

United States House of Representatives  
Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, D.C. 20515

June 17, 2022

## Memorandum

**To:** Members, Committee on Financial Services  
**From:** FSC Majority Staff  
**Subject:** June 23, 2022, Full Committee Hearing entitled, “Monetary Policy and the State of the Economy”

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The full Committee will hold a hearing entitled, “Monetary Policy and the State of the Economy” on Thursday, June 23, 2022, at 10:00 AM Eastern Time in room 2128 of the Rayburn House Office Building and on Cisco Webex. The Honorable Jerome H. Powell, Chair of the Board of Governors of the Federal Reserve System, will be the sole witness.

### Purpose and Background

The Federal Reserve Act directs the Chairman of the Board of Governors (Board) of the Federal Reserve System (Federal Reserve or Fed) to testify before the House Committee on Financial Services and the Senate Committee on Banking, Housing, and Urban Affairs twice a year on how the Board handles monetary policy and its observations on economic developments.<sup>1</sup> Each appearance requires the Board to supply the committees with a written report known as the *Monetary Policy Report*.<sup>2</sup> The Federal Reserve System consists of a 7-member Board of Governors and 12 Reserve Banks located in various regions around the country. The Fed’s functions include conducting monetary policy, promoting financial stability, supervising and regulating certain financial institutions, and fostering payments and settlements.<sup>3</sup> The Board has seven Governors, including a Chair, a Vice Chair, and a Vice Chair for Supervision. Monetary policy decisions are made by the Federal Open Market Committee (FOMC), which is comprised of the Board, the president of the Federal Reserve Bank of New York, and an annual rotation of four of the remaining Reserve Bank presidents.<sup>4</sup>

### Overall Economic Outlook, Inflation, and Monetary Policy

Economic conditions and labor market recovery from the COVID-19 pandemic have shown remarkable strength. In May 2022, the Bureau of Labor Statistics (BLS) jobs report showed an additional 390,000 jobs were added to the economy while the unemployment rate continues to hold at 3.6 % for the third month in a row, just above the lowest level recorded in December 1969.<sup>5</sup> Year-over-year wages for workers also grew by 5.2%, and labor force participation increased to 62.3%, though the labor force remains 1.1% smaller than pre-pandemic.<sup>6</sup> Additionally, the May jobs report found broader representation in the labor market recovery, with employment-to-population ratios for prime-age workers and Black men are nearing or exceeding their pre-pandemic levels.<sup>7</sup> Yet despite these positive signs, inequities persist with the national White unemployment rate dropping to its pre-pandemic level of 3.0% in Q1 of 2022

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<sup>1</sup> Section 2B of the [Federal Reserve Act](#) (12 USC 225b).

<sup>2</sup> *Id.*

<sup>3</sup> See Fed, [About the Fed](#) (accessed June 16, 2022).

<sup>4</sup> For more background on the Fed, see HFSC [memo](#) prepared for the hearing entitled “Monetary Policy and the State of the Economy” (Feb. 11, 2020). Also see CRS, [Introduction to Financial Services: The Federal Reserve](#) (Jan. 13, 2022), [The Federal Reserve’s Response to COVID-19: Policy Issues](#) (Feb. 8, 2021), and [Monetary Policy and the Federal Reserve: Current Policy and Conditions](#) (Feb. 6, 2020).

<sup>5</sup> Bureau of Labor Statistics, [The Employment Situation – May 2022](#) (June 3, 2022).

<sup>6</sup> *Id.*

<sup>7</sup> U.S. Department of Labor, [Good News from May: Job Growth Continues](#) (June 7, 2022).

while during that same period the national Black unemployment rate remained elevated at 6.5% and the national Black-to-White unemployment ratio remains unchanged at 2.2 to 1.<sup>8</sup>

Inflation remains a persistent challenge to the COVID-19 economic recovery. Throughout 2021 and the first half of 2022, inflation measures have continued to exceed the Fed's projections.<sup>9</sup> Globally, countries are facing accelerated price growth and high levels of inflation, driven by high food and energy prices. Consumer prices in OECD countries rose year-on-year by 9.2% in April 2022 and nine OECD countries recorded double-digit inflation rates. Overall global inflation is forecasted to reach 7.9% in 2023 before dropping toward 5.0% in 2023.

Chair Powell echoed this analysis in his June FOMC press conference remarks, attributing “the surge in prices of crude oil and other commodities that resulted from Russia’s invasion of Ukraine” and “COVID-related lockdowns in China...exacerbate[ing] supply chain disruptions” as the key external factors “boosting prices for gasoline and food” the surge in prices of crude oil and other commodities that resulted from Russia’s invasion of Ukraine” and “COVID-related lockdowns in China...exacerbate[ing] supply chain disruptions” as the key external factors “boosting prices for gasoline and food”<sup>10,11</sup>

In response, the FOMC has taken a series of increasing interest rate hikes intended to restore price stability by increasing borrowing costs to curb consumer demand. In March 2022, the Fed authorized a 0.25 percentage point interest rate increase –the first since December 2018 –followed by a second, larger 0.5 percentage point rate hike in May 2022 bringing the target interest rate range for commercial banks to borrow and lend up to 0.75%-1%.<sup>12,13</sup> At the May FOMC meeting, the Fed also announced plans to wind down its economic stimulus measures by reducing the size of its balance sheet by \$30 billion per month for three months, then by \$60 billion per month starting in September.<sup>14</sup> The FOMC also signaled that they would consider six additional interest rate increases throughout the remainder of 2022 and another three in 2023.<sup>15</sup>

Minutes from the Fed’s May meeting indicated a strong commitment to 0.5 percentage point rate increases in June and July in anticipation of reduced inflation levels following the March and May interest rate hikes.<sup>16</sup> However, the May 2022 Consumer Price Index (CPI) report found prices for consumer goods increased 8.6% since May 2021, the largest 12-month increase since December 1981, driven by sharp increases in the costs of food, energy, and shelter.<sup>17</sup> In the days leading up to the June FOMC meeting, major banks such as Barclays, Goldman Sachs, and JP Morgan and the CME FedWatch tool all projected that the Fed would raise the interest rate by 75 basis-points, rather than the 50 basis-points initially anticipated.<sup>18</sup> Indeed, on June 15, 2022, the Fed authorized a near-unanimous 0.75 percentage point increase to the interest rate, the highest rate increase since 1994, and signaled willingness to continue its aggressive rate-setting agenda by significantly revising upwards its year-end Federal Funds rate projection

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<sup>8</sup> Economic Policy Institute, [State unemployment by race and ethnicity](#) (updated May 4, 2022).

<sup>9</sup> Bartash, J. [“Fed sees inflation topping 5% in 2022 and then falling rapidly due to higher rates”](#), MarketWatch (Jun. 15, 2022).

<sup>11</sup> Federal Reserve, [Transcript of Chair Powell’s Press Conference Opening Statement](#) (Jun. 15, 2022).

<sup>12</sup> Federal Reserve, [Federal Reserve issues FOMC statement](#) (March 16, 2022).

<sup>13</sup> Federal Reserve, [Federal Reserve issues FOMC statement](#) (May 4, 2022).

<sup>14</sup> Federal Reserve, [Plans for Reducing the Size of the Federal Reserve’s Balance Sheet](#) (May 4, 2022).

<sup>15</sup> CNBC. [“Federal Reserve approves first interest rate hike in more than three years, sees six more ahead”](#) (Mar. 17, 2022)

<sup>16</sup> Federal Open Market Committee, [“Minutes of the Federal Open Markets Committee May 3-4, 2022”](#) (May 25, 2022).

<sup>17</sup> U.S. Bureau of Labor Statistics, [“Consumer Price Index Summary May 2022”](#) (June 10, 2022).

<sup>18</sup> Goodkind, N. [“Fed hikes interest rates by three-quarters of a percentage point in boldest move since 1994.”](#) CNN (June 15, 2022).

from 1.9% to 3.4%.<sup>19,20</sup> Additionally, the Fed drastically lowered its 2022 growth outlook projection for the U.S. economy from an initial estimate in March of 2.8% GDP growth to an estimated 1.7% GDP growth in June.<sup>21</sup> With these more aggressive inflation targeting measures, the Fed projects headline and core inflation to subside in 2023 to 2.6 % and 2.7% respectively.<sup>22</sup>

In the press conference following the June FOMC meetings, Chair Powell stated that the Committee “do[es] not expect moves of this size to be common” but noted that the FOMC would likely discuss a 50-point or 75-point interest rate hike at its July meeting and that the committee remained “strongly committed to returning inflation to its 2% objective.”<sup>23</sup>

These interest rate plans reflect a Federal Reserve focused on quashing inflation, even at the risk of rising unemployment rates and an economic recession. Chair Powell reiterated in the June FOMC press conference, his belief that the strength of the U.S. job market is such that the Fed can steer the economy to a “soft landing” of moderately slowing growth through interest rate increases, while maintaining relatively stable unemployment, though “the pathway for us to get there –it’s not getting easier.”<sup>24</sup> Powell cited the sustained, high consumer demand and historically low overall unemployment rate as a justification for using higher interest rates to rein in inflation, indicating that the low level of overall unemployment is such that it could rise without damaging the labor market.<sup>25</sup> A recent survey by the Financial Times of expert macroeconomists found that 70% of respondents believe a recession is likely to be called in 2023.<sup>26</sup> Respondents cited geopolitical concerns and supply chain disruptions as the main drivers of price increases in 2022 and a quarter of respondents believe that minimizing high consumer spending is the most important factor in limiting losses and improving the chances of a mild economic slowdown.<sup>27</sup> Half of the respondents cited the strong housing market as the biggest factor that could mitigate the chances of a severe recession, with higher mortgage rates tempering demand.<sup>28</sup>

## Financial Stability

In the Fed’s semiannual *Financial Stability Report* issued in May 2022, the Fed found that, “The Russian invasion of Ukraine has caused tremendous human and economic hardship, and the implications for the U.S. and global economies are highly uncertain. In the near term, the invasion and related events are likely to create additional upward pressure on inflation and weigh on economic activity. After deteriorating early in the period because of the emergence and spread of the highly contagious Omicron variant, the pandemic outlook has improved but remains uncertain.”<sup>29</sup> The report discusses several vulnerabilities, including abrupt corrections to valuations of risky assets; business and household borrowing; leverage in the financial sector; funding risks; cybersecurity and other risks that may emerge in relation to the Russia-Ukraine war; and real estate and other stresses in China spilling over to the U.S.<sup>30</sup>

## Central Bank Digital Currency and Payment Systems

**Central Bank Digital Currency.** In January 2022, the Fed released a discussion paper weighing the benefits and drawbacks of a potential U.S. central bank digital currency (CBDC) and initiated a public

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<sup>19</sup> Federal Reserve, [Federal Reserve issues FOMC statement](#) (June 15, 2022).

<sup>20</sup> Federal Reserve, [Summary of Economic Projections](#) (June 15, 2022).

<sup>21</sup> *Id.*

<sup>22</sup> *Id.*

<sup>23</sup> Goodkind, N. [“Fed hikes interest rates by three-quarters of a percentage point in boldest move since 1994.”](#) CNN (June 15, 2022).

<sup>24</sup> Harrison, D. [“Powell: Getting Harder to Protect Labor Market”](#) The Wall Street Journal (Jun. 15, 2022)

<sup>25</sup> *Id.*

<sup>26</sup> Bove, T. [“Over two thirds of economists believe a recession is likely to hit in 2023”](#) Fortune (Jun. 13, 2022).

<sup>27</sup> *Id.*

<sup>28</sup> Bove, T. [“Fannie Mae: A recession is likely in 2023, but the hot housing market should cushion the blow”](#) Fortune (Apr. 22, 2022).

<sup>29</sup> Fed, [Financial Stability Report](#) (May 2022).

<sup>30</sup> *Id.*

comment period that closed on May 20, 2022.<sup>31</sup> The paper notes that a CBDC could potentially offer financial inclusion benefits, mitigate concerns posed by stablecoins and other cryptocurrencies, bolster the dollar’s status as the world’s reserve currency, and speed certain types of payments, particularly cross-border transactions that remain slow and costly.<sup>32</sup> However, the paper also highlighted challenges related to cybersecurity and consumer privacy, and notes that it “does not intend to proceed with the issuance of a CBDC without clear support from the executive branch and from Congress, ideally in the form of a specific authorizing law.”<sup>33</sup> The report also noted that a U.S. CBDC could affect monetary policy implementation as well as the Federal Reserve’s options to control interest rates as it could alter the supply of reserves in the banking system.<sup>34</sup> On March 9, 2022, President Joe Biden issued an executive order on digital assets that emphasized the need to study a U.S. CBDC, stating that the United States government “should prioritize timely assessments of potential benefits and risks [of a U.S. CBDC] under various designs to ensure that the United States remains a leader in the international financial system.”<sup>35</sup> At a hearing before this Committee in May, Vice Chair Lael Brainard testified that no decision had yet been made by the Fed on whether to introduce a CBDC. She reported that the Fed received nearly 2,000 comments on its January 2022 report and would soon release a summary of comments.

***FedNow and Real-Time Payments.*** On August 5, 2019, after studying the development of faster payments for years going back to at least 2013,<sup>36</sup> the Federal Reserve announced plans to create the FedNow Service, a 24/7 real-time payment and settlement service that, once established, would allow for faster payments.<sup>37</sup> The Fed has stated that FedNow would likely launch in 2023 and be deployed in phases.<sup>38</sup> Chair Powell has questioned the CBDC’s role once FedNow becomes fully functional,<sup>39</sup> explaining at a hearing before this Committee that, “[t]he real threshold question for us is does the public want or need a new digital form of central bank money to complement what is already a highly efficient, reliable and innovative payments arena and system.”<sup>40</sup>

***Fed Master Accounts.*** Originally used to comply with reserve requirements, master accounts allow banks to make wholesale payments with other banks. On March 1, 2022, the Fed issued an updated proposal on guidelines for granting master accounts based on comments received following their May 2021 request for comment, with greater scrutiny for non-bank entities not subject to federal supervision.<sup>41</sup> On June 7, Custodia, a crypto bank chartered in Wyoming, sued the Board and the Kansas City Fed alleging they inappropriately delayed for 19 months a decision on its application for a master account.<sup>42</sup>

## Other Regulatory Developments

In May 2022, the Fed issued its semiannual *Supervision and Regulation Report*.<sup>43</sup> The report notes that, “The banking system remains strong overall, with robust capital and liquidity and improved asset quality. Supervisors continue to focus on firms’ management of capital and liquidity, as well as cybersecurity. While supervisors continue to focus on these core areas, the Fed is also reviewing the risks

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<sup>31</sup> Federal Reserve Board, [Money and Payments: The US Dollar in the Age of Digital Transformation](#), (Jan. 20, 2022).

<sup>32</sup> *Id.*

<sup>33</sup> *Id.* at 3.

<sup>34</sup> *Id.* at 18.

<sup>35</sup> White House, [Executive Order on Ensuring Responsible Development of Digital Assets](#) (Mar. 9, 2022).

<sup>36</sup> See Fed, [Payment System Improvement - Public Consultation Paper](#) (Sep. 10, 2013); Fed, [Strategies for Improving the U.S. Payment System](#) (Jan. 26, 2015); and Faster Payments Task Force, [Final Report – Part One](#) (Jan. 2017) and [Final Report – Part Two](#) (July 2017).

<sup>37</sup> Fed, [Fed plan to develop a new round-the-clock real-time payment and settlement service to support faster payments](#) (Aug. 5, 2019).

<sup>38</sup> Fed, [Federal Reserve updates FedNowSM Service launch to 2023](#) (Feb. 2, 2021).

<sup>39</sup> Fed, [Transcript of Chair Powell’s Press Conference](#) (Apr. 28, 2021).

<sup>40</sup> HFSC, [Monetary Policy and the State of the Economy](#), 117<sup>th</sup> Cong. (Feb. 24, 2021).

<sup>41</sup> Fed, [Guidelines for Evaluating Account and Services Requests](#), 87 *Federal Register* 45, (Mar. 8, 2022) Fed, [Guidelines for Evaluating Account and Services Requests](#), 87 *Federal Register* 45, (Mar. 8, 2022).

<sup>42</sup> Pymnts, [Crypto Bank Custodia Sues Federal Reserve Over ‘Black-Box’ Master Account Decision](#) (Jun. 8, 2022).

<sup>43</sup> Fed, [Supervision and Regulation Report](#) (May 2022).

created by the increasing use of technology by financial institutions. The Fed is enhancing its supervisory approaches in response to these risks.”<sup>44</sup>

**Community Reinvestment Act.** In July 2021, the Office of the Comptroller of the Currency (OCC) announced plans to rescind a controversial rule it finalized in June 2020, and Federal banking agencies announced a plan to work together on a new proposal.<sup>45</sup> On May 5, 2022, the Fed, along with the FDIC and OCC, issued a joint proposal to “strengthen and modernize” CRA regulations.<sup>46</sup> The proposal is open for public comment until August 5, 2022,<sup>47</sup> and aims to create a unified approach among the regulators to expand access to credit, update CRA assessment areas to account for internet banking, adopt a metrics-based approach for CRA evaluations, and tailor evaluations to bank size and type.<sup>48</sup>

**Bank Mergers.** On July 9, 2021, President Biden issued an executive order (EO) on competition that encouraged the Department of Justice to work with the Fed and other banking regulators to “update guidelines on banking mergers to provide more robust scrutiny of mergers.”<sup>49</sup> Meanwhile, the Fed has approved several large bank mergers this year, including two notable mergers in March that added two banks to the top 20 largest in the country. On March 4, it approved M&T Bank’s application to merge with People’s United Financial, which would result in a bank with over \$215 billion in consolidated assets. On March 22, the Fed approved Citizens Financial Group’s application to merge with Investors Bancorp, Inc.,<sup>50</sup> which would create a bank with nearly \$215 billion in consolidated assets. However, the Fed continues to review merger proposals and is holding public hearings on U.S. Bank’s proposal to acquire MUFG Union Bank,<sup>51</sup> and a proposed merger between Bank of Montreal (BMO) and Bank of the West.<sup>52</sup>

## Federal Reserve Leadership, Diversity and Inclusion

On May 23, Jerome Powell was sworn in for a second four-year term as Chair after his previous term expired in February 2022.<sup>53</sup> That same day, Governor Lael Brainard was sworn in for a four-year term as Vice Chair; Governor Lisa Cook was sworn in for the remainder of her term ending in January 2024; and Phillip Jefferson was sworn in as Governor for his term ending in January 2036.<sup>54</sup> On the same day, President Biden nominated Michael Barr to be Vice Chair of Supervision.<sup>55</sup> If confirmed, it will be the first time since August 2013 that all seven positions on the Board are filled.<sup>56</sup> Additionally, Lorie Logan was named President of the Dallas Fed on May 11, 2022<sup>57</sup>, and Susan Collins was named the new President of the Boston Fed effective July 1, 2022.<sup>58</sup> Chicago Fed President Charles Evans and Kansas City Fed President Esther George will retire in January 2023.<sup>59</sup>

Lisa Cook and Susan Collins are the first Black women to serve as a Federal Reserve Governor and a Reserve Bank president, respectively. Despite this progress, gender, racial, and occupational

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<sup>44</sup> *Id.*

<sup>45</sup> Federal Reserve, [Interagency statement on Community Reinvestment Act joint agency action](#) (Jul. 20, 2021).

<sup>46</sup> FDIC, [Agencies Issue Joint Proposal to Strengthen and Modernize Community Reinvestment Act Regulations](#) (May 5, 2022).

<sup>47</sup> OCC, FDIC and Federal Reserve, [Community Reinvestment Act](#), 87 Fed. Reg. 33884 (Jun. 3, 2022) (proposed rule).

<sup>48</sup> FDIC, [Community Reinvestment Act Proposal Fact Sheet](#) (May 5, 2022).

<sup>49</sup> The White House, [Fact Sheet: Executive Order on Promoting Competition in the American Economy](#), (Jul. 9, 2021).

<sup>50</sup> Federal Reserve, [FRB Order No. 2022-11](#), (Mar. 4, 2022).

<sup>51</sup> Fed and OCC, [Public Meeting on Proposed U.S. Bancorp Acquisition of MUFG Union Bank, National Association](#) (Feb. 7, 2022).

<sup>52</sup> Fed and OCC, [Public meeting on proposed Bank of Montreal acquisition of BancWest Holding Inc. and Bank of the West; public comment period extended](#) (May 17, 2022); and Banking Dive, [BMO to buy Bank of the West from BNP Paribas for \\$16.3B](#) (Dec. 20, 2021).

<sup>53</sup> [Nomination number PN1522](#).

<sup>54</sup> [Nomination number PN1529](#); [Nomination number PN1679](#); [Nomination number PN1680](#)

[Nomination number PN2021](#)

<sup>55</sup> Conti-Brown, [Restoring the promise of Federal Reserve governance](#), (Jan. 2020).

<sup>56</sup> Federal Reserve Bank of Dallas, [“Lorie K. Logan Named President and CEO of Dallas Fed.”](#) (May 11, 2022).

<sup>57</sup> Federal Reserve Bank of Boston, [“Federal Reserve Bank of Boston names its next president and Chief Executive Officer.”](#) (Feb. 9, 2022).

<sup>58</sup> CNBC, [Chicago Fed President Charles Evans to retire in early 2023](#) (Apr. 21, 2022); FRBKC, [Kansas City Fed President Esther George to retire](#) (May 25, 2022); also see David Wessel, [Who has to leave the Federal Reserve next?](#), Brookings (Jun. 6, 2022).

diversity among the directors of the 12 Federal Reserve Banks remains lacking.<sup>60</sup> There are very few people of color among the top economic research staff across the Federal Reserve System.<sup>61</sup> According to the latest Office of Minority and Women Inclusion report, minorities make up only 27% of the Board's senior level executives while the Board's total workforce in 2021 remained unchanged from 2020 at 43% minority and 43% female.<sup>62</sup> On June 15, 2022 the House passed H.R. 2543, the Financial Services Racial Equity, Inclusion, and Economic Justice Act, which requires the Fed to carry out its duties in a manner that eliminates racial and ethnic disparities in economic outcomes, report on disparities in labor force trends, and plans to minimize and eliminate these disparities.

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<sup>60</sup> Brookings, [Diversity within the Federal Reserve System](#), (Apr. 13, 2021).

<sup>61</sup> New York Times, [Why are there so few Black economists at the Fed?](#), (Feb. 2, 2021).

<sup>62</sup> Board of Governors of the Federal Reserves, [Report to the Congress on the Office of Minority and Women Inclusion](#), (March 2021).  
Federal Reserve, [Report to the Congress on the Office of Minority and Women Inclusion](#), (March 2022)