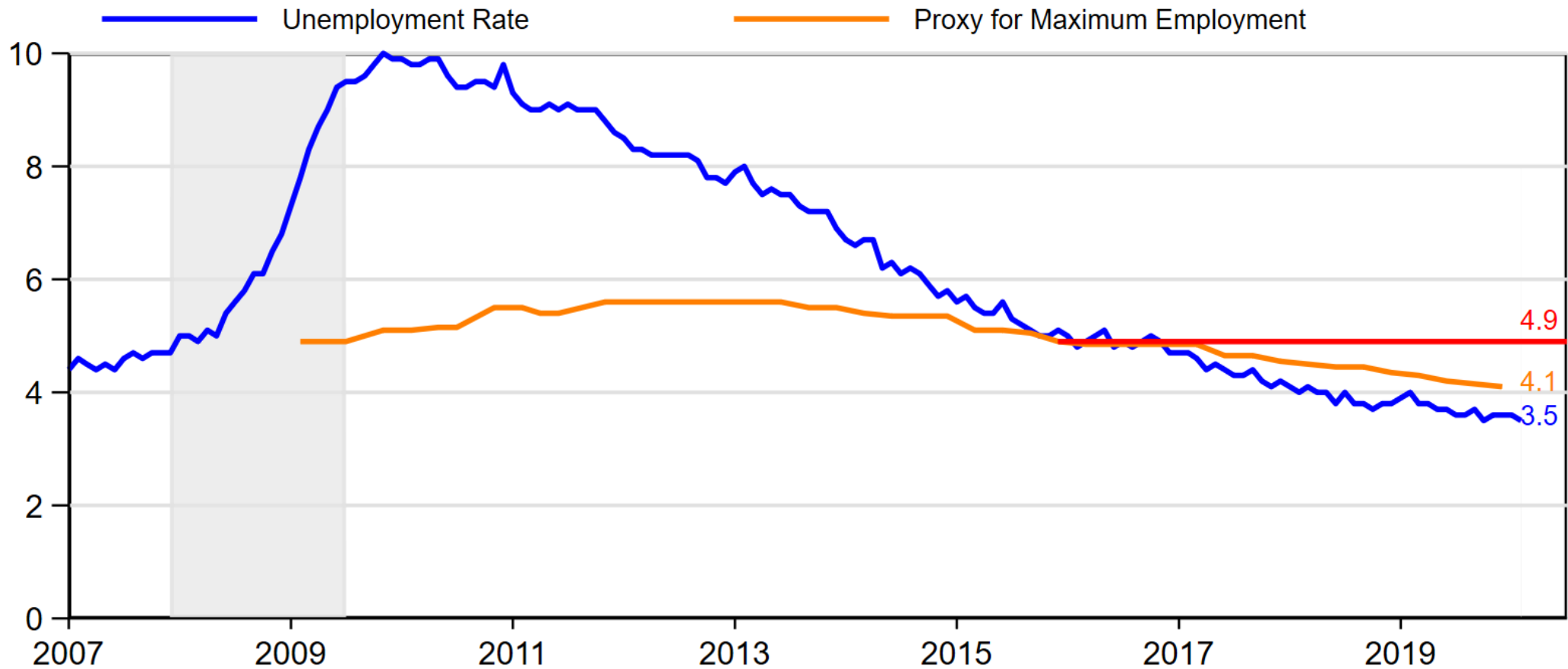
Source: U.S. Bureau of Economic Analysis.



LESSONS FROM THE GREAT RECESSION

UNEMPLOYMENT RATE

PERCENT



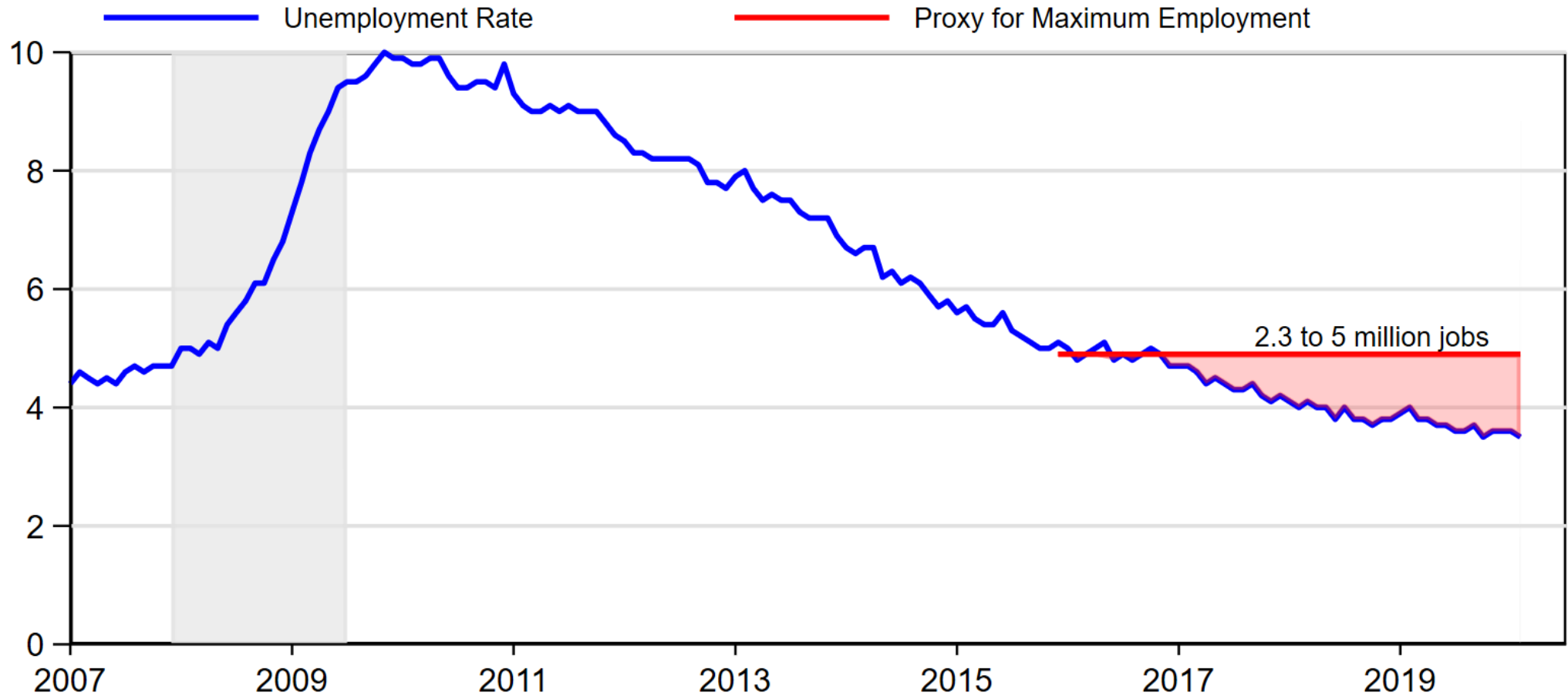
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LESSONS FROM THE GREAT RECESSION

UNEMPLOYMENT RATE

PERCENT



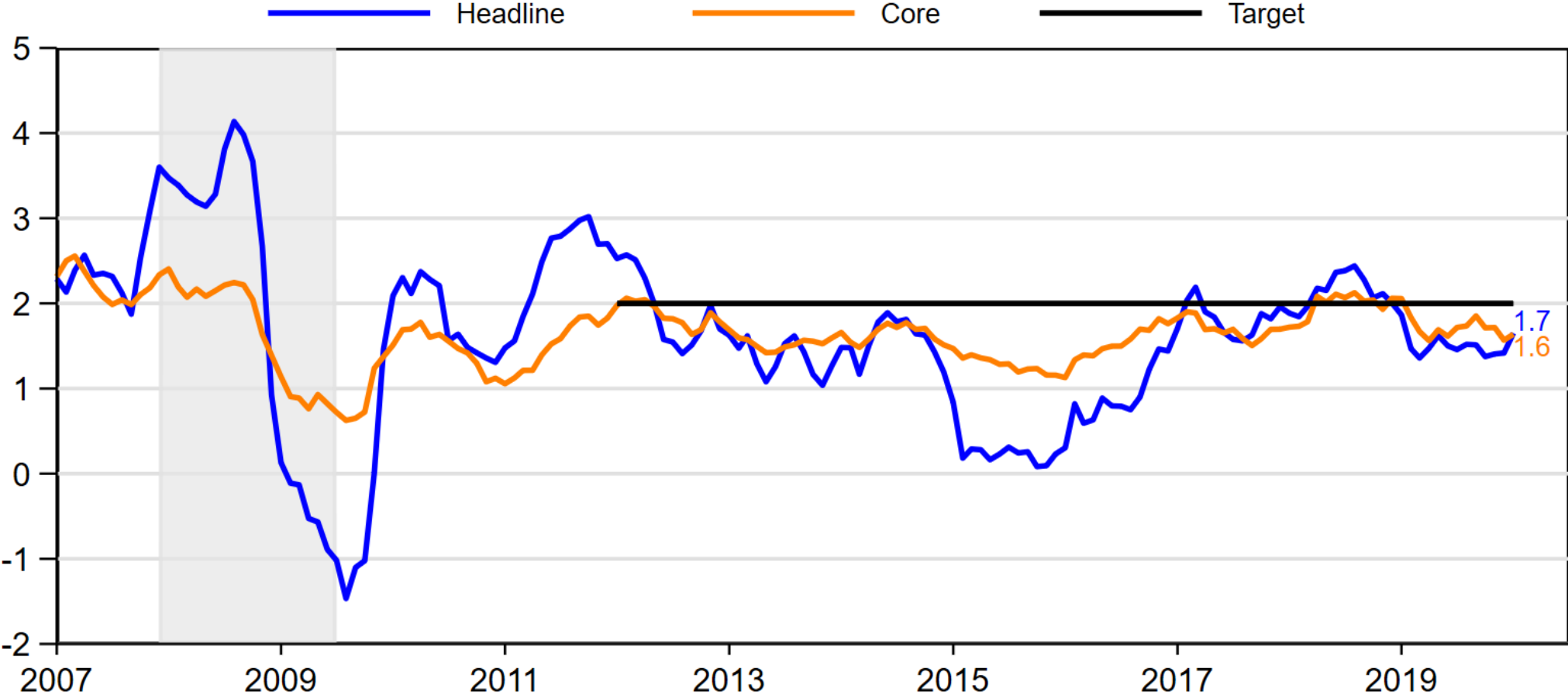
Source: U.S. Bureau of Labor Statistics, Federal Reserve Board.



LESSONS FROM THE GREAT RECESSION

PCE HEADLINE AND CORE INFLATION

12-MONTH PERCENT CHANGE



Source: U.S. Bureau of Economic Analysis.

LESSONS FROM THE GREAT RECESSION

Key lesson: misjudging maximum employment resulted in overly tight policy—fewer jobs and below-target inflation (dual mandate)

Key revisions to monetary policy framework:

1. Maximum employment defined as a broad and inclusive goal
2. Policy informed by shortfalls in employment, not deviations
3. Inflation should average 2% over time

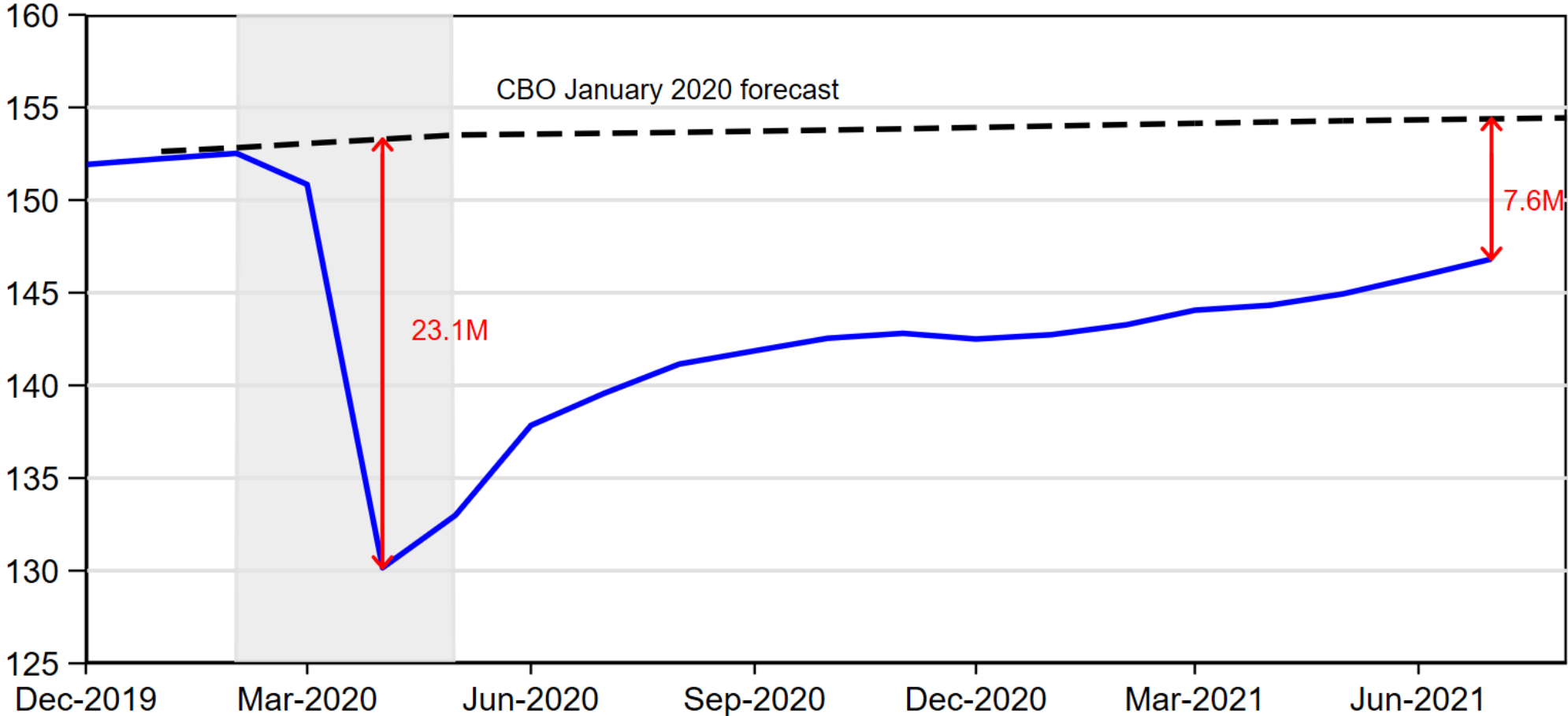


A man with a shaved head, wearing a black face mask, a green hoodie, and blue overalls, stands in a workshop. He is looking directly at the camera. To his left is a white step ladder. The background is filled with shelves of various tools and equipment, creating a busy industrial environment. The lighting is somewhat dim, with a blueish tint.

CURRENT ECONOMY

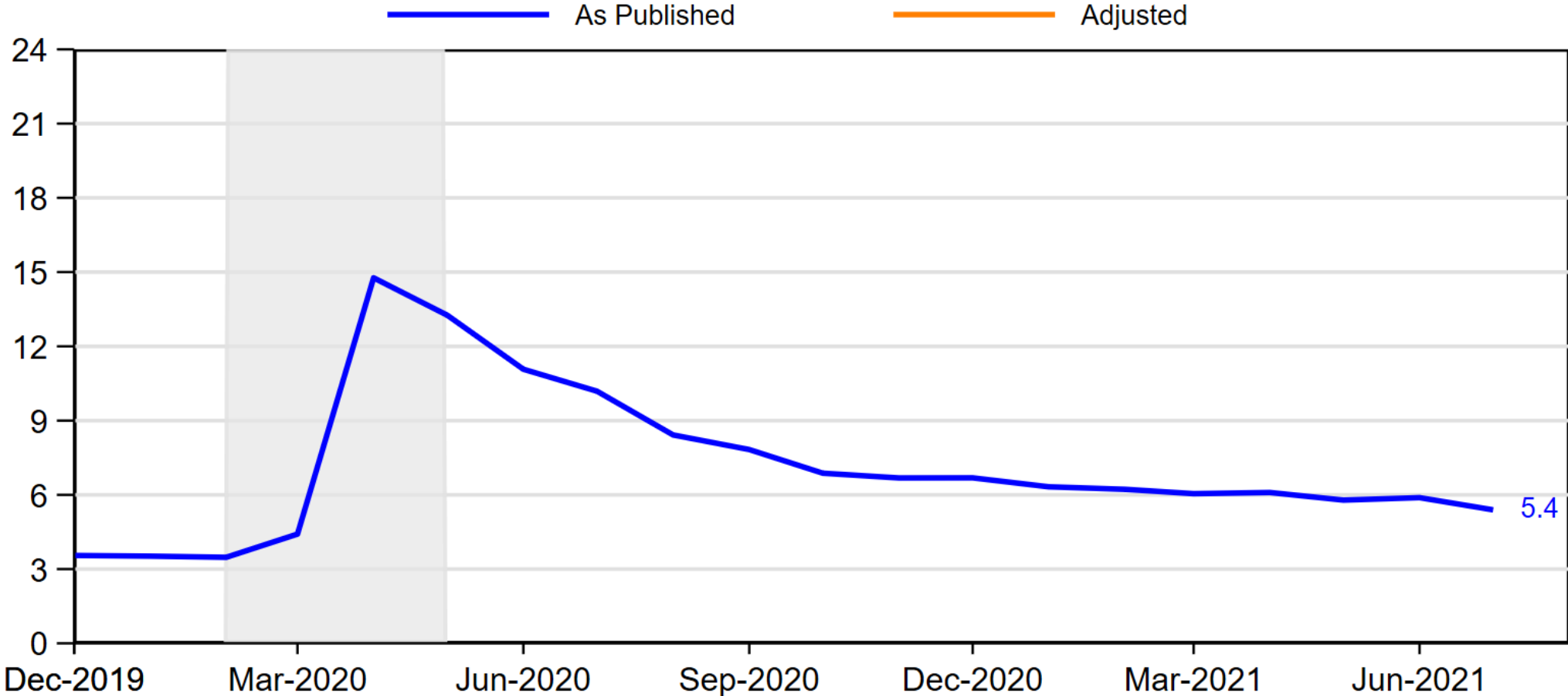
NONFARM EMPLOYMENT

MILLIONS, LEVEL



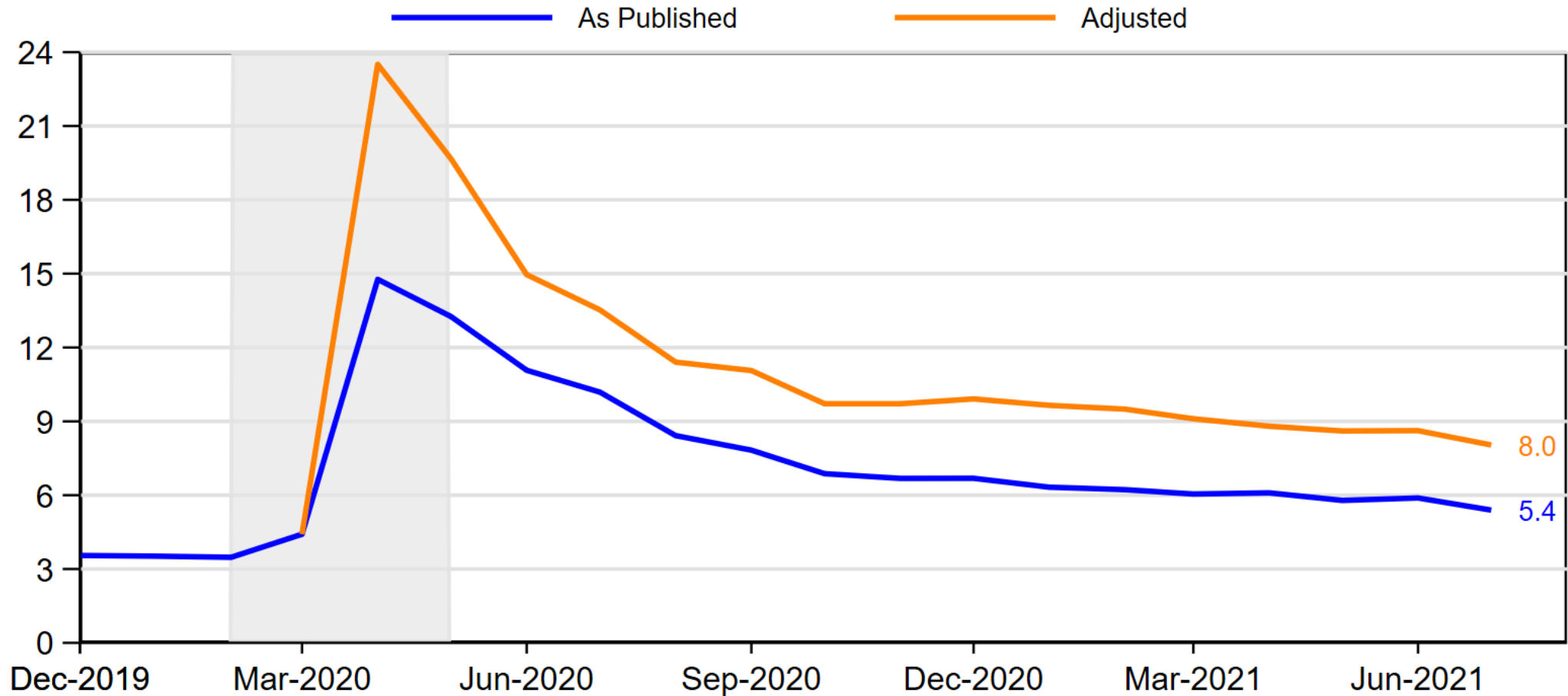
Note: Dashed line represents CBO's projected nonfarm employment in January 2020.
Source: U.S. Bureau of Labor Statistics, Congressional Budget Office.

UNEMPLOYMENT RATE PERCENT



Source: U.S. Bureau of Labor Statistics.

UNEMPLOYMENT RATE PERCENT



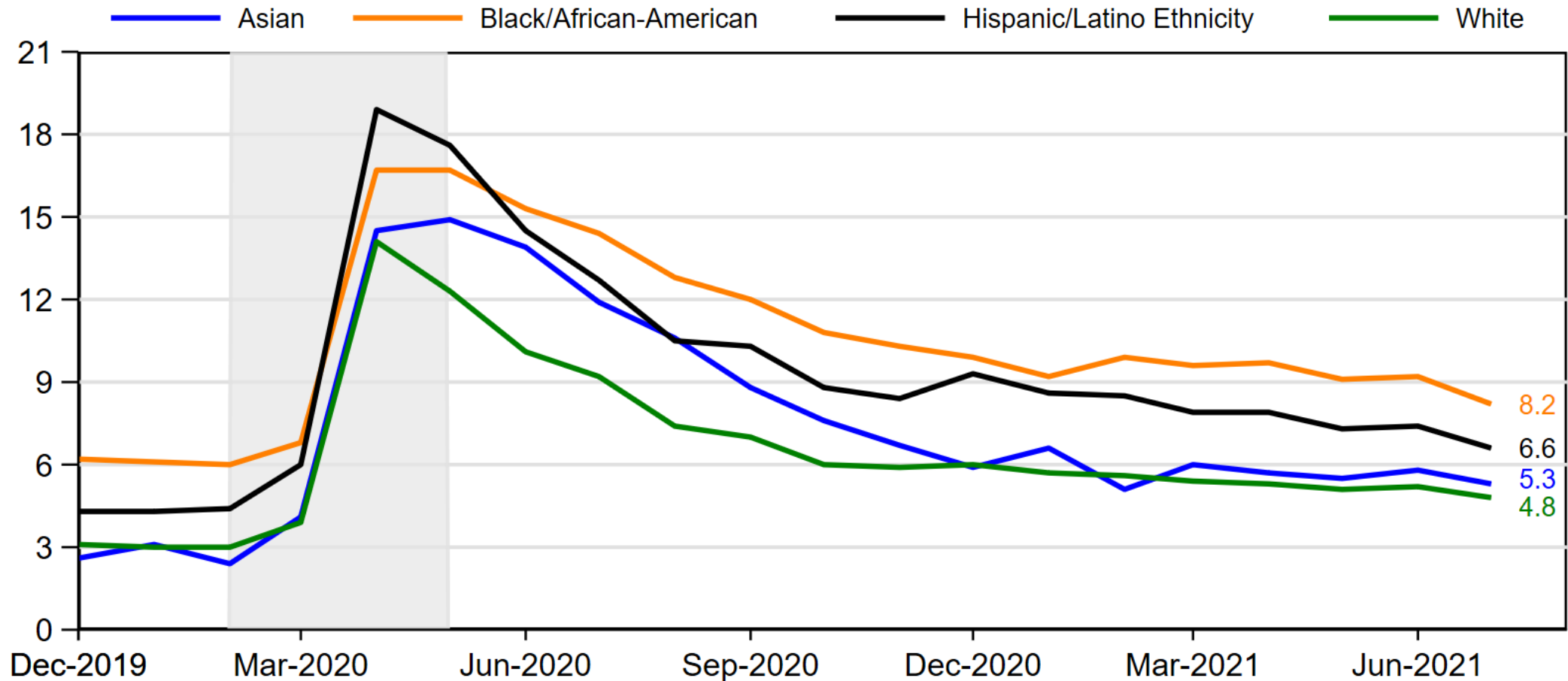
Source: U.S. Bureau of Labor Statistics.



CURRENT ECONOMY

UNEMPLOYMENT RATE BY RACE/ETHNICITY

PERCENT, 16+

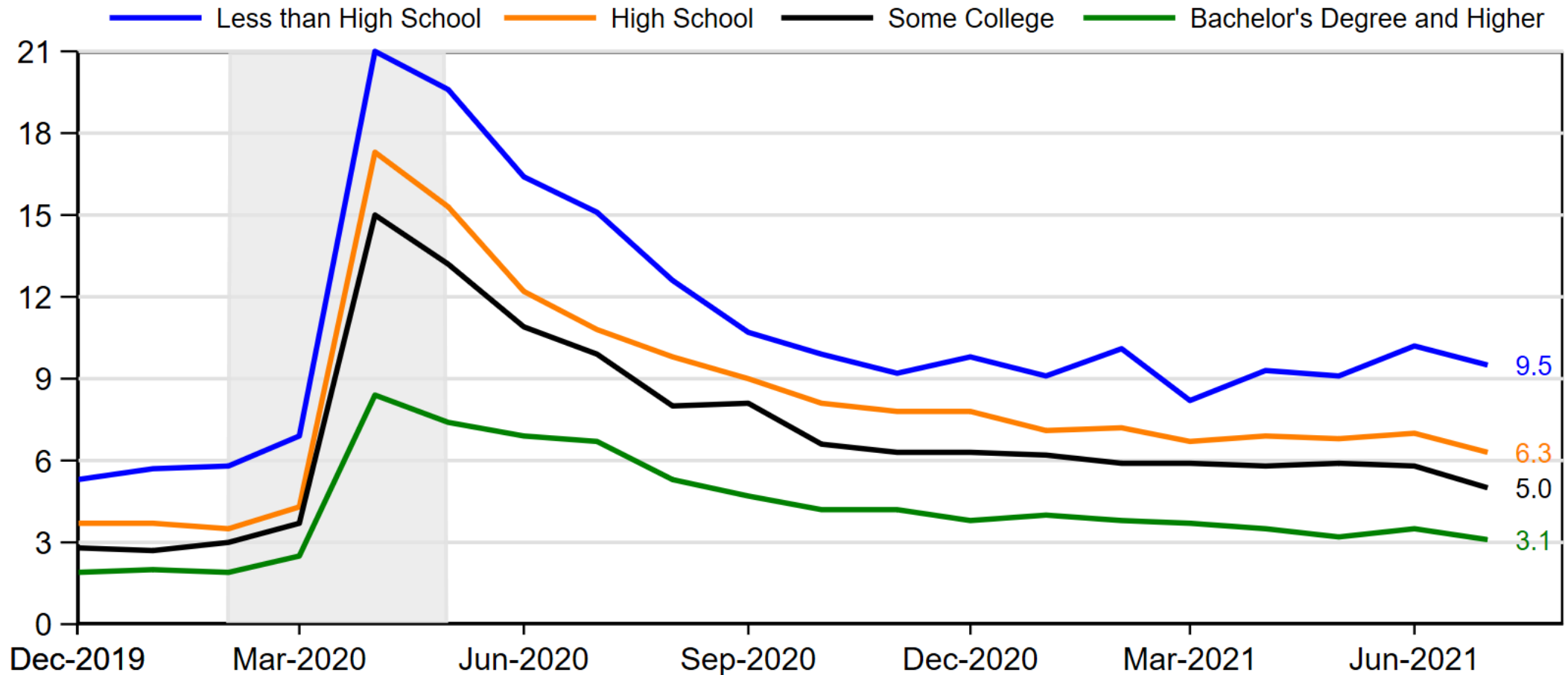


Source: U.S. Bureau of Labor Statistics.



UNEMPLOYMENT RATE BY EDUCATION

PERCENT, 25+



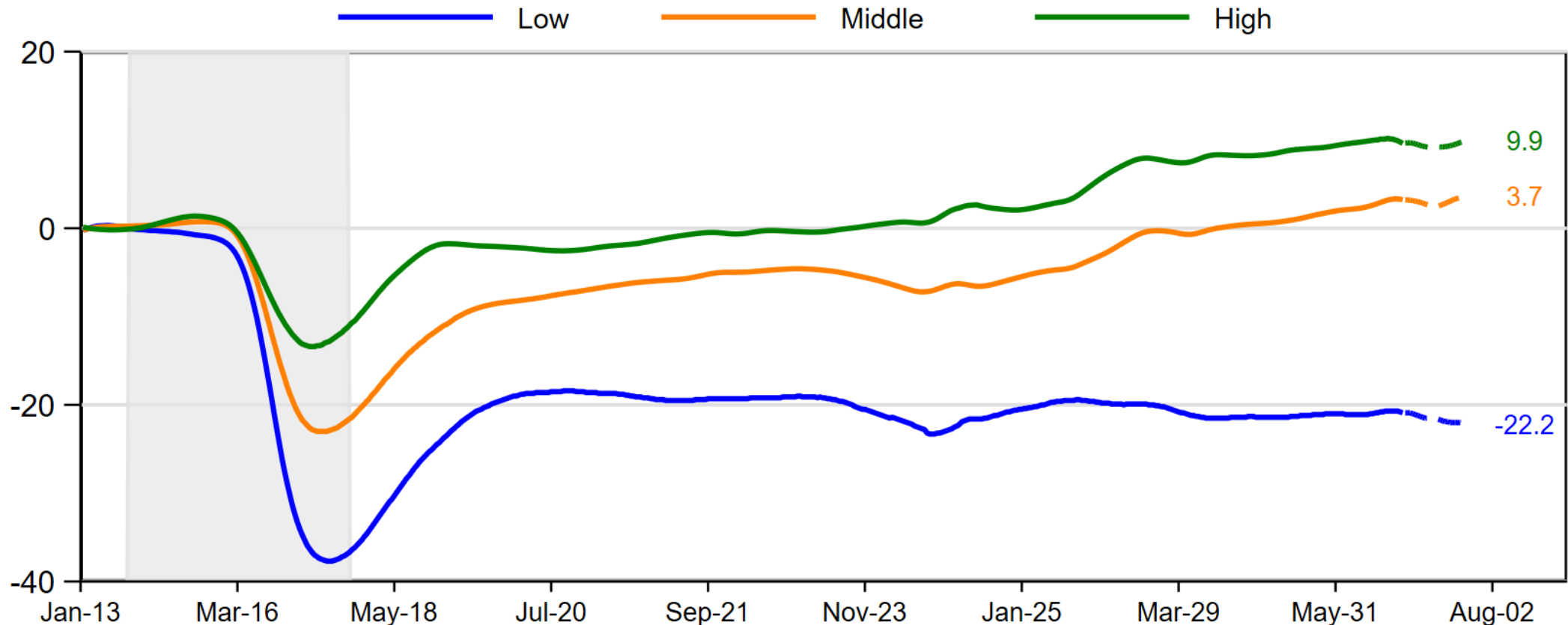
Source: U.S. Bureau of Labor Statistics.



CURRENT ECONOMY

CHANGE IN EMPLOYMENT BY WAGE: U.S.

PERCENT, SEVEN-DAY MOVING AVERAGE



Note: Compared with January 4–31, 2020. Dashed line includes forecasted data. Opportunity Insights defines low-wage as <\$27K, medium-wage as \$27K–\$60K, and high-wage as >\$60K.

Source: Opportunity Insights Economic Tracker.



PLEASE BE
PATIENT
WE ARE VERY
UNDERSTAFFED

THANK YOU!

Now Hiring

Cooks

Wait Staff

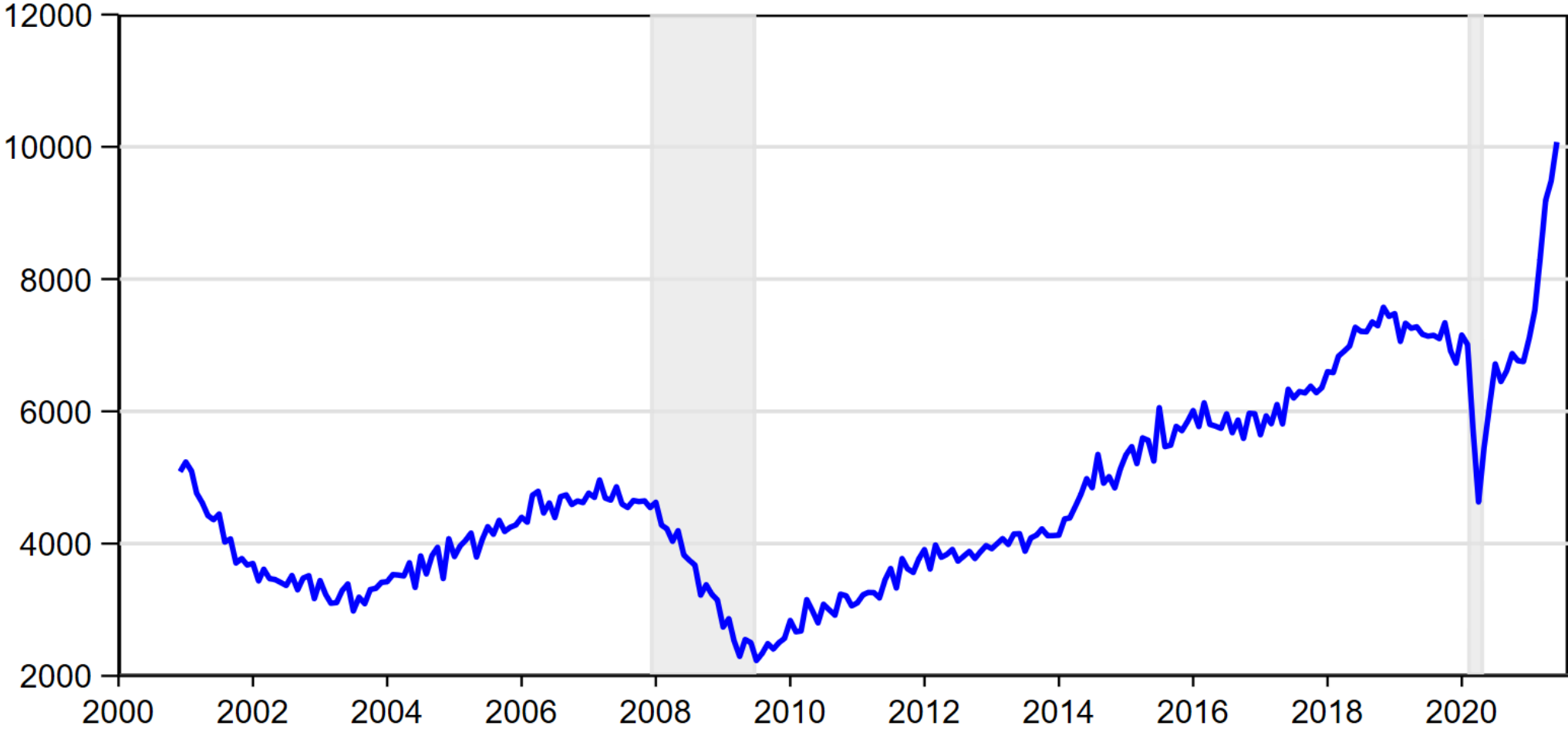
Bartenders

Apply NOW!

Ask Bartender for Application or call

JOB OPENINGS LEVEL

EOP, SA, THOUSANDS



Source: U.S. Bureau of Labor Statistics.

INCREASING LABOR DEMAND OUTPACING RETURN OF LABOR SUPPLY

Unprecedented reopening is rapidly increasing labor demand

Labor supply is still constrained by fears, caregiving, benefits, restructuring, retirements, ...

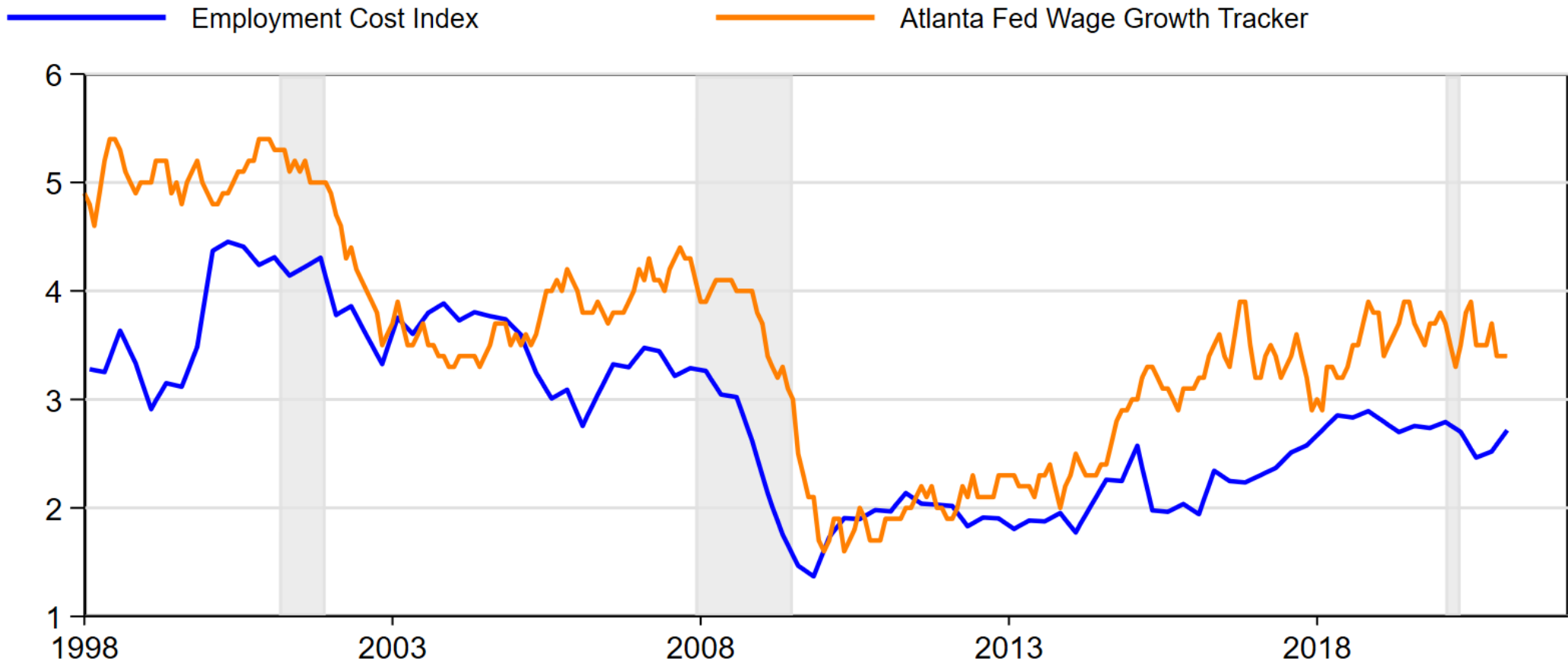
Supply constraints expected to ease in coming months

Delta variant may further delay return of workers



LABOR COSTS

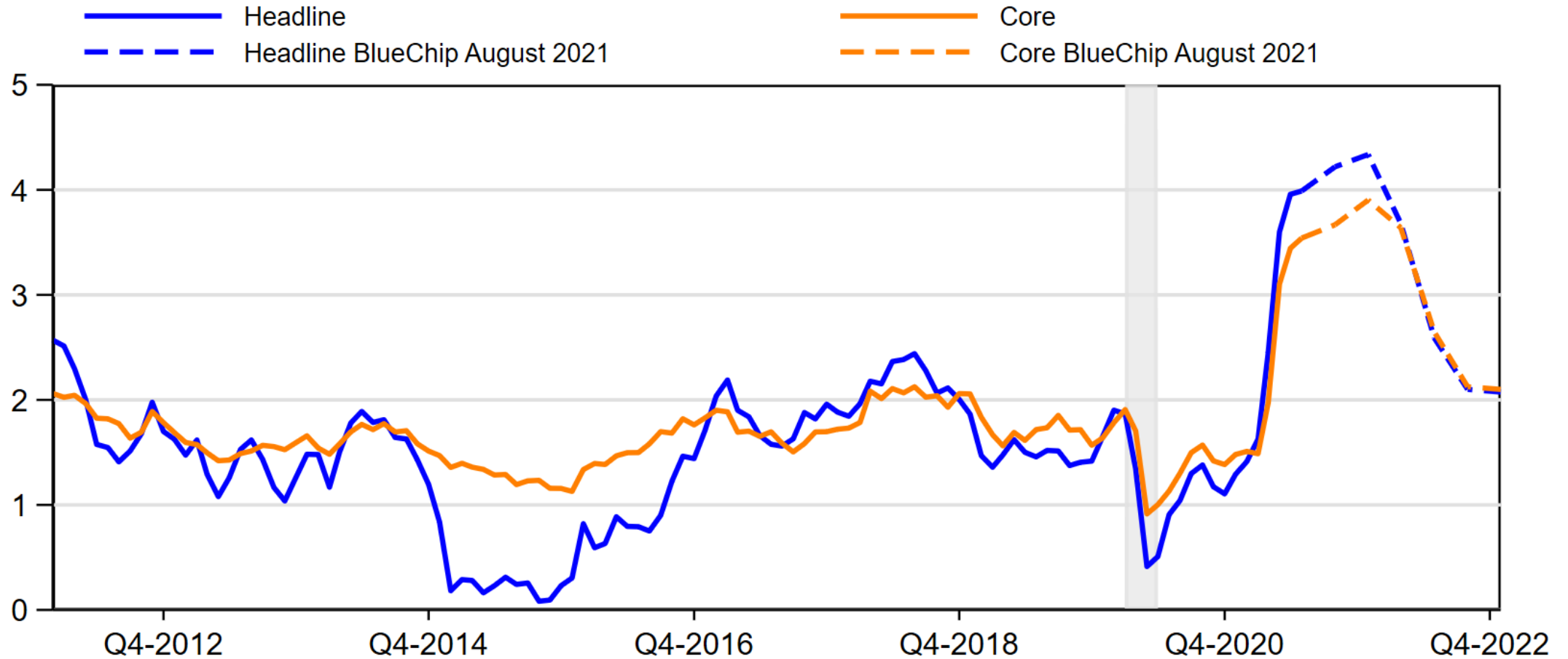
12-MONTH OR FOUR-QUARTER PERCENT CHANGE



Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Atlanta.

PCE INFLATION

12-MONTH PERCENT CHANGE OR Q4/Q4 PERCENT CHANGE

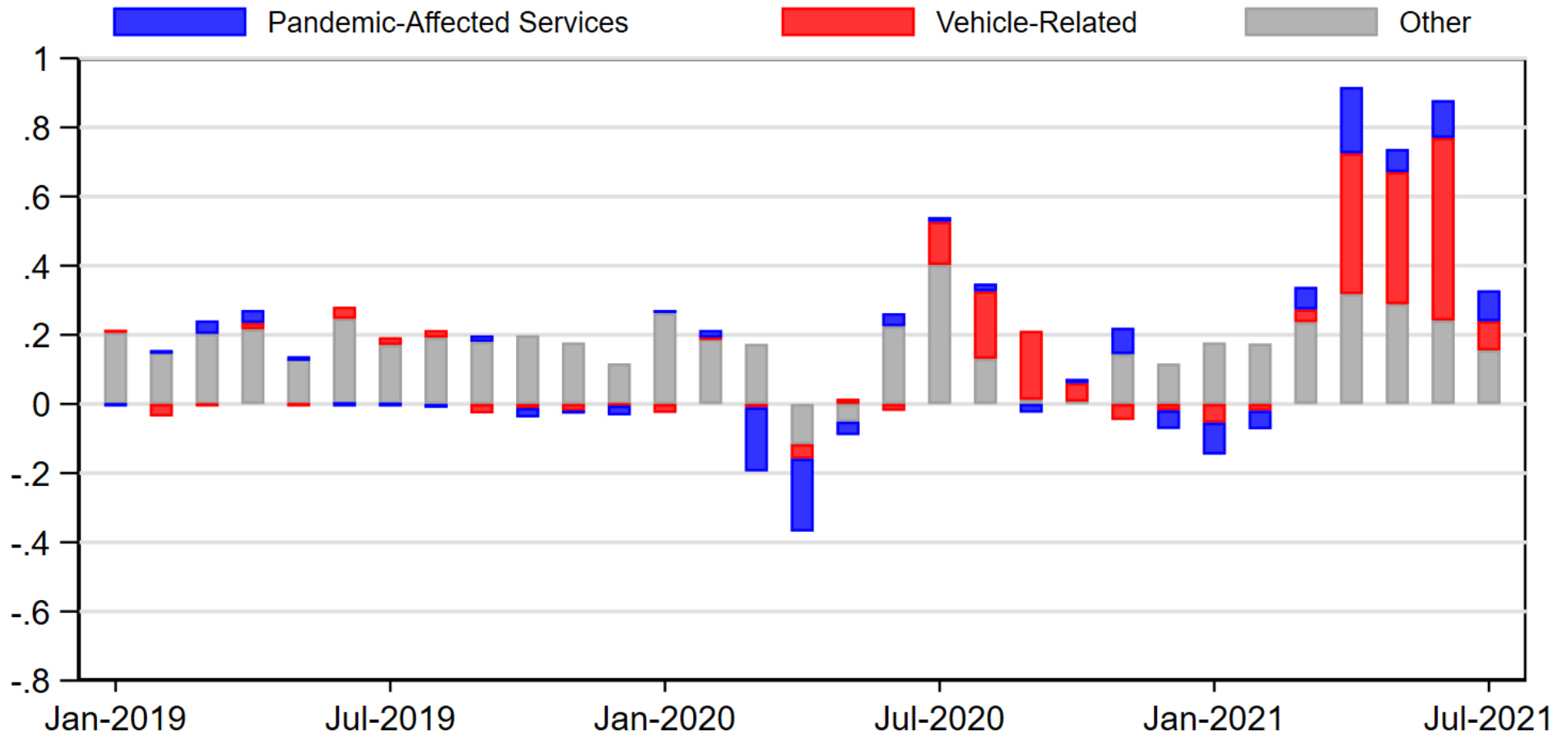


Source: U.S. Bureau of Economic Analysis, BlueChip.

CURRENT ECONOMY

CONTRIBUTIONS TO CORE CPI INFLATION

PERCENTAGE POINTS, MONTHLY RATE



Source: U.S. Bureau of Labor Statistics.

TAKEAWAYS

The Fed has a dual mandate: maximum employment and price stability

Achieving maximum employment requires humility and persistence

2% average inflation is the companion goal

Fed policy continues to support a strong recovery in pursuing its dual mandate



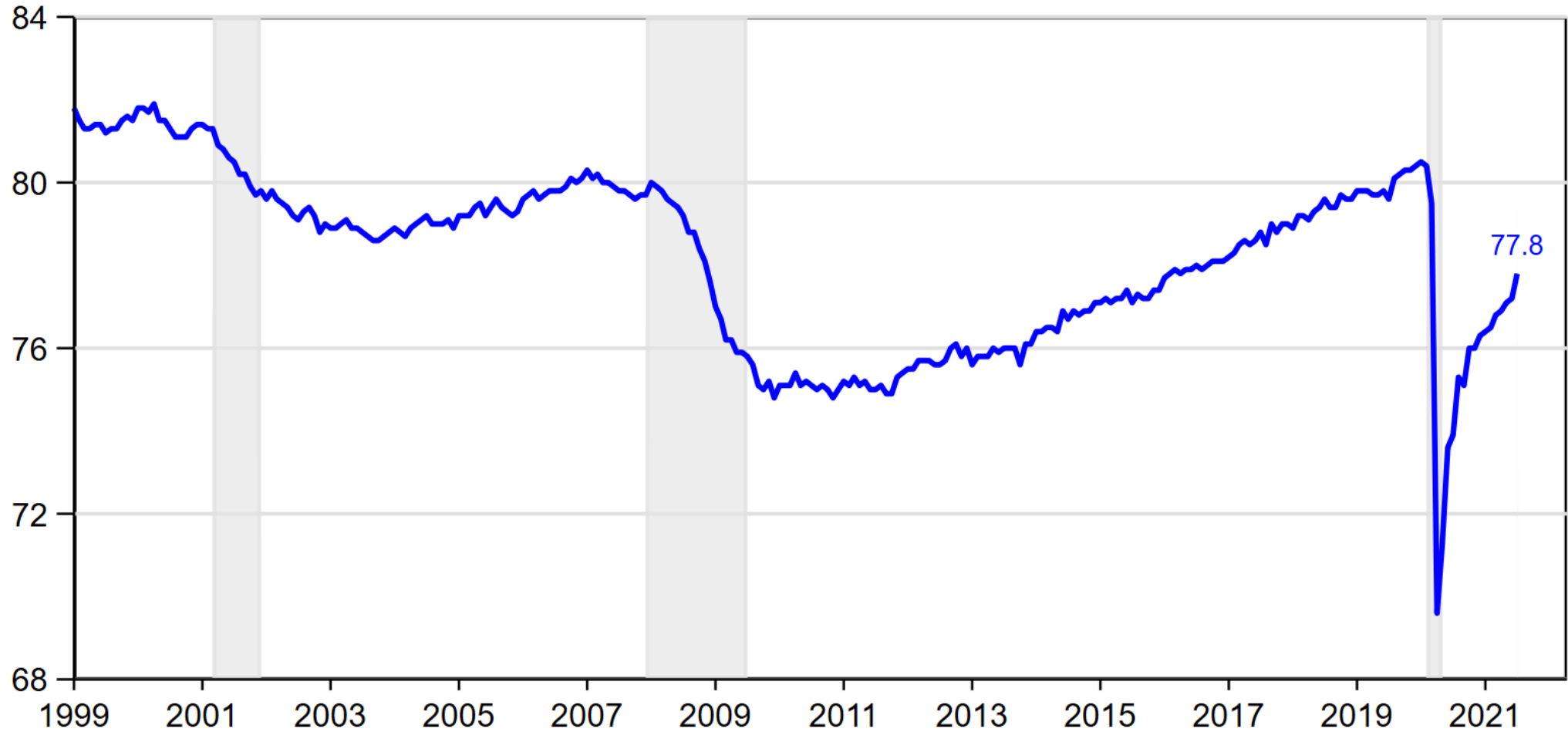
**THANK YOU!
QUESTIONS?**



**FEDERAL RESERVE BANK
OF MINNEAPOLIS**

EMPLOYMENT-POPULATION RATIO

PERCENT, 25-54



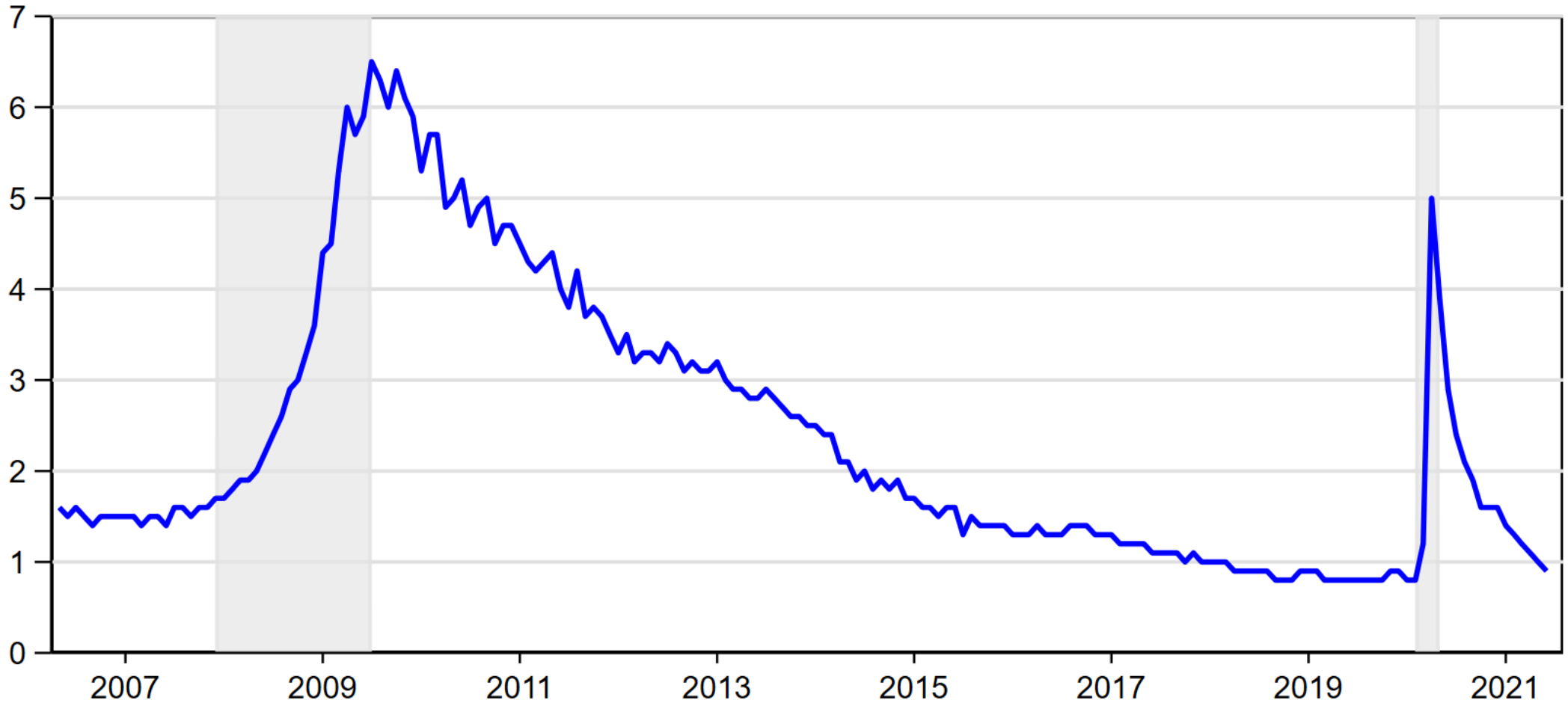
Source: U.S. Bureau of Labor Statistics.



CURRENT ECONOMY

UNEMPLOYED PERSONS PER JOB OPENING

SA, LEVELS

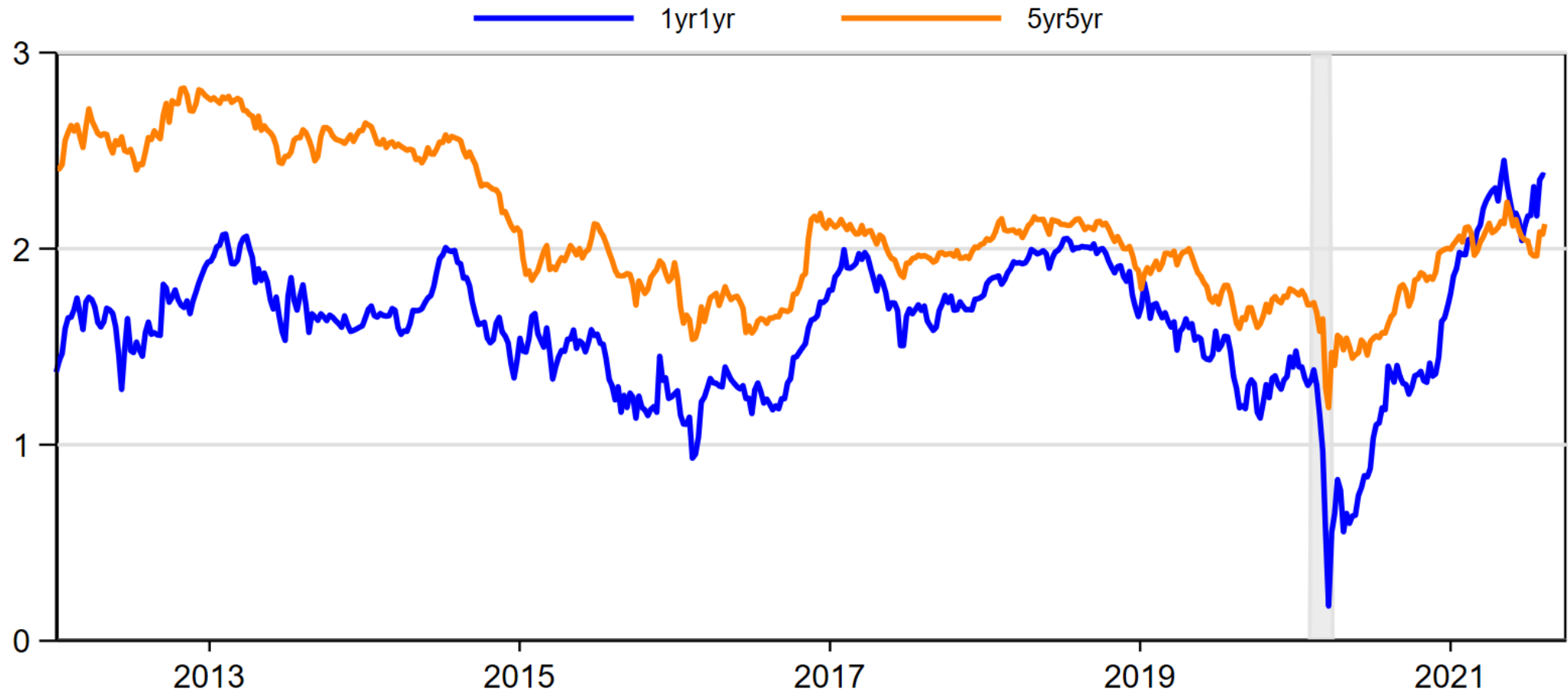


Source: U.S. Bureau of Labor Statistics.



MARKET-BASED INFLATION EXPECTATIONS

PERCENT



Source: Bloomberg.

