For release on delivery
9:25 a.m. EST (11:25 a.m. local time)
November 19, 2026

Monetary Policy amid Frequent and Complex Shocks

Remarks by

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at the

International Monetary Fund and Central Bank of Brazil Conference
"A Quarter Century of Inflation Targeting in Latin America:
Progress, Challenges, and the Road Ahead"

Brasília, Brazil

November 19, 2026

Thank you, Nigel, for that kind introduction, and thank you to the Central Bank of Brazil and International Monetary Fund for hosting this important conference.[1] It is an honor to be here with my fellow panelists. Today, I will briefly discuss issues that are critical for central bankers around the world—that is, how to assess and confront economic shocks. I discussed these issues in more depth in a speech earlier this year at Stanford University.[2]

Shocks, by their nature, are difficult to predict and vary in length, but we are nonetheless very familiar with them. Just in the past few years, we have experienced a pandemic, a rapid rise in energy prices associated with geopolitical tensions, changes to trade policy, and a technological breakthrough. One way to classify shocks is to determine whether their initial effect is on the demand side or the supply side of the economy. Demand shocks affect spending by households, businesses, or the government without changing productive capacity. Supply shocks change productive capacity—what economists call "potential output"—by affecting the available supply of labor and capital or the productivity of those inputs. The nature and duration of these shocks influence the approach to monetary policymaking.

As a monetary policymaker in the United States, I must consider whether and how shocks impact both sides of our dual mandate—maximum employment and stable prices. When a shock moves the output gap and inflation in the same direction, our objectives are aligned, and policy actions taken to address one also support the other.[3] When a

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[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.

[2] See Philip N. Jefferson, "Navigating Economic Shocks: A Monetary Policymaker's Perspective," speech delivered at the Stanford Institute for Economic Policy Research, Stanford University, Stanford, CA, July 16, 2026, https://www.federalreserve.gov/newsevents/speech/jefferson20260716a.htm.

[3] The output gap is the difference between the economy's actual output, typically measured by GDP, and an estimate of its potential output. A positive gap signals excess demand, with employment above its

shock pushes them in opposite directions, there is a tradeoff. The recent rise in oil prices tied to the conflict in the Middle East is an example of the latter. An energy price shock can push up inflation while weighing on real incomes and demand. The appropriate response depends on the relative costs of missing each objective and the balance of risks. When the recent energy price shock occurred, inflation in the U.S. was already above our 2 percent target. If inflation expectations risk becoming unanchored, a stronger reaction to inflation is warranted. If price pressures are contained, it may be prudent to prioritize downside risks to employment.

Shocks that affect both aggregate supply and aggregated demand but with differential timing are especially challenging for monetary policymakers. The rapid adoption of artificial intelligence (AI) represents such a shock. Business adoption of AI has risen considerably over the past two years.[4] On the demand side, optimism about the technology has been boosting business investment in data centers, advanced computing equipment, and related products. On the supply side, AI is likely to automate some tasks and augment others, which could raise productivity and, in turn, the growth rate of potential output. Currently, the AI buildout is exerting upward pressure on demand and inflation. In the future, advancements in productivity could exert downward pressure on inflation while continuing to support growth. Labor market effects are relevant as well. AI could cause some job displacement, a meaningful challenge for affected households. Like many technological breakthroughs of the past, however, AI could lead to the creation of new jobs and new firms that we have not yet imagined.

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maximum sustainable level and upward pressure on inflation; a negative gap signals excess supply, with the opposite effects.

[4] Recent technological advancements discussed in this speech are sometimes referred to as super intelligence or SI.

Shocks do not arrive in a vacuum. Energy, trade, and AI shocks are all unfolding at once. My colleagues at the Fed and my peers around the world must weigh them simultaneously. Our task is to remain attentive to our respective mandates and to keep the stance of our policies appropriately calibrated to achieve those stated goals. For the U.S. economy, my goal is to restore price stability while maintaining a solid labor market. That outcome will help the economy grow according to its full potential.

Thank you, and I look forward to our discussion.