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Landing Softly Is Just the Beginning

Mary C. Daly

The economy has significantly improved from just two years ago. Inflation has fallen substantially, and the labor market has returned to a more sustainable path. A soft landing is achievable, and the Fed is resolute to finish the job. But looking ahead, we should strive for a durable and sustained expansion that helps all Americans. The following is adapted from remarks presented by the president of the Federal Reserve Bank of San Francisco at the New York University Stern School of Business in New York City on October 15.

It's great to be in New York again and to have the opportunity to speak with you about the economy and monetary policy. I very much appreciate the invitation, and I look forward to a lively discussion.

Now, instead of starting with monetary policy, I'm going to begin with a story.

Last week, I was walking in my neighborhood. A young father, with a stroller, a toddler, and a dog called out to me. He had a question. "President Daly, are you declaring victory?" I immediately said no. The Federal Open Market Committee (FOMC) won't be satisfied until inflation is at our 2% goal. But as it turns out, that wasn't what he meant.

What he wanted to know was that we wouldn't stop there. He wanted low inflation, a healthy labor market, and a durable expansion. He wanted a chance to catch up and then advance. A chance to recoup what high inflation took from him. And an opportunity to build his career, family, and community. An opportunity to be better off.

As a policymaker, that has always been my objective—to deliver the foundations for that type of economy. And with inflation easing and the economy back on a sustainable track, that objective can be our focus.

Today, I will discuss the progress we've made in bringing inflation down and the importance of looking beyond a "soft landing." Aspiring to a durable expansion with sustained price stability.

A more balanced economy

Let me start with where we are right now. The economy is clearly in a better place. Inflation has fallen substantially, and the labor market has returned to a more sustainable path. And the risks to our goals are now balanced. This is significant improvement from just two years ago.



Figure 1 makes the point. Since March of 2022, when the FOMC began raising interest rates, inflation has declined from over 7% at its peak to just over 2% in the most recent readings. Inflation expectations—what people believe about the future—have come down as well, confirming that households, businesses, and markets see the progress and believe the disinflationary process will continue (Bundick and Smith 2024). The most recent data also show muted inflation expectations for the near term and longer term; see, for example, the [Cleveland Fed’s inflation expectations data page](#).

At the same time, the labor market has cooled. Most labor market indicators are now at or near their pre-pandemic values, and the unemployment rate is hovering around a level judged to be sustainable over the longer run. According to the [FOMC’s September 2024 Summary of Economic Projections \(SEP\)](#), the September unemployment rate of 4.1% was a touch below the SEP median estimate of the natural unemployment rate of 4.2%.

All of this means that the labor market has largely normalized and is no longer a major source of inflation pressures (Lansing and Petrosky-Nadeau 2024, see also Powell 2024).

Recalibrating policy

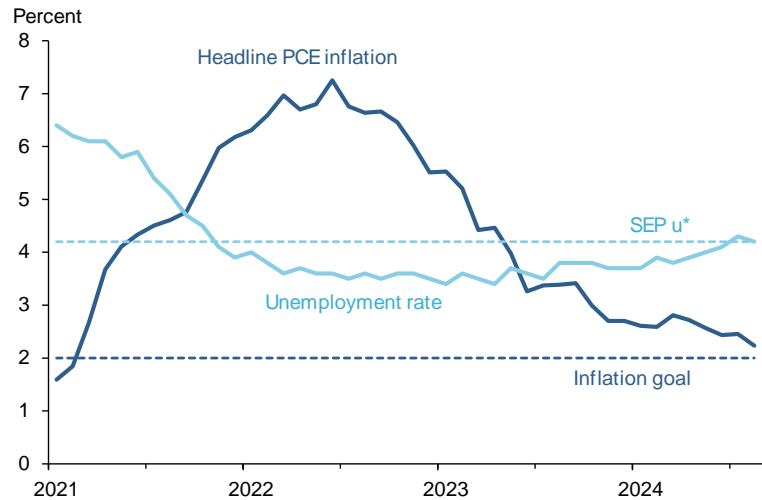
Of course, as conditions improve, policy needs to adjust.

Remember, during the fight to bring inflation down, the FOMC raised rates aggressively and kept monetary policy tight, historically so. The recent federal funds rate peak maintained from July 2023 through mid-September 2024 was at the highest level in over 20 years, since early 2001. And then each month that inflation and inflation expectations fell, policy became tighter in real terms.

So, the FOMC needed to recalibrate, and did so at the September meeting. I see this recalibration as “right-sizing,” recognizing the progress we’ve made and loosening the policy reins a bit, but not letting go. Even with this adjustment, policy remains restrictive, exerting additional downward pressure on inflation to ensure it reaches 2%.

Making these adjustments to match the economy we have is crucial. It prevents the mistake of overtightening and ensures we are supporting both of our goals.

Figure 1
Inflation and unemployment since January 2021



Note: Inflation measured as 12-month percentage change.
Source: Bureau of Economic Analysis, Bureau of Labor Statistics, and Federal Reserve Board of Governors.



Continued progress is not guaranteed. We must stay vigilant and be intentional, continually assessing the economy and balancing both of our mandated objectives: fully delivering on 2% inflation while ensuring that the labor market remains in line with full employment.

That is a soft landing.

Beyond a soft landing

But as the dad in my neighborhood reminded us, this is only part of what people need. What households, businesses, and communities really want is a durable economy, with sustained growth, a good labor market, and low inflation.

High inflation chipped away at real incomes and purchasing power, intensifying the challenges of overcoming pandemic disruptions (Guerreiro et al. 2024 and Stantcheva 2024). Everyone felt it. But the burden fell particularly hard on low- and moderate-income families, who spend a disproportionate share of their resources on shelter, food, and fuel, where price increases have been especially large (Klick and Stockburger 2024).

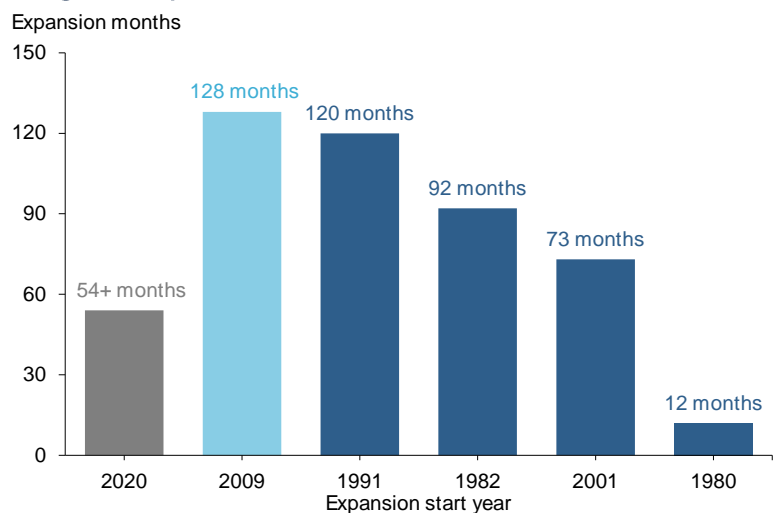
Businesses have also struggled, especially small- and medium-sized firms that have been saddled with back-to-back challenges of pandemic closures, supply bottlenecks, labor shortages, and high inflation (see Chamber of Commerce 2023 and Federal Reserve Banks 2024).

A durable and sustained expansion allows both families and businesses to recoup their losses and rebuild incomes and wealth that raise their economic well-being. Real wages and incomes have been rising, but most households are yet to fully make up the earlier losses (see Guzman and Kollar 2024 and [Bureau of Labor Statistics \(BLS\) usual weekly earnings of wage and salary workers series](#)). And all of this helps communities, which depend on households and businesses to thrive.

So, is a durable expansion possible? History says yes. Again, the data tell the story (see Figure 2). Compared to recent history, the current expansion is still relatively young.

I've had the benefit of working at the Federal Reserve during the two longest expansions on record—the 1990s and the

Figure 2
Length of expansions



Source: National Bureau of Economic Research.



pre-pandemic period. During both, remarkable things occurred. Businesses thrived, workers got jobs, and gains in household earnings, income, and wealth were widely shared. (For the details of the 1990s expansion, see various chapters in Krueger and Solow 2001.)

The expansion just prior to the pandemic was especially impressive: nearly 11 years, 10 years and 8 months to be precise, the longest on record. And I saw firsthand what the data tell us—sustainable growth with low inflation delivers opportunities. (See Daly 2020 for details.)

Robust labor markets brought a broader group of workers into jobs (Aaronson et al. 2019). More and more Americans entered or reentered the labor force, wages and incomes rose, and inequality fell (Aaronson et al. 2019, Robertson 2019, Guzman and Kollar 2024). Even wealth gains were widely shared, with low net-worth families generally seeing the largest growth in their holdings (Bhutta et al. 2020). All of this meant better conditions for households and businesses across the country.

We've already seen some of the same patterns play out in our current expansion. Labor force participation for prime-age workers has reached new highs (Prabhakar and Valletta 2024). Earnings gaps between high- and low-wage workers have closed somewhat (Autor, Dube, and McGrew 2023). Updated numbers from the [BLS Usual Weekly Earnings series](#) confirm that earnings gaps have generally remained low during the current expansion. And after rising initially during the pandemic, household income inequality has fallen back down more recently (Guzman and Kollar 2024).

The bottom line: sustained expansion helps all Americans.

The economy we deserve

In the coming months and years, there will almost certainly be economic bumps, disturbances, and scares. And the Federal Reserve cannot fully prevent shocks from having an impact. But barring such events, and with the right monetary policy mix, we can help create the conditions for enduring growth.

The most important trait in a central banker is the ability to look ahead. To keep an eye on today and an eye on tomorrow. The work to achieve a soft landing is not fully done. And we are resolute to finish that job.

But that cannot be all we're after.

Ultimately, we must strive for a world where people aren't worried about inflation or the economy. A world where people have time to catch up, and then to get ahead.

That, as I told the young father, is my version of victory. And that's when I will consider the job truly done.

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