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Lunch with Janet Yellen

May 2015

"It will likely be several years before the fed funds rate is back to normal levels."

- Janet Yellen, Chairman Federal Reserve Board

The following represents a summary of remarks made by Janet Yellen on May 22, 2015 and is provided for informational purposes only. The full text of her remarks can be found at http://www.federalreserve.gov.

Marking her return to Providence, Rhode Island, the city where her economic acumen was built, Janet Yellen reasserted the Federal Reserve's intention to raise interest rates this year.

IFP Investment Research was invited to lunch with the Brown alumnus last Friday, where Yellen delivered an economic outlook to a crowd that included RI's top politicians, business leaders and academics.

"Only now is the labor market approaching full strength," said Yellen. 'We're not there yet…unemployment still doesn't fully capture slack in the labor market."

In her first public comments on policy outlook since late March, Yellen noted that while a rate increase is expected later this year, "Pace of normalization will be gradual after the first hike…it will likely be several years before the fed funds rate is back to normal levels."

The federal funds rate can be viewed as the base rate that determines the level of all other interest rates in the U.S. economy.

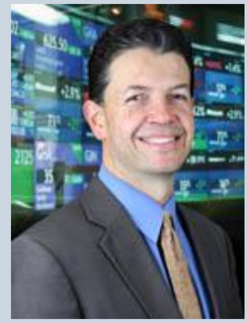
The key rate has been kept near zero since December 2008 in an effort to stimulate the economy after the worst downturn since the Great Depression.

Housing Crash Big Reason Behind Rhode Island's Weak Recovery.

Yellen also took the opportunity to speak about the local economy, whose recovery has lagged the national average.

"Rhode Island is a good example of a larger than average drop in home prices," Yellen explained to the crowd of political and business leaders. "It was the largest in New England, and a contributor to the reason why the local economy has lagged."

One thing is for sure, any Fed action will be data driven, and the Fed is in no rush to end accommodative monetary policy.



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Key Takeaways

- *Yellen believes that the U.S. economy seems positioned for continued economic growth, and that the slowdown in the 1st Quarter was likely due to transitory factors, citing abnormally bad weather and the west coast port disruption as causes behind the "statistical noise."*
- *Too low of inflation can impair the functioning of the economy, limiting wage growth and making it more difficult to pay off debt. Wal-Mart and Target recently announced wage increases, which is a step in the right direction.*
- *Because of substantial lags, policy must be made forward looking. Despite any rate increase, the cost of everything from car loans to mortgages is likely to stay low for years to come.*