United States Senate
WASHINGTON, DC 20510

July 24, 2023

The Honorable Jerome Powell
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Chair Powell,

I am writing ahead of the July meeting of the Federal Reserve Open Market Committee to caution against additional monetary tightening. As Chairman of the Joint Economic Committee, I value the importance of an independent Federal Reserve. It is also within my duties to make clear that excessive policy tightening is not warranted given current and upcoming macroeconomic developments. These include the continued expiration of key policy supports for working families, the ongoing housing affordability crisis, and the effects of recent and potential fiscal crises, and they warrant caution around additional policy tightening.

The United States has made significant progress on inflation and job growth. With inflation, an important price measure has come back within range of the Federal Reserve's 2% target and other indices are trending in that direction. Thankfully, this slowdown in inflation has occurred while the labor market has remained strong. Annual Consumer Price Index (CPI) inflation has fallen for each of the last 12 months and now sits at only 3%. Additionally, data from June show that core CPI decelerated on a monthly basis due to progress in core goods. In the same 12-month period, the economy has added nearly 3.8 million jobs. While the pace of job growth has slowed in recent months, headline unemployment remains low and more Americans in their prime working years are in the labor force now than we have seen since the early 2000s.

These developments have had huge benefits for workers, who now have more power to find a job they can build a family on. Slower inflation also results in workers seeing real wage growth, particularly among the lowest-income workers. These trends are finally making a dent in the decades-long increase in income inequality.[1] This trend of falling inflation and robust employment growth defies the patterns suggested by the Phillips curve and suggests that the root cause of the inflation we experienced in recent years was not driven primarily by wage growth, but rather by unusual distortions in the supply and demand of certain key product markets and an economic shift from services to goods. As I'm sure you are aware, this conclusion fits with empirical evidence that the Phillips curve relationship has flattened over time and is not as simple or ubiquitous as was once thought.[2]

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[1] David Autor, Arindrajit Dube, and Annie McGrew, "The Unexpected Compression: Competition at Work in the Low Wage Labor Market," March 2023, NBER Working Paper No. 31010, https://www.nber.org/system/files/working_papers/w31010/w31010.pdf.
[2] Simon C. Smith, Allan Timmermann, and Jonathan Wright, "Breaks in the

Despite the strength of the labor market and falling inflation, I am increasingly concerned by a number of economic headwinds that threaten both the overall economy and the family finances of millions of Americans in New Mexico and across the country. When assessed together, they create compelling reasons to approach further policy tightening with caution.

To start, the uncertainty that led up to raising the United States' debt limit surely impacted how financial markets assess the credibility of the United States as the issuer of the Treasuries that form the backbone of the international financial architecture. These effects could be compounded as annual appropriations bills are negotiated. It is imperative that the federal government continues to function, uninterrupted, to ensure our military readiness and continued functioning of basic government services for seniors, veterans, and working families. Unfortunately, uncertainty over a potential government shutdown at the end of September could, again, shake consumer confidence.

Looking ahead to this fall, I am also concerned by the expiration of several programs that have supported working families and their children during the economic recovery. This includes the Child Care Stabilization Grants that sustained 220,000 child care centers, an estimated 10 million child care slots, and supported more than 650,000 child care jobs and will expire on September 30, 2023.[3] Not only do these funds support much-needed jobs in the care economy, the expanded access to child care they provide can also help bolster parents' labor force participation.[4] Additionally, the continued unwinding of pandemic-era Medicaid coverage has already caused over 3 million Americans to be disenrolled from Medicaid.[5] The removal of important supports like these will both slow the economy and challenge families' finances in the coming months, which should lessen the need for additional monetary tightening.

Finally, we are seeing troubling effects of higher policy rates on the affordable housing crisis. According to the National Association of Realtors, the Housing Affordability Index has decreased from 148.2 at the end of 2021 to a low of 93.8 in May 2023, a level near the lowest since the early 1990s.[6] The inventory of homes for sale is near record lows and might continue to stay low if potential home-sellers decide not to give up mortgages locked in at the roughly 3% range during the pandemic for the nearly 7% mortgage rates currently being offered. Additional rate hikes will only place more upward pressure on mortgage rates and push homeownership out of reach for even more families.

Phillips Curve: Evidence from Panel Data," Finance and Economics Discussion Series 2023-015, Board of Governors of the Federal Reserve System, https://www.federalreserve.gov/econres/feds/files/2023015pap.pdf.

[3] U.S. Department of Health and Human Services, Administration for Children and Families, "COVID Investments in Child Care: Supporting Children, Families, and Providers," June 1, 2023, https://www.acf.hhs.gov/occ/infographic/covid-investments-child-care-supporting-children-families-and-providers.

[4] U.S. Department of Health and Human Services, Assistant Secretary for Planning and Evaluation, "The Effects of Child Care Subsidies on Maternal Labor Force Participation in the United States," December 20, 2023, https://aspe.hhs.gov/reports/effects-child-care-subsidies-maternal-labor-force-participation-united-states.

[5] Kaiser Family Foundation, "Medicaid Enrollment and Unwinding Tracker," July 21, 2023, https://www.kff.org/medicaid/issue-brief/medicaid-enrollment-and-unwinding-tracker/.

[6] Edward Yardeni and Mali Quintana, "US Economic Indicators: Housing Affordability Index," June 9, 2023, https://www.yardeni.com/pub/houseafford.pdf.

Within the labor market, there are signs that the economy is starting to feel the sting of the combined effect of the Federal Reserve's unprecedented string of rate hikes. The unemployment rate for Black workers has now risen for two straight months, a serious concern on its own and a leading indicator of labor market downturns for all workers. In addition, there was notable growth last month in the number of people working part time for economic reasons despite their desire to work full time.

As you have heard many times throughout the "Fed Listens" events earlier in your tenure, the economic and societal costs of job loss and unemployment are insidious and long-lasting, particularly for those just entering the labor force.[7] Workers suffer permanent losses in lifetime income, and the physical and mental health consequences extend to their families as well. Periods of elevated unemployment lead to depressed labor force participation and slower short- and long-run growth.[8]

The economic headwinds discussed by your Committee on June 13-14, 2023, are still in place, and the expiration of additional supports to states and localities represents a real risk to our uniquely strong economic expansion. Given the high degree of uncertainty around the cumulative effects on the economy from the already enacted monetary tightening and its lagged ripple effects on economic activity and inflation, I reiterate my caution against additional monetary tightening.

Sincerely,

Martin Heinrich
United States Senator
Chairman, Joint Economic
Committee

[7] Hannes Schwandt and Till M. von Wachter, "Socio-Economic Decline and Death: The Life-Cycle Impacts of Recessions for Labor Market Entrants," 2023, NBER Working Paper No. 26638, https://www.nber.org/system/files/working_papers/w26638/w26638.pdf.

[8] Bart Hobijn and Ayşegül Şahin, "Maximum Employment and the Participation Cycle," 2021 Jackson Hole Economic Policy Symposium, Kansas City Federal Reserve, https://www.kansascityfed.org/documents/8334/JH_paper_Sahin_3.pdf.