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Democracy Dies in Darkness

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Yellen says improving economy still faces challenges

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August 22, 2014 at 7:14 p.m. EDT

JACKSON HOLE, Wyo. — Federal Reserve Chair Janet L. Yellen on Friday expressed growing confidence that America's market is improving but uncertainty over how much further it has to go.

Yellen began her remarks before a select group of elite economists and central bankers here by enumerating the unequivocal progress made since the Great Recession ended: Job growth has averaged 230,000 a month this year, and the unemployment rate has fallen to 6.2 percent after peaking in the double digits during the depths of the crisis.

But she quickly transitioned to the challenges in determining how close the labor market is to being fully healed — and how much the nation's central bank should do to speed its convalescence. Although Yellen has consistently emphasized that the recovery is incomplete, her speech Friday focused on the difficulty of making a current diagnosis.

“Our understanding of labor market developments and their potential implications for inflation will remain far from perfect,” Yellen said at the annual conference sponsored by the Federal Reserve Bank of Kansas City. “As a consequence, monetary policy must be conducted in a pragmatic manner.”

The Fed slashed its target for short-term interest rates to zero and pumped trillions of dollars into the economy in the aftermath of the recession. More than five years later, it is finally scaling back that support. The Fed is slated to end its bond-buying program in October and is debating when to raise interest rates.

That decision carries enormous consequences: Move too soon, and the Fed risks undermining the economic progress made so far. Move too late, and it could risk stoking inflation in the future and sowing the seeds of the next financial crisis.

Investors generally expect the Fed to raise rates in the middle of next year, but several central bank officials gathered here cautioned that the moment could come earlier if the recovery improves more rapidly than expected. Yellen gave no clear timeline Friday but called for a “more nuanced” reading of the labor market as the economy returns to normal.

For example, the size of the nation’s workforce unexpectedly declined after the recession, the result of both demographic factors and unemployed workers who gave up hope of finding a job. Yellen reiterated Friday that a stronger economy could help stem that drop and suggested it may already be working. She also said that the run-up in involuntary part-time work and the low level of people choosing to quit their jobs could be reversed as the labor market improves.

But Yellen seemed to shift her stance on the country’s stagnant wage growth. Previously, she has cited it as a sign that the labor market remains weak. But on Friday she called on research that suggests wage growth has been subdued because employers were unable to cut salaries deeply enough during the recession, a phenomenon dubbed “pent-up wage deflation.” She also suggested that globalization and the difficulty that the long-term unemployed face in finding jobs could also be depressing wage growth.

The uncertainty facing the Fed means it will be carefully evaluating economic data over the coming months, Yellen said. And she said the central bank will remain nimble in its response.

“There is no simple recipe for appropriate policy in this context, and the [Fed] is particularly attentive to the need to clearly describe the policy framework we are using to meet these challenges,” she said.

Central bankers were not the only ones gathered in the Grand Tetons this year. Several workers and activists also traveled to Jackson Hole and called on the central bank to be cautious in removing its support for the economy, the first protest at the conference in recent memory.

The grass-roots group, organized by the Center for Popular Democracy, also issued an open letter to the Fed earlier in the week signed by more than 60 activist organizations. Kansas City Fed President Esther L. George — one of the most vocal proponents of raising interest rates soon — met with the protesters in Jackson Hole on Thursday for about two hours to hear their stories. Ady Barkan, senior attorney at the Center for Popular Democracy, said the groups plan to request meetings with other Fed officials as well.