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Economic Outlook and the Labor Market

Remarks by

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at the

College of Business Administration,
University of Detroit Mercy

Detroit, Michigan

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Thank you for the warm welcome. It is an honor to speak here at the University of Detroit Mercy.¹ I spent most of my career as an economics professor before joining the Board of Governors, so I feel right at home when I am back on a university campus.

This evening, I would like to start by updating you on my economic outlook. And since I have the privilege of being here in Detroit, a city synonymous with hard work, I will particularly focus on my labor market outlook. Next, I will discuss the possible implications of the outlook for the path of monetary policy. And, finally, I offer some thoughts about economic developments in the Southeast Michigan region before answering some questions.

For the U.S. as a whole, I see the economy as continuing to grow, led by resilient consumer spending and healthy business investment. The labor market is roughly in balance but susceptible to adverse shocks. Inflation remains above the Federal Reserve's 2 percent target. As a Federal Reserve policymaker, I am focused on achieving the dual-mandate goals given to us by Congress of maximum employment and stable prices. I currently see risks to both sides of that mandate.

Economic Activity

The latest data on economic activity are consistent with an economy that is growing about in line with estimates of its potential pace. For all of last year, gross domestic product expanded about 2 percent, as shown in figure 1. That was just a slight slowdown from the previous year.

For this year, I see the economy expanding at a similar or slightly faster rate than last year, though the uncertainty around my outlook is high. Investment in high-tech

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

capital, particularly purchases tied to the expansion of artificial intelligence infrastructure, should support growth. In addition, I have taken note of the high pace of new business formation and broad deregulation activity among federal agencies, which could also stimulate growth. Effects from these developments could enhance productivity growth, which in turn supports economic growth and living standards. That said, there are also significant headwinds to consider. It is difficult to say how long the conflict in the Middle East and related disruptions could last. Should elevated energy prices persist, they can weigh on consumer and business spending. This potential adds considerable uncertainty to the global economic outlook.²

Inflation

The recent increase in energy prices also complicates my inflation forecast. The cost of many products rose sharply during the pandemic, and Americans still feel those higher prices when they shop and pay their bills. The recent jump in gasoline prices understandably adds to frustrations. I am highly attentive to the fact that inflation has remained above the Fed's 2 percent target for five years. Low and stable inflation, alongside maximum employment, is the best outcome for all Americans. That is why I am committed to returning inflation to our target.

Inflation has eased from its pandemic-era peak, but progress has stalled over the past year mainly due to tariffs. In addition, I expect elevated energy prices will be reflected in upcoming inflation readings. The blue line in figure 2 shows the personal consumption expenditures (PCE) price index through January. Based on the latest

² See Philip N. Jefferson (2026), "Economic Outlook and Energy Effects," speech delivered at the Global Perspectives Speaker Series, Federal Reserve Bank of Dallas, Dallas, Texas, March 26, <https://www.federalreserve.gov/newsevents/speech/jefferson20260326a.htm>

available data we have, the PCE price index is estimated to have risen 2.8 percent for the 12 months ending in February. Core prices, which exclude the volatile food and energy categories and are represented by the dashed red line. Core prices are estimated to have risen 3.0 percent for the 12 months ending in February. There has been little progress in lowering core inflation over the past year. Figure 3 shows the components of core PCE inflation. We have seen a welcome decline in housing services inflation, shown by the dashed purple line. This decline, however, has been offset by an increase in core goods inflation, shown by the blue line. Core services inflation excluding housing, the dashed red line, has largely moved sideways over the past year.

It has been my expectation that the disinflationary process would resume once higher tariffs are no longer pushing up consumer prices.³ In addition, the strong productivity growth and deregulation efforts, which I previously mentioned, may further help in bringing inflation down to our 2 percent target. The recent increase in energy prices, however, will apply some upward pressure on headline inflation, at least in the near term. The ongoing trade policy uncertainty and geopolitical tensions pose upside risk to my inflation forecast.

The Labor Market

Now, let me turn to the labor market. To set up this discussion, I will first review how the labor market performed in 2025. Then, I will discuss how I interpret the most recent data.

³ See Philip N. Jefferson (2026), “Economic Outlook and Monetary Policy Implementation,” speech delivered at the American Institute for Economic Research, Shadow Open Market Committee, and Florida Atlantic University Conference, Boca Raton, Florida, January 16, <https://www.federalreserve.gov/newsevents/speech/jefferson20260116a.htm>.

For much of last year, the labor market exhibited a gradual cooling. Both the supply of workers and the demand for labor eased in 2025, with the pullback on the demand side more pronounced. On the supply side, labor force growth slowed, mostly driven by a sharp decline in net migration. On the demand side, firms were reluctant to hire in part because of elevated uncertainty around the economic outlook. The pace of job creation cooled in 2025 compared to the previous few years, and job growth became more concentrated in a handful of industries, such as health care and social assistance. The unemployment rate, shown in figure 4, crept up from 4.0 percent in January 2025 to 4.5 percent in November 2025.

In more recent months, the labor market has shown signs of stabilization. The unemployment rate edged lower in March to 4.3 percent, similar to its level at the end of last summer. The unemployment rate is near a level many forecasters estimate as its natural rate, or the level of unemployment that persists when the economy is at full strength.⁴

Job growth has been uneven in recent months, as you can see reflected in the blue line in figure 5. Some temporary factors, including winter weather and a labor strike, played a role in that choppiness. In March, U.S. employers added 178,000 jobs to payrolls. The three-month moving average of job growth, the dashed red line, smooths some of the month-to-month volatility. Through the first quarter of the year, employers added an average of about 70,000 jobs to payrolls each month. That pace of growth is

⁴ Estimates of the natural rate of unemployment can be found in the Summary of Economic Projections estimate of its long-run rate, available on the Board's website at <https://www.federalreserve.gov/monetarypolicy/files/fomcprojt20260318.pdf>, and the Congressional Budget Office's estimate of the natural rate is available on the Federal Reserve Bank of St. Louis's website at <https://fred.stlouisfed.org/series/NROU>.

somewhat subdued. It may, however, be well within the breakeven range that is necessary to keep the unemployment rate steady given the slowdown in overall labor force growth.⁵

I see some other signs of stabilization in the labor market. Labor force participation among Americans aged 25 to 54, so-called prime-age participation rate shown in figure 6, has moved up since the middle of last year. The rate is solid and above its pre-pandemic level. Claims for unemployment insurance, a proxy for layoffs, have also remained low.

The current labor market is often referred to as being in a “low-hire, low-fire” state. What does this label mean? One answer is that rather than seeing widespread layoffs as labor demand cooled, we observed companies becoming more cautious about bringing on new employees. In essence, firms tightened their belts by pressing pause on expanding their workforces, rather than by letting people go.

One set of data I am monitoring in the labor market is job openings and how the level compares with the number of unemployed Americans seeking work. Stepping back, as you may recall, the level of job openings surged early in the pandemic recovery. Then, as you can see in the left panel of figure 7, since the middle of 2022, the level began to normalize. I note that in more recent months, the level of openings appears to have stopped declining. The level of openings relative to the unemployment level is shown in the right panel of figure 7. That ratio appears to be flattening in recent months, just under a level where there is one opening for each person searching for work. When

⁵ See Seth Murray and Ivan Vidangos (2026), “Labor Force Growth, Breakeven Employment, and Potential GDP Growth,” FEDS Notes (Washington: Board of Governors of the Federal Reserve System, April 2), <https://www.federalreserve.gov/econres/notes/feds-notes/labor-force-growth-breakeven-employment-and-potential-gdp-growth-20260402.html>.

this ratio flattens, it suggests a potential balancing of labor supply and demand. This development could indicate that we are moving towards a more stable job market, but I will be watching how this trend develops.

While the labor market appears to be stabilizing, I remain cautious about that assessment. Job gains recorded in recent months were enough to keep the unemployment rate stable, but a sufficiently large negative economic shock could push job gains below that range, driving up the unemployment rate. If the current elevated level of uncertainty persists, there is a risk that firms' reluctance to hire could also persist and hold down job growth for longer. I will remain attentive to the pace of job growth going forward as I assess the extent of potential fragilities in the labor market. Still, overall, I see the labor market as roughly in balance, and my baseline forecast is for the unemployment rate to remain roughly steady this year.

Monetary Policy

As a monetary policymaker, I strive to set the policy that will best achieve our dual-mandate goals of maximum employment and price stability. In the current environment, I confront an outlook in which there is downside risk to the labor market and upside risk to inflation. While that is a potentially challenging situation, I am confident that our current policy stance is well-positioned to respond to a range of outcomes.

Last month, I supported the Federal Open Market Committee's decision to hold the target range for the federal funds rate steady. As you can see in figure 8, over the past year and a half, the Committee lowered the target range for the policy rate 175 basis points. This adjustment put the rate broadly in the range of neutral, or a rate that neither

stimulates nor constrains the economy. The current stance should continue to support the labor market while allowing inflation to resume its decline toward our 2 percent target as the effects of tariff pass-through are completed.

I believe that the current stance allows us to determine the extent and timing of additional adjustments to our policy rate based on the incoming data, the evolving outlook, and the balance of risks.

Detroit's Economy

When I discuss policy with my colleagues, we consider the whole of the U.S. economy. Nonetheless, I find it informative to see firsthand how the economy is playing out in different parts of the country. That is why I particularly value the opportunity to be here today.

Detroit holds a unique spot in our nation's economic history. Long a hotbed of innovation, this area led the charge into the industrial age and became the "Arsenal of Democracy" during World War II. In the first half of the 20th century, the American automotive industry was born here and the labor force in Detroit surged, along with the local economy. That concentration on manufacturing, however, made this area sensitive to changes in global trade flows, energy prices, and technological advancements. As a result, national downturns were felt more deeply here at times.

The unemployment rate in the Detroit metro area, the dashed red line in figure 9, in recent decades has mostly been above the national average. This was particularly true in the years around the Global Financial Crisis when unemployment in this area was at times nearly double the national average. In more recent years, that gap has narrowed, an encouraging sign.

That speaks to Detroit's resilience. I see that both in the economic data and when I look around this city, from the increasingly bustling downtown along Woodward Avenue to revitalized neighborhoods, including areas near campus. The stronger labor market has come as the region's labor force has diversified. As you can see in figure 10, health care and social service employment, the dashed purple line, is up nearly 40 percent from 25 years ago. Over the same time, manufacturing employment, the dashed red line, has decreased to a similar degree. I do note that total employment, the blue line, has yet to recover to its peak level in 2000. That said, the recent trend has generally been one of job growth, outside of the onset of the pandemic.

The picture in Detroit now looks similar to the national economy. The labor market has slowed, but there are signs of stabilization. The metro area's unemployment rate moved a bit lower in the latter part of last year. But now Detroiters, like the rest of the country, are encountering rising energy prices after several years of elevated inflation. While the region has experienced some economic volatility over the past year, much of it can be attributed to temporary factors that should fade over time. Despite the diversification in its economy, this area's strong ties to the automotive industry still leave it somewhat vulnerable to global economic forces. It is affirming to see that some regional economists project that the Detroit labor market will stabilize and then grow at a moderate pace over the next few years.⁶

⁶ See University of Michigan, Research Seminar in Quantitative Economics (2026), *City of Detroit Economic Outlook: 2025–2030* (Ann Arbor: RSQE, February), https://lsa.umich.edu/content/dam/econ-assets/Econdocs/RSQE%20PDFs/RSQE_Detroit_Forecast_Feb2026.pdf.

Conclusion

While at times in the recent past Detroit has faced different economic conditions than the rest of the country, recent developments have changed that. The diversification of its workforce and recent growth have brought Detroit in line with the national picture. I view it as likely that the economy will continue to grow both in this region and throughout the country. Still, I remain cautious about my outlook. Uncertainty about the economy is elevated, and the rise in energy prices and the conflict in the Middle East add to that uncertainty. I continue, however, to see our current policy stance as appropriately positioned to allow us to assess how the economy evolves.

Thank you again for inviting me to speak here, and I would be happy to answer your questions.



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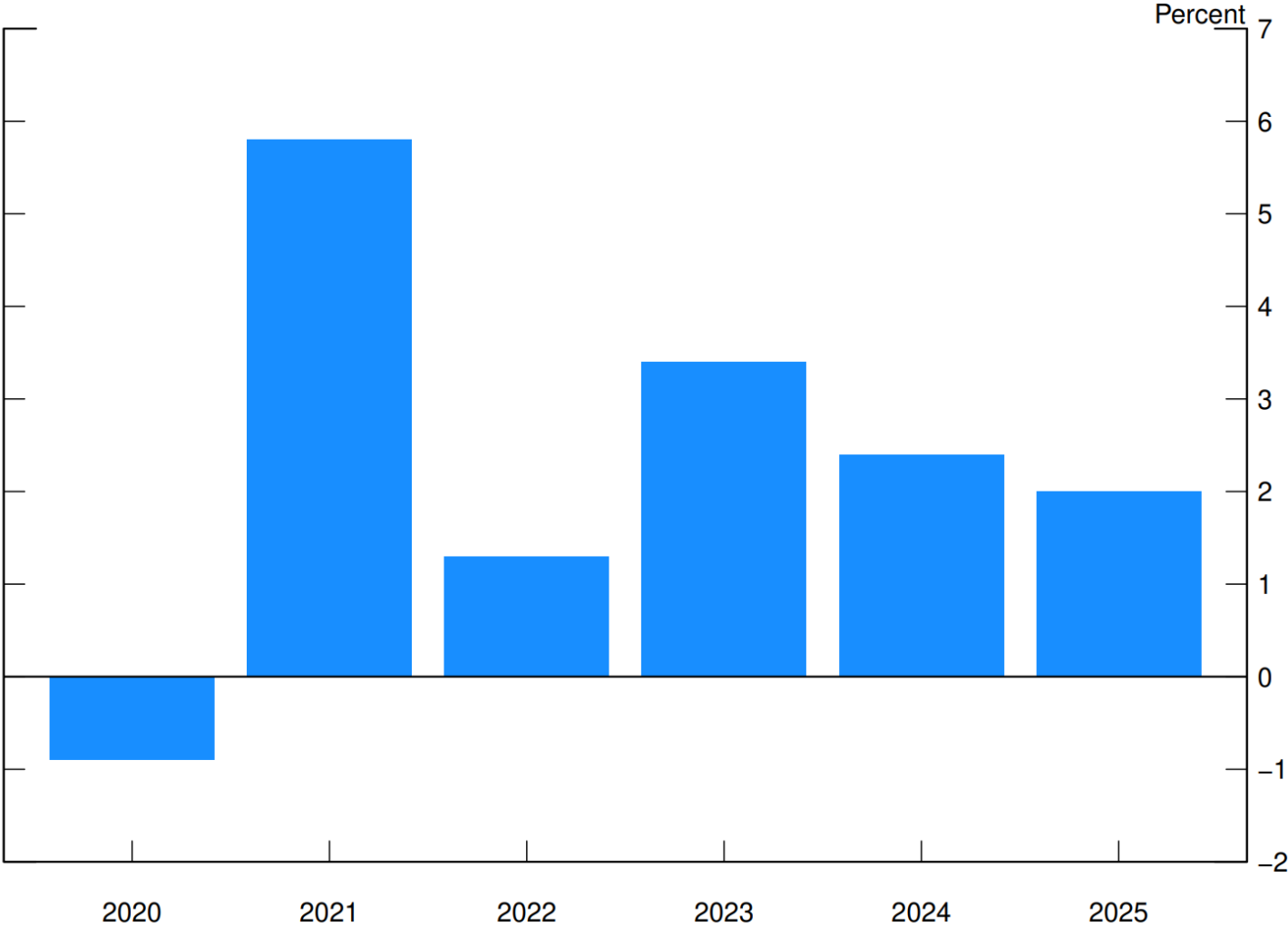


Road Map of Talk

- Economic Outlook
- The Labor Market
- Implications for Monetary Policy
- Regional Economic Developments
- Conclusion



Figure 1: Real Gross Domestic Product

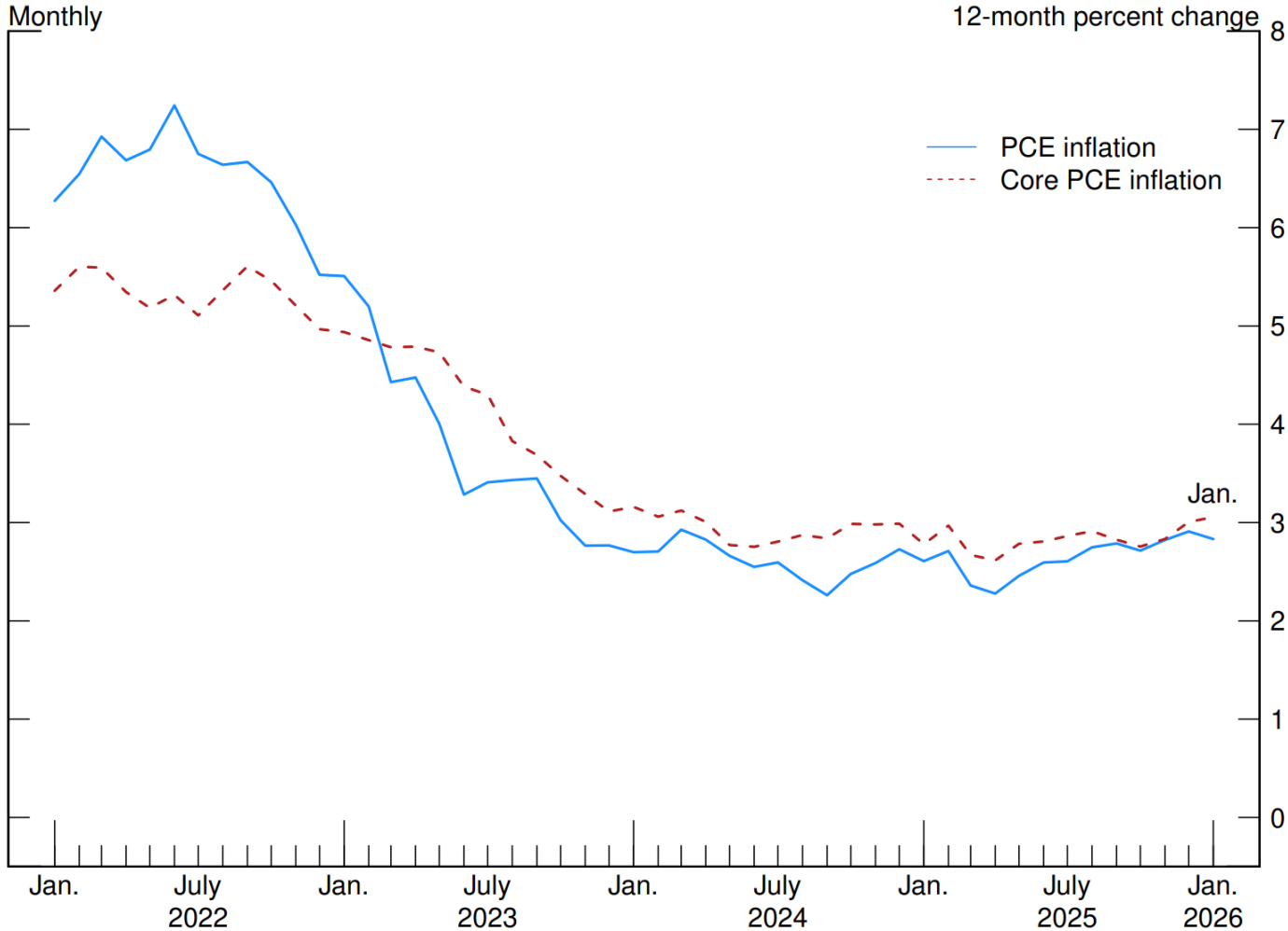


Note: Percent change from preceding period. Annual GDP values represent Q4/Q4 comparisons. Seasonally adjusted.

Source: U.S. Bureau of Economic Analysis, Real Gross Domestic Product, retrieved from FRED, Federal Reserve Bank of St. Louis.



Figure 2: 12-Month PCE and Core PCE Inflation

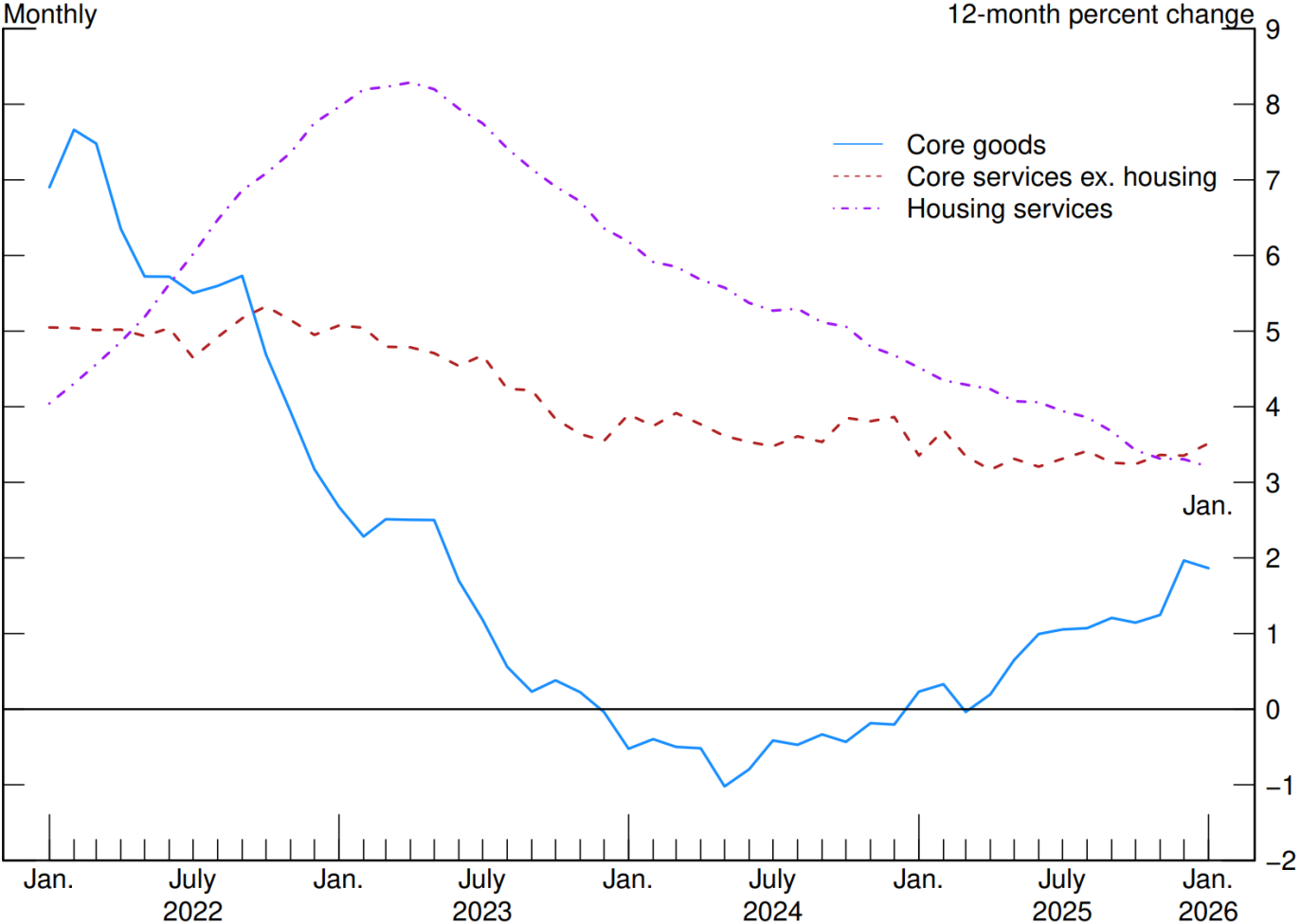


Note: PCE inflation is the change in the personal consumption expenditures price index, and core PCE inflation is the change in PCE price index excluding food and energy. PCE and core PCE are 12-month inflation percentages calculated using seasonally adjusted annual rates.

Source: U.S. Bureau of Economic Analysis, Personal Consumption Expenditures: Chain-Type Price Index and Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index), retrieved from FRED, Federal Reserve Bank of St. Louis.



Figure 3: Components of Core PCE Inflation

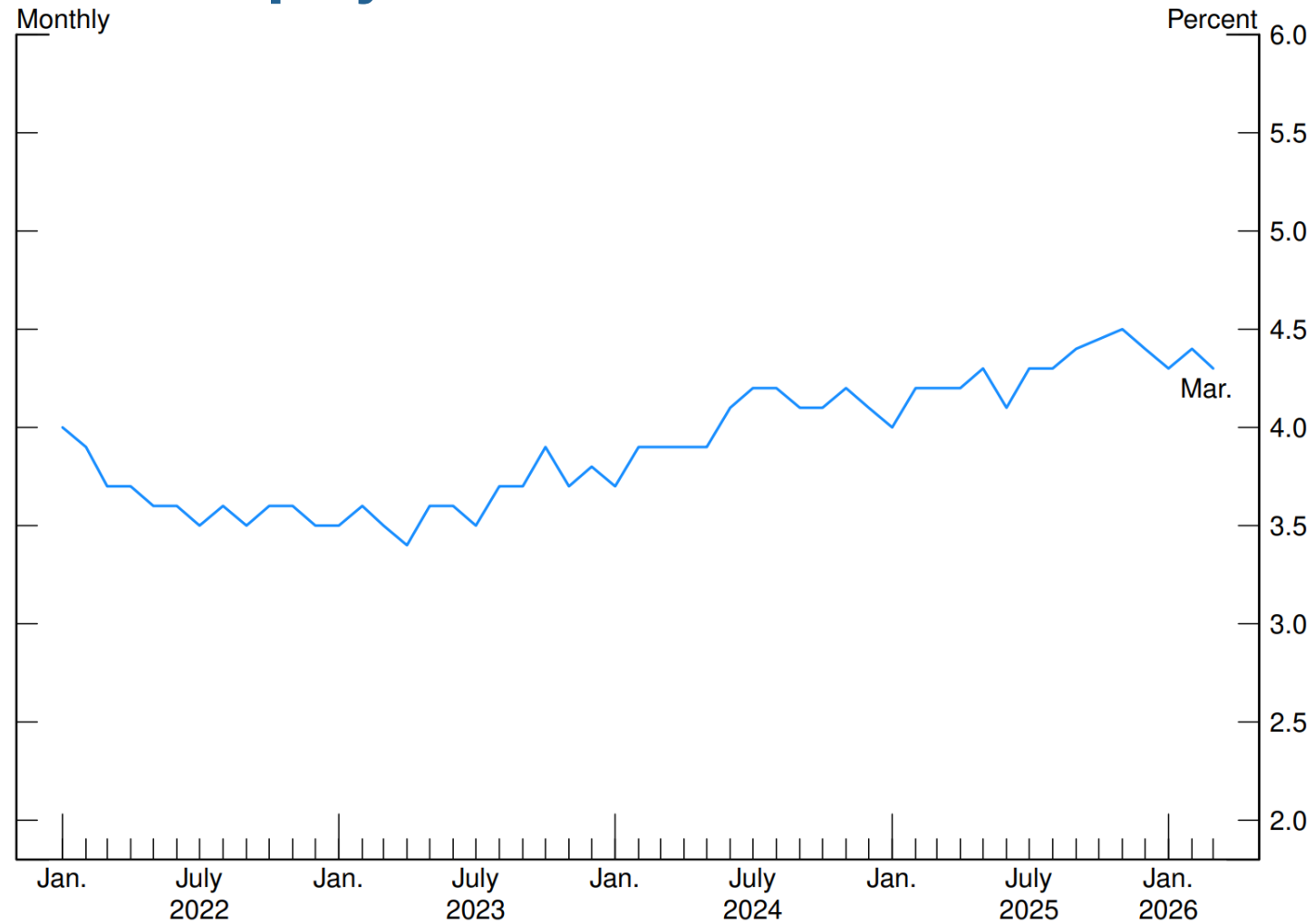


Note: Core goods inflation is the change in the personal consumption expenditures (PCE) price index excluding energy and food. Core services inflation is the change in the PCE price index excluding energy services.

Source: U.S. Bureau of Economic Analysis.



Figure 4: Unemployment Rate

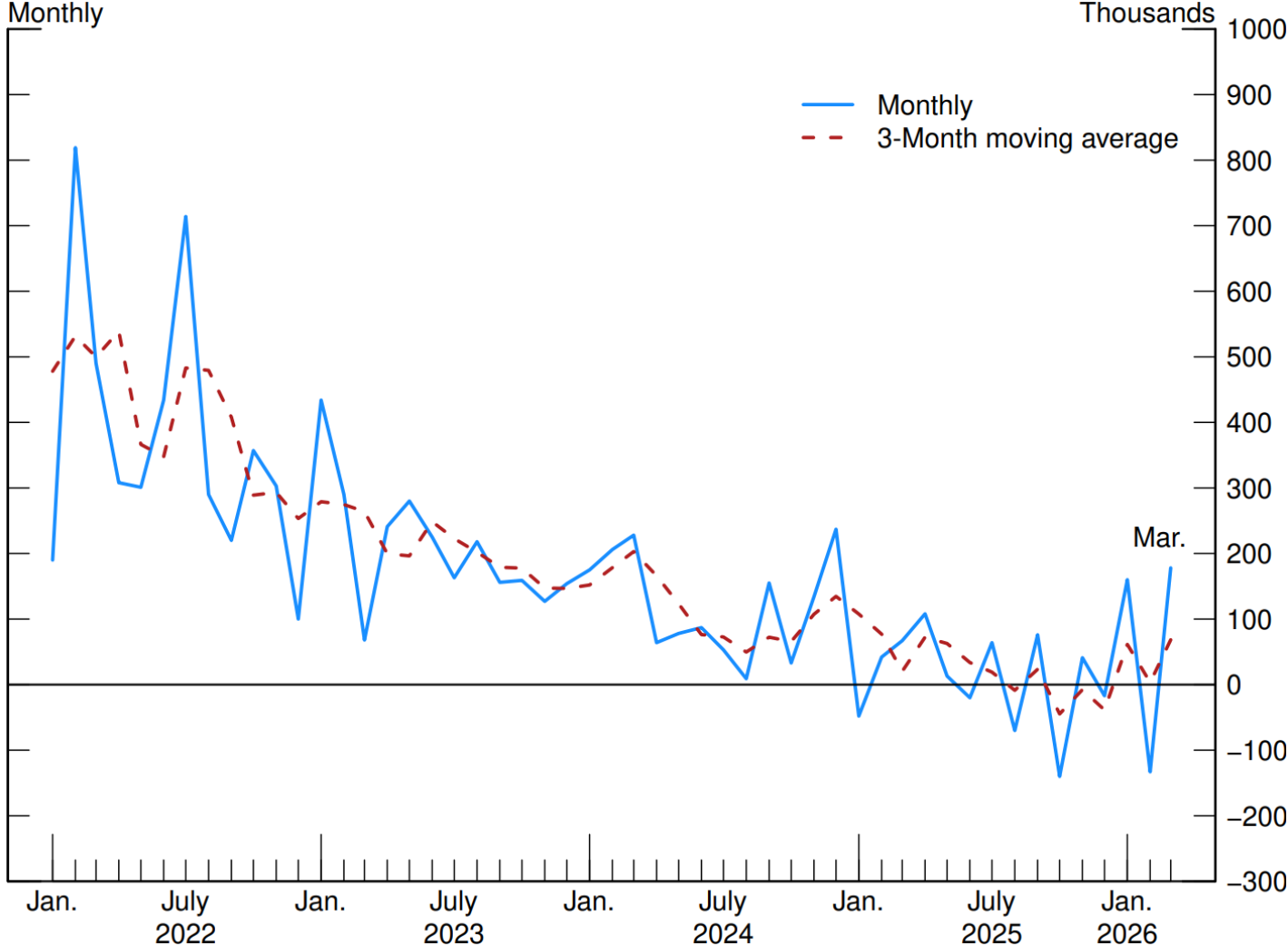


Note: There are no data for October 2025.

Source: U.S. Bureau of Labor Statistics, Unemployment Rate, retrieved from FRED, Federal Reserve Bank of St. Louis.



Figure 5: Monthly Change in Payroll Employment

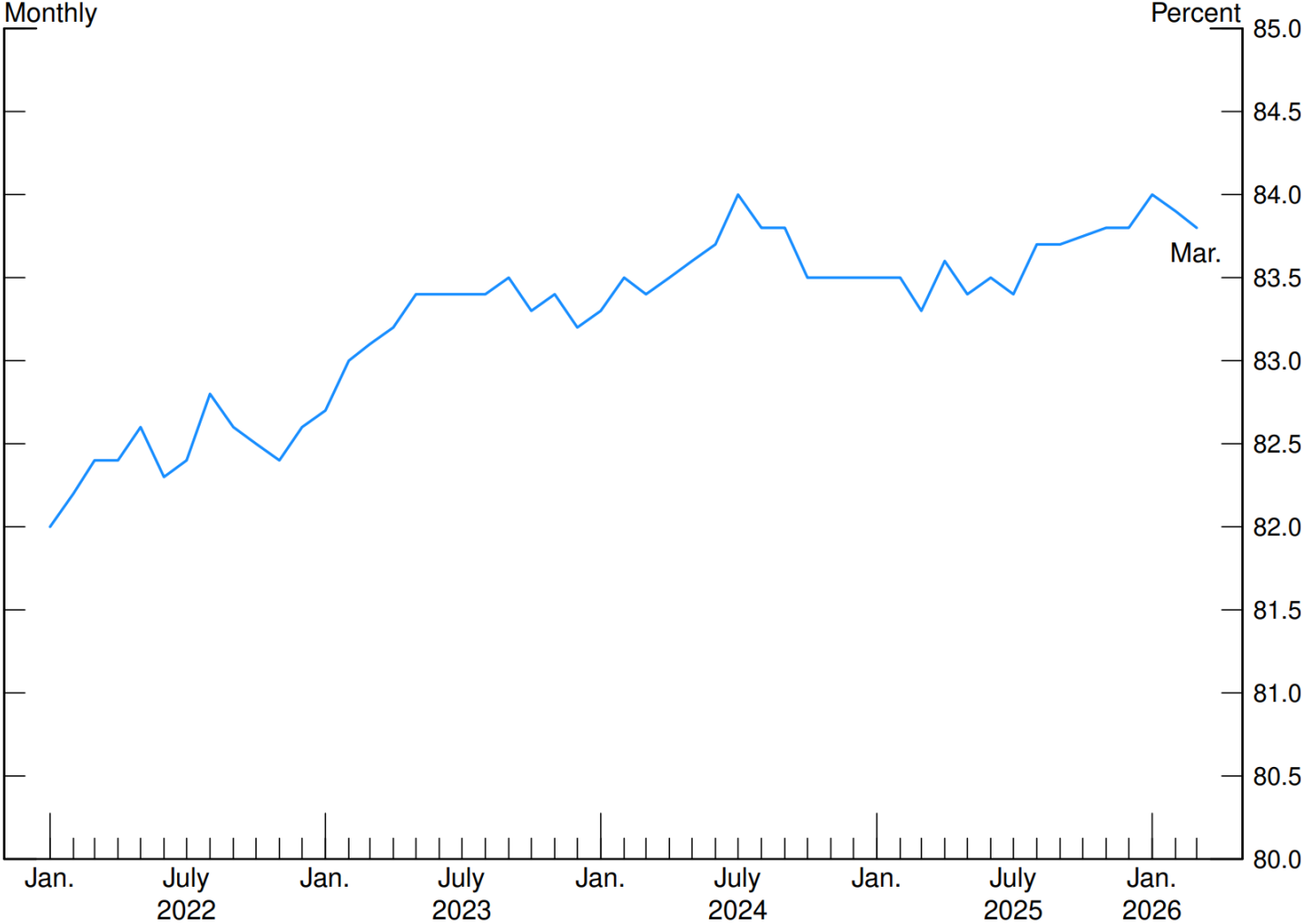


Note: Seasonally adjusted.

Source: U.S. Bureau of Labor Statistics, All Employees, Total Nonfarm, retrieved from FRED, Federal Reserve Bank of St. Louis.



Figure 6: Prime-Age Labor Force Participation Rate



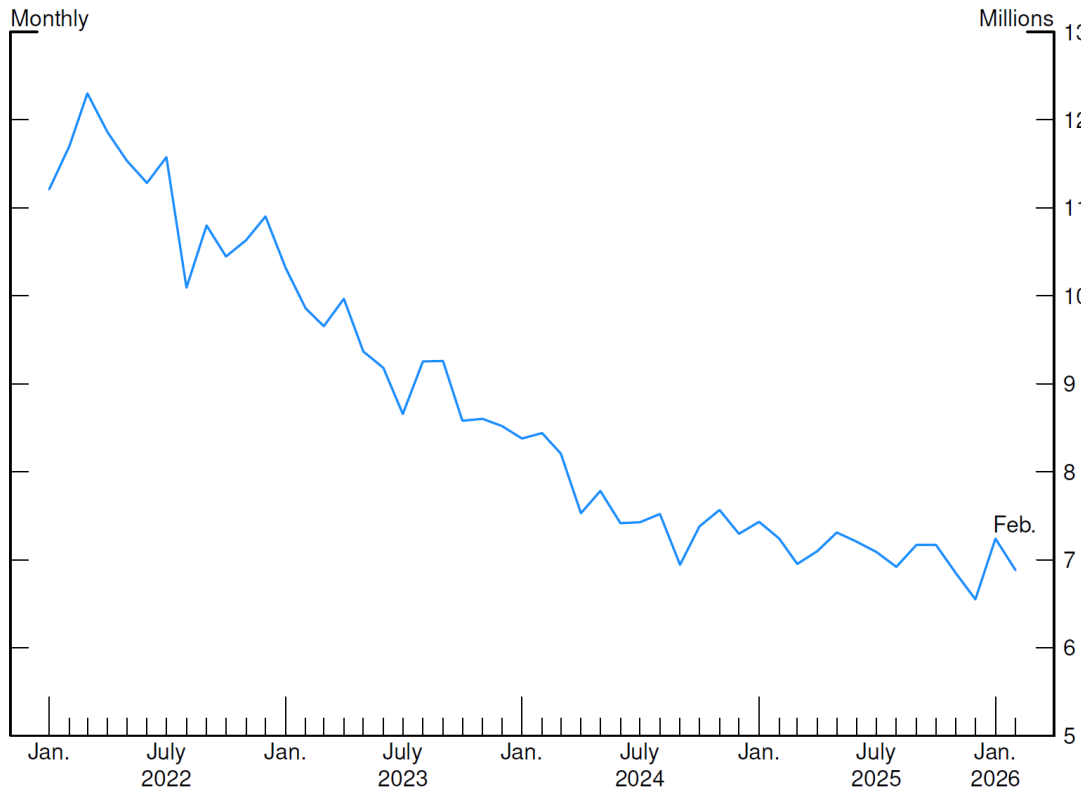
Note: Prime age refers to 25–54 years. There are no data for October 2025. Seasonally adjusted.

Source: U.S. Bureau of Labor Statistics, FRED, Federal Reserve Bank of St. Louis.



Figure 7: Job Vacancies

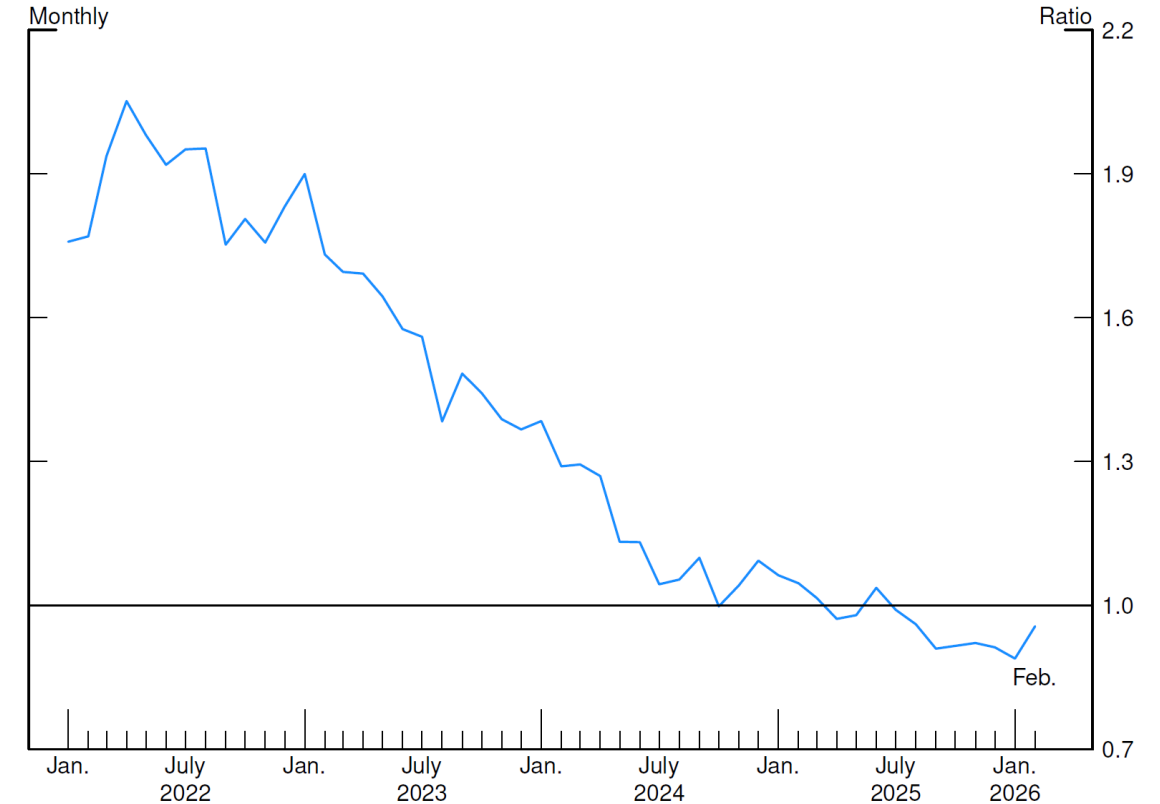
Total Job Openings: Nonfarm



Note: Seasonally adjusted.

Source: U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, retrieved from FRED, Federal Reserve Bank of St. Louis

Ratio of Vacancies to Unemployment

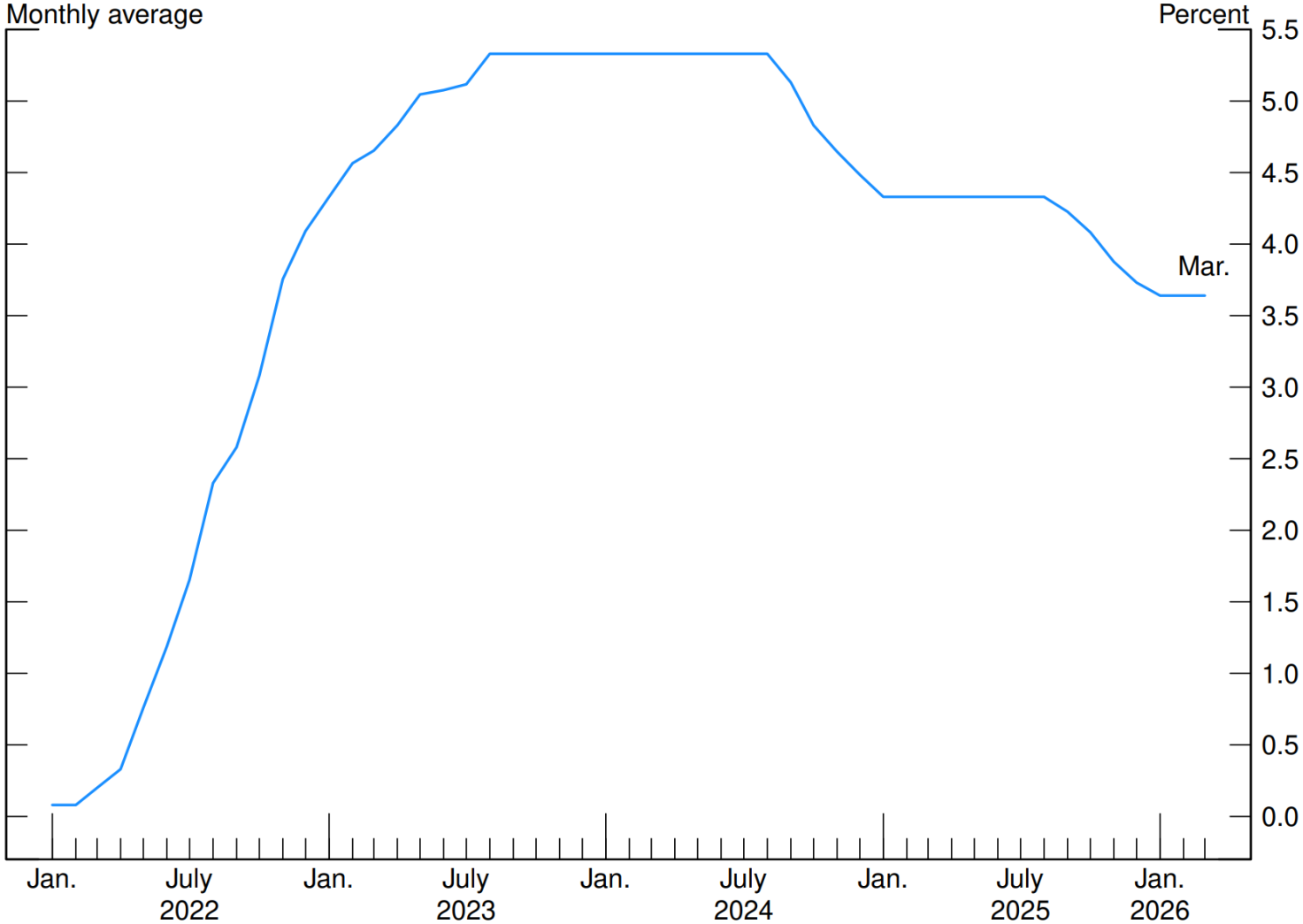


Note: Vacancies are Job Openings and Labor Turnover Survey job openings as of the end of the previous month. Values before January 2026 are estimated by Federal Reserve Board staff to eliminate discontinuities in the published history.

Source: U.S. Bureau of Labor Statistics, Job Openings: Total Nonfarm and Unemployment Level, retrieved from FRED, Federal Reserve Bank of St. Louis.



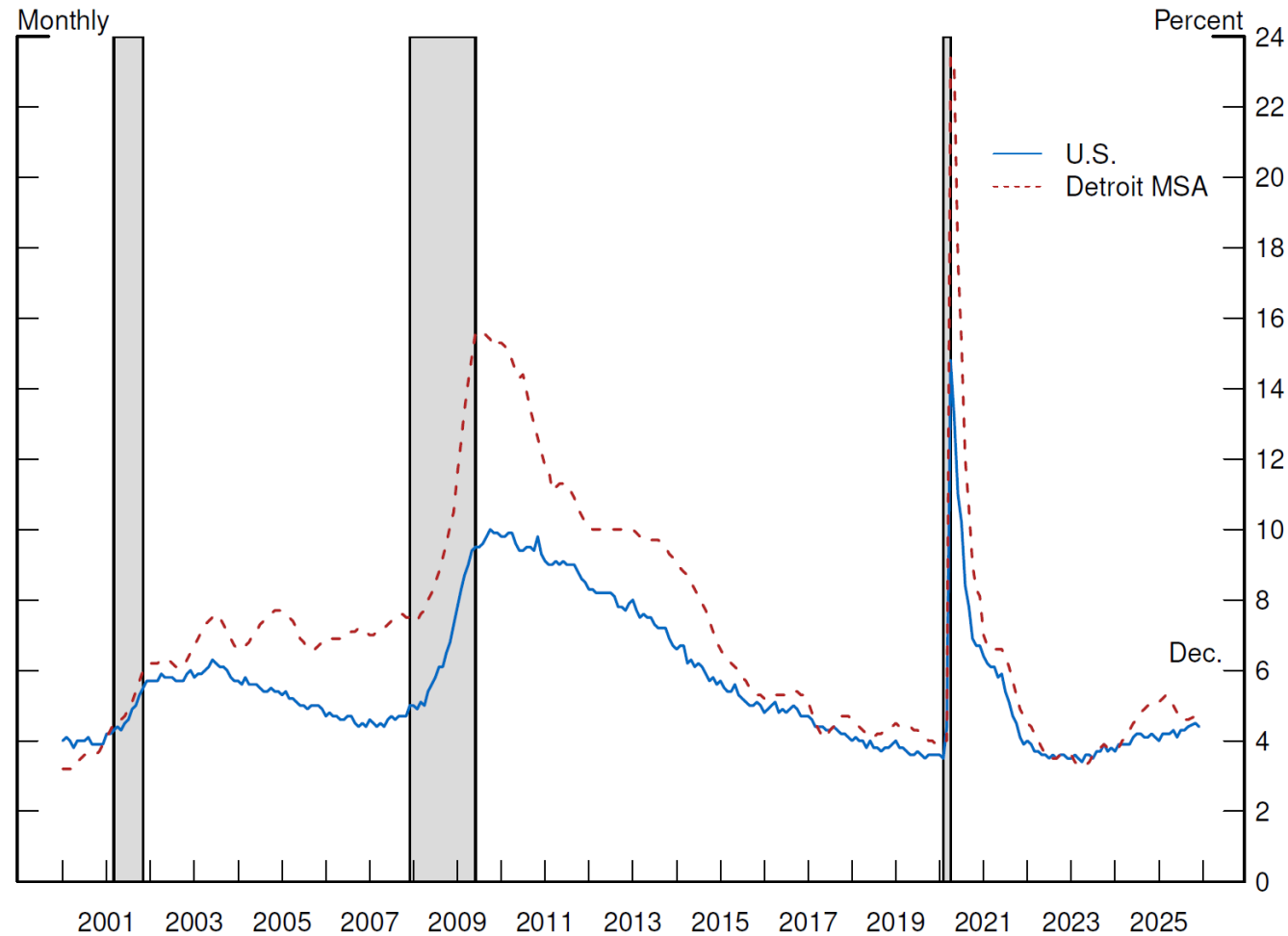
Figure 8: Federal Funds Rate



Source: Federal Reserve Bank of New York, <https://www.newyorkfed.org/markets/reference-rates/effr>.



Figure 9: U.S. and Detroit Area Unemployment Rates

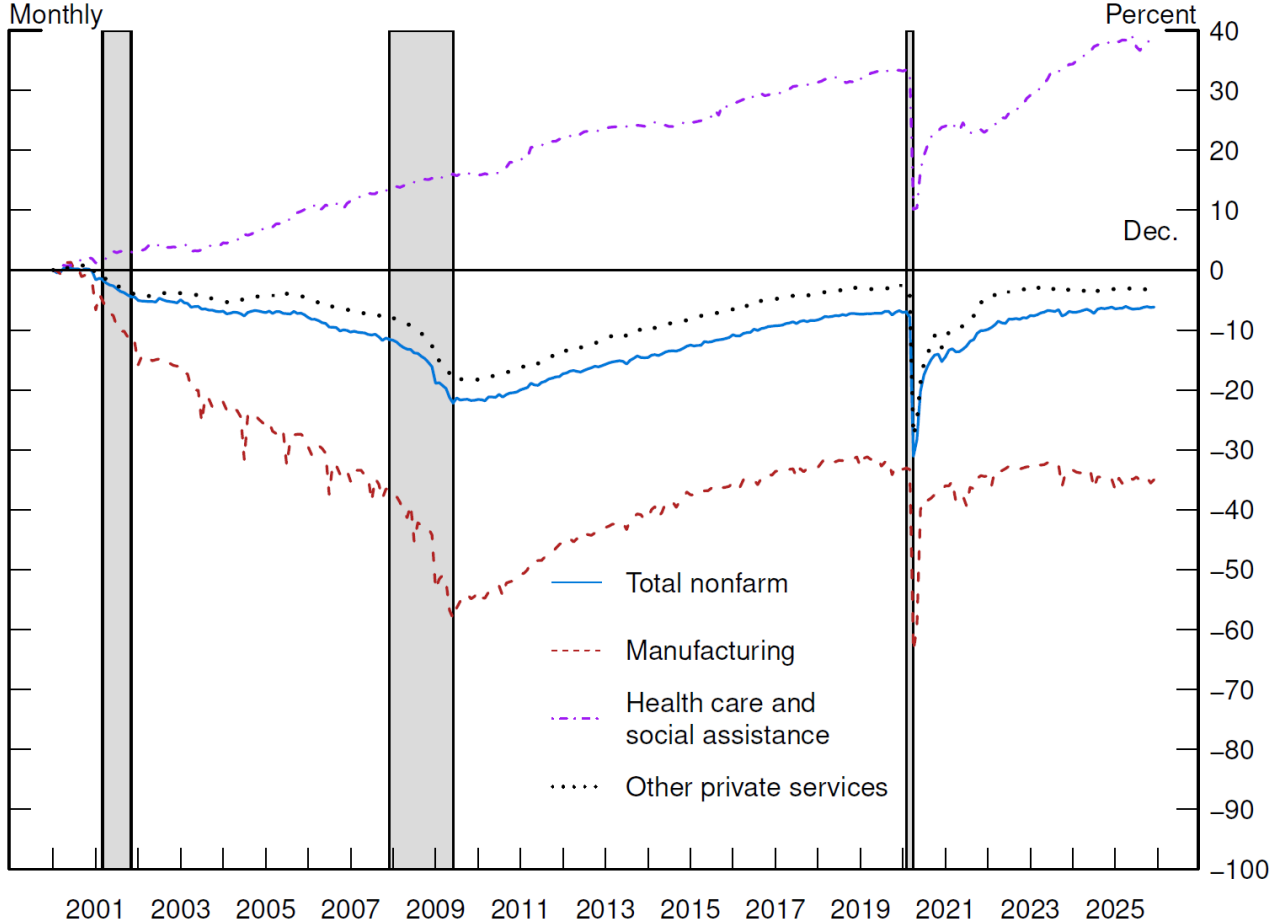


Note: There are no data for October 2025. The shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research: March 2001–November 2001, December 2007–June 2009, and February 2020–April 2020.

Source: U.S. Bureau of Labor Statistics, Unemployment Rate and Unemployment Rate in Detroit-Warren-Dearborn, MI, metropolitan statistical area (MSA), retrieved from FRED, Federal Reserve Bank of St. Louis.



Figure 10: Change in Payroll Detroit Area Employment



Note: The shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research: March 2001–November 2001, December 2007–June 2009, and February 2020–April 2020.

Source: U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm in Detroit-Warren-Dearborn, MI metropolitan statistical area (MSA), All Employees: Manufacturing in Detroit-Warren-Dearborn, MI (MSA), All Employees: Education and Health Services: Health Care and Social Assistance in Detroit-Warren-Dearborn, MI (MSA), and All Employees: Private Service Providing in Detroit-Warren-Dearborn, MI (MSA), retrieved from FRED, Federal Reserve Bank of St. Louis.



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