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Economic Outlook

Remarks by

Lisa D. Cook

Member

Board of Governors of the Federal Reserve System

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Thank you, Michael. I am honored to be back at the Council on Foreign Relations. [1]

I would like to congratulate you on becoming president of this august body. I have known Mike for some time. In fact, he helped me when I was a graduate student working on my dissertation on Eastern Europe at the University of California, Berkeley and visited the Treasury Department. I am grateful for your generosity during that time and over my career, Mike. I also want to thank the Council on Foreign Relations for awarding me a postdoctoral International Affairs Fellowship that allowed me to serve at the Treasury Department. This fellowship provided a transformational experience, and today, as a Federal Reserve Governor, I regularly draw on the significant lessons I learned during the 2000–01 period. I am glad to see this important program still going strong.

To set the foundation for our discussion today, I will offer my outlook on the economy and share my views on the path of monetary policy. I will then put my thoughts in a global context by briefly examining how we can apply cross-country lessons learned during the pandemic recovery to the current period.

Economic Outlook

The U.S. economy is still on a firm footing, but uncertainty has notably increased since the beginning of the year. The latest data indicate that unemployment continues to be low, while inflation remains somewhat above the Federal Open Market Committee's (FOMC) 2 percent goal. However, there is evidence that changes to trade policy are starting to affect the economy. I do not express views on the Administration's policies.

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[1] The views expressed here are my own and are not necessarily those of my colleagues on the Federal Reserve Board or the Federal Open Market Committee.

But I do study the economic implications, which appear to be increasing the likelihood of both higher inflation and labor–market cooling. In this environment, monetary policy will need to carefully balance our dual-mandate goals of price stability and maximum employment. Former Chair Ben Bernanke said that, in times of uncertainty, policymakers must consider a range of possible scenarios about the state of the economy. The resulting policy decisions, he said, "may look quite different from those that would be optimal under certainty."[2]

Let me start by looking at one part of our mandate. Inflation has declined from its pandemic highs but remains somewhat above target. The most recent data show that inflation was 2.1 percent for the 12 months ending in April and 2.5 percent when excluding food and energy costs.[3] Price increases tied to changes in trade policy may make it difficult to achieve further progress in the near term. One-year inflation expectations have risen sharply this year. So far, most measures of longer-term inflation expectations have moved less significantly. I will continue to monitor these data carefully. The recent post-pandemic experience with high inflation could make firms more willing to raise prices and consumers more likely to expect high inflation to persist.

I will now turn to the other part of our mandate. The labor market has remained resilient, at least through early spring. The unemployment rate in April held steady at 4.2 percent, a historically low level. Payroll job gains averaged nearly 150,000 per month through four months this year, a moderation from last year. Trade policy changes could alter hiring plans in the near future. Changes to global trading patterns could also have a

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[2] See Ben S. Bernanke (2007), "Monetary Policy under Uncertainty," speech delivered at the 32nd Annual Economic Policy Conference, Federal Reserve Bank of St. Louis (via videoconference), October 19, paragraph 19, https://www.federalreserve.gov/newsevents/speech/bernanke20071019a.htm.
[3] These numbers reflect inflation as measured by the personal consumption expenditures price index.

negative effect on U.S. productivity. Though, as I noted in recent remarks, productivity gains associated with the introduction of artificial intelligence technology into the workplace could potentially, at least in part, counter that effect.[4]

In terms of overall economic activity, U.S. GDP moved lower in the first quarter after solid growth last year. However, private domestic final purchases, which exclude net exports, inventory investment, and government spending, grew last quarter at a rate consistent with recent readings. Looking ahead, I anticipate a slowdown in the expansion of economic activity from last year's pace. The ultimate level of tariffs remains unknown because policy changes are still developing. However, the effects are already noticeable. Manufacturing output declined in April. Orders for heavy trucks plunged. Firms reported a drop in capital expenditure plans for 2025. Measures of uncertainty have increased, on net, this year, and household and business sentiment has declined, despite some recent improvements in both.

Monetary Policy

While the economy remains solid, the economic environment could become highly challenging for monetary policymakers. At our most recent policy meeting last month, I supported the FOMC's decision to leave our policy interest rate unchanged. The current stance of monetary policy is well positioned to respond to a range of potential developments.

Trade policy changes and the response of financial markets, firms, and consumers suggest risks to both sides of our dual mandate. As I consider the appropriate path of

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[4] See Lisa D. Cook (2025), "Opening Remarks on Productivity Dynamics," speech delivered at "Finishing the Job and New Challenges," a monetary policy conference hosted by the Hoover Institution, Stanford University, Stanford, California, May 9, https://www.federalreserve.gov/newsevents/speech/cook20250509a.htm.

monetary policy, I will carefully consider how to balance our dual mandate, and I will take into account the fact that price stability is essential for achieving long periods of strong labor market conditions.

International Comparison

In light of the fact that the current paths for the U.S. and global economy are uncertain, I think it is helpful to study a recent period when that was also the case: the pandemic downturn and the inflation that followed. To launch our discussion, I will highlight two lessons from cross-country experiences that might apply today.

One lesson is that the inflation environment can change abruptly, especially in a world with global shocks. The pandemic revealed how large global shocks can generate severe supply and demand imbalances that, in turn, can cause surprisingly persistent inflationary pressures across economies. However, these factors were underappreciated during the post-pandemic economic recovery. As a result, forecasts around the world under-predicted inflation. Forecasters may be able to do better in the future by tracking new indicators regarding shortages, various sources of pressure on supply chains, and changes in the frequency of price adjustments, especially when price setters see an upside risk to inflation.

A second lesson is that credible inflation targeting is essential to keep longer-term inflation expectations anchored. Inflation targeting by central banks proved important during the post-pandemic economic recovery in achieving the monetary policy credibility that kept longer-term inflation expectations anchored. Recent research has provided support for this finding in both advanced and emerging economies.[5] And that is precisely why I am committed to supporting a monetary policy that keeps longer-term inflation expectations anchored.

Conclusion

To summarize, I see the U.S. economy as still being in a solid position, but heightened uncertainty poses risks to both price stability and unemployment. I will continue to monitor developments closely as I consider monetary policy decisions. When making decisions, I think it has been valuable to remain a student of economic history. Our recent past has provided some useful lessons for decision-making during periods of high uncertainty and elevated risks to our dual-mandate goals.

Thank you. I look forward to our discussion.

[5] For advanced economies, see Brent Bundick, A. Lee Smith, and Luca Van der Meer (2024), "Maintaining the Anchor: An Evaluation of Inflation Targeting in the Face of COVID-19," Research Working Paper 24-15 (Kansas City: Federal Reserve Bank of Kansas City, December), https://www.kansascityfed.org/documents/10637/rwp24-15bundicksmithvandermeer.pdf. For Latin American emerging economies, see Patrice T. Robitaille, Tony Zhang, and Brent Weisberg (2024), "How Well-Anchored Are Long-Term Inflation Expectations in Latin America?" FEDS Notes (Washington: Board of Governors of the Federal Reserve System, December 20), https://doi.org/10.17016/2380-7172.3636.