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Economic Outlook

Remarks by

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at

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Thank you, Paul, for that kind introduction. I am honored to speak with you and all who have joined us here today.¹

Persistently elevated inflation imposes an unacceptable burden on American families, and it is the Federal Reserve's responsibility to restore price stability. As a monetary policymaker, this challenge is top of mind for me. I am watching both sides of our dual mandate—price stability and maximum employment. However, as I have stated at several points this year, the risks from high inflation concern me more at this time.² Even though this week's consumer price index and producer price index reports were softer than expected, they still imply that the price index we target rose 3.7 percent in the 12 months through June. That is 1.7 percentage points above our 2 percent target. We have not reached our 2 percent target in more than five years.

To contextualize my views on the dual mandate, I would like to give you a broader sense of my economic outlook and discuss recent developments in monetary policy.

Economic Conditions over the Past Year

Thinking back a little more than a year ago to the spring and summer of 2025, the outlook for employment and output was subdued. Though the labor market had been fairly solid through that spring, many forecasters expected the unemployment rate would step up, as uncertainty related to trade policy weighed on the economy. The median Federal Open Market Committee (FOMC) participant forecast for gross domestic product

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.

² See Lisa D. Cook, "The Opportunities and Risks AI Presents for the Economy and the Financial System," speech delivered at the Stanford Institute for Economic Policy Research, Stanford University, Stanford, CA, May 27, 2026, <https://www.federalreserve.gov/newsevents/speech/cook20260527a.htm>.

(GDP) growth in 2025 and 2026 was just 1.4 percent and 1.6 percent. Those forecasts were well below the average growth rates seen in the decade preceding the pandemic.

Also, last spring and summer, you might recall that inflation was still above target but subsiding. In April 2025, 12-month inflation had fallen to 2.3 percent from 2.8 percent a year earlier. But changes in tariff policy last year led many forecasters—including me—to believe that inflation would step up in 2025, interrupting the trend toward target. Still, economists widely expected that inflation would resume a downward trajectory by the end of 2026. In June of last year, Fed officials forecast inflation of 2.4 percent for 2026 for both the headline measure and the core reading, which excludes volatile food and energy prices.

So, one year ago, we faced weakening employment and output forecasts as well as a small, but temporary, step-up in above-target inflation. With risks to both sides of the dual mandate, what did the FOMC decide to do? We voted to leave rates unchanged at that June 2025 meeting.

Let me explain my thinking at the time. One simple way to visualize the monetary policy decision-making process is with a seesaw. You can imagine the risks to our employment mandate sitting on one side and the risks to our inflation mandate on the other. Last year, the seesaw was balanced—in that both sides were hovering in the air—though tilted a bit toward the threats to the employment mandate, which, in my view, were a bit weightier at the time.

Current Economic Conditions

How has the balance shifted today?

Let's start with the labor market. The latest jobs report showed that the unemployment rate was 4.2 percent in June. That rate is roughly in line with the readings seen over the past year and consistent with what many economists believe is the natural rate of unemployment. The mostly steady unemployment rate suggests that the labor market has been stable. In fact, nearly all indicators point to stability. Claims for unemployment benefits have remained low, payrolls have been growing moderately, and job openings have picked up in the past few months.

Now, it is true that the low-hire, low-fire environment is hitting some groups—such as new entrants—particularly hard, and it may be damping worker sentiment and for good reason. The low-hire environment could be caused by longer-term structural shifts, a hangover from over-hiring following the pandemic, or increased work from home.³ This environment can be challenging for certain workers, especially those trying to break into the workforce for the first time. However, international and state-level evidence suggests that a low-hire environment—to the extent that it reflects low population growth—does not mean that the labor market is likely to shift into a downturn.

At the same time, many workers understandably harbor concern about how artificial intelligence (AI) will affect their livelihoods. So far, the most dire predictions about an AI job transition have not come to fruition. While I still see this as a significant risk, I do not see it as a greater risk than a year ago. In fact, I see few reasons that today's labor market has more risk than a year earlier. Therefore, risks on the employment side have diminished. The balance of risks has teetered toward the inflation mandate.

³ See Peter John Lambert and Yannick Schindler, "The Broken Ladder: AI, Remote Work, and Early-Career Hiring," May 18, 2026, <http://dx.doi.org/10.2139/ssrn.6787638>.

Surprisingly resilient output further reinforces that view. GDP growth in 2025 came in at 2.0 percent, and FOMC participants now forecast that 2026 will come in at 2.2 percent. Both readings exceed last year's forecasts by about 1/2 percentage point. Labor productivity is booming, having grown about 2-1/2 percent per year over the past two years. The data center buildout has added some heat to the economy. As with the labor-market data, these developments point in the direction of less risk to the employment mandate.

Now let me turn to the inflation side. The initial assessment is easy: inflation is simply too high. The current rate of annual inflation is near the highest since 2023. Last summer, it was reasonable to expect inflation to return to a downward path after one-time price increases from the tariffs. And, indeed, tariff-related price increases do appear to be mostly behind us, and yet inflation has moved higher.

Headline inflation for 2026 is on track to come in about *1 percentage point* higher than what was expected a year ago. Core inflation is also coming in well above what I previously anticipated, driven by core goods prices, which have been increasing at a striking 5 percent annual pace so far this year. Note that, in the pre-pandemic era, core goods prices were on a downward trend. Rising core goods prices underscore the fact that the recent acceleration in inflation is not only an energy price story.

This year, the economy has faced two unanticipated price shocks. One shock is the Middle East conflict, which pushed energy prices higher and is likely to have some follow-on effect on other goods, such as food. And, as the events of the last week have shown, there is a lot of uncertainty as to when the price pressures from this shock will be resolved. The other shock is increased capital expenditures tied to the buildout of AI

infrastructure.⁴ This spending has caused significant price increases for chips, other high-tech equipment, software, and utilities. Both of these new developments add weight to the inflation risk side of the seesaw, which is now tilting toward the ground. As a whole, I see a notable shift in the balance of risks relative to a year or so ago, with inflation risks now outweighing employment risks.

Monetary Policy Considerations

Turning to monetary policy, I voted with the rest of the FOMC last month to keep rates steady. I supported this stance, because the two main factors that have pushed up inflation over the past year—tariffs and the conflict in the Middle East—should, in theory, result in only short-lived increases in inflation. At this juncture, I see it as prudent to give a bit more time to observe how inflation unfolds from here. Going forward, though, I believe the risks continue to be strongly weighted toward higher inflation for at least two reasons.

First, the AI buildout does not show signs of slowing. To date, companies have announced more than \$1.5 trillion in data center plans, only a small portion of which has been realized.⁵ That fact suggests considerably more investment demand in the pipeline from data centers alone. Moreover, plans for other AI-related capital expenditures, such as robotics, may expand sizably in the coming years.

Second, the recent big supply shocks—tariffs and the Middle East conflict—risk leading to persistently higher inflation. Under normal conditions, economists would

⁴ See Cook, “Opportunities and Risks AI Presents.”

⁵ See Eirik Eylands Brandsaas, Daniel Garcia, Robert Kurtzman, Joseph Nichols, and Adelia Zytek, “Estimating Aggregate Data Center Investment with Project-Level Data,” Finance and Economics Discussion Series 2025-109 (Board of Governors of the Federal Reserve System, December 17, 2025), <https://doi.org/10.17016/FEDS.2025.109>. For updated data and publicly available results, see Eirik Eylands Brandsaas, “Estimating Aggregate Data Center Investment with Project-Level Data,” DataCenterPublic, GitHub repository, <https://github.com/eirikbrandsaas/DataCenterPublic>.

expect these shocks to have only one-time effects. But keep in mind that these shocks come as inflation has been elevated relative to our target for five years. Firms' pricing and wage decisions may depend more on what inflation has been rather than its source—implying a risk that the high inflation we have seen boosts inflation going forward.⁶ Nevertheless, I am comforted that medium- and long-run inflation expectations appear mostly anchored. Perhaps because of these anchored expectations by workers and firms at the negotiating table, most measures of wages so far have continued to decelerate and appear consistent with 2 percent in the recent readings.

I want to stress one point, however. Anchored inflation expectations comfort me only to the extent that they tell me that people believe we will do what is necessary to get inflation to target—they do not tell us what those policy actions need to be. This sign of public confidence in the Fed is reassuring, but it does not mean that we can take our eye off the ball. If we do not see signs of disinflation soon, I am prepared to act. I am fully committed to reaching our inflation target, and this commitment is unwavering.

Conclusion

In summary, I view the U.S. economy as remaining resilient. However, over the past year, I have taken notice of data that show the risks to our dual mandate have shifted more toward price stability and away from employment. In determining the appropriate path of policy, I will continue to monitor incoming data, the evolving outlook, and the balance of risks. I look forward to engaging with my fellow Committee members at our

⁶ See Lisa D. Cook, "Economic Outlook," speech delivered at the Economic Club of Miami, Miami, FL, February 4, 2026, <https://www.federalreserve.gov/newsevents/speech/cook20260204a.htm>.

next meeting in two weeks. While I will decline to predict the path of policy today, I will underscore that I am committed to returning inflation to our 2 percent goal.

Thank you. I look forward to your questions.