

Fed Chair Jerome Powell Press Conference

Fed Chair Jerome Powell held an FOMC press conference to give a market update after the Fed’s monetary policy meeting.

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Fed Chair Jerome Powell.
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Jerome Powell: Holds and businesses. The rise in COVID cases in recent weeks and the emergence of the Omicron variant pose risks to the outlook. Notwithstanding the effects of the virus and supply constraints, FOMC participants continue to foresee rapid growth. As shown in our summary of economic projections, the median projection for real GDP growth stands at 5.5% this year and 4% next year. Amid improving labor market conditions and robust demand for workers, the economy has been making rapid progress toward maximum employment. Job gains have been solid in recent months, averaging 378,000 per month over the last three months. The unemployment rate has declined substantially, falling six-tenths of a percentage since our previous meeting and reaching 4.2% in November. The recent improvements in labor market conditions have narrowed the differences in employment across groups, especially for workers at the lower end of the wage distribution and for African Americans and Hispanics.

Labor force participation showed a welcome rise in November but remains subdued, in part reflecting the aging of the population and retirements. In addition, some who

otherwise would be seeking work report that they are out of the labor force because of factors related to the pandemic, including caregiving needs and ongoing concerns about the virus. At the same time, employers are having difficulties filling job openings, and wages are rising at their fastest pace in many years. How long the labor shortages will persist is unclear, mainly if different waves of the virus occur.

Looking ahead, FOMC participants project the labor market to continue to improve, with the median projection for the unemployment rate declining to 3.5% by the end of the year. Compared with the predictions made in September, participants have revised their unemployment rate projections noticeably lower for this year and next. Supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated inflation levels. In particular, bottlenecks and supply constraints limit how quickly production can respond to higher demand in the near term. These problems have been more significant and longer-lasting than anticipated, exacerbated by waves of the virus. As a result, overall inflation is running well above our 2% longer-run goal and will likely continue to do so well into next year.

While the drivers of higher inflation have been predominantly connected to the dislocations caused by the pandemic, price increases have now spread to a broader range of goods and services. Wages have also risen briskly. But thus far, wage growth has not been a significant contributor to the elevated inflation levels. We are attentive to the risks that constant real wage growth above productivity could put upward pressure on inflation. Like most forecasters, we continue to expect inflation to decline to levels closer to our 2% longer-run goal by the end of next year. The median inflation projection of FOMC participants falls from 5.3% this year to 2.6% next year. This trajectory is notably higher than projected in September.

We understand that high inflation imposes significant hardship, especially on those least able to meet the higher costs of essentials like food, housing, and transportation. We are committed to our price stability goal. We will use our tools to support the economy and a strong labor market and prevent higher inflation from becoming entrenched. We will observe whether the economy evolves in line with expectations. The Fed’s monetary policy actions have been guided by our mandate to promote maximum employment and stable prices for the American people. The committee reaffirmed the zero to one quarter percent target range for the federal funds rate in support of these goals. We also updated our assessment of the economy’s progress toward the criteria specified in our forward guidance for the

federal funds rate. With inflation having exceeded 2% for some time, the committee expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the committee's assessments of maximum employment. All FOMC participants forecast that this remaining test will be met next year.

The median projection for the appropriate federal funds rate level is 0.9% at the end of 2022, about a half percentage point higher than projected in September. Participants expect a gradual pace of policy firming with the federal funds rate level generally near estimates of its longer-run level by the end of 2024. Of course, these projections do not represent a committee decision or plan, and no one knows with any certainty where the economy will be a year or more from now.

At today's meeting, the committee also decided to double the pace of reductions in its asset purchases. Beginning in mid-January, we will reduce the monthly rate of our net asset purchases by $20 billion for Treasury securities and $10 billion for agency mortgage-backed securities. If the economy evolves broadly as expected, similar reductions in the pace of net asset purchases will likely be appropriate each month, implying that increases in our securities holdings would cease by mid-March, a few months sooner than we anticipated in early November. We are phasing out our purchases more rapidly because with elevated inflation pressures and a rapidly strengthening labor market; the economy no longer needs increasing policy support.

In addition, a quicker conclusion of our asset purchases will better position policy to address the full range of plausible economic outcomes. We remain prepared to adjust the pace of purchases if warranted by changes in the economic outlook. And even after our balance sheet stops expanding, our securities holdings will continue to foster accommodative financial conditions. To conclude, we understand that our actions affect communities, families, and businesses across the country. Everything we do is in service to our public mission. We at the Fed will do everything we can to complete the recovery in employment and achieve our price stability goal. Thank you.

I look forward to your questions.

Michelle:
Thank you, Mr. Chair. We'll go to Rachel from the Washington Post.

Rachel Siegel: Thank you very much, Michelle. And thank you, Chair Powell, for taking our questions. The latest FOMC materials say that the FOMC thinks it will be appropriate to keep rates near zero until label market conditions reach levels consistent with maximum employment. And there are also three rate hikes penciled in the projections for next year. To set up those hikes, what will full employment have to look like? When will you know that threshold has been met? And how will that be communicated? Thank you.

Jerome Powell: So maximum employment, if you look at our statement of Longer-Run Goals and Monetary Policy Strategy, maximum employment is something that we look at a broad range of indicators. And those would include, of course, things like the unemployment rate, the labor force participation rate, job openings, wages flow in and out of the labor force in various parts of the labor force. We'd also tend to look broadly and inclusively at different demographic groups, not just at the headline and aggregate numbers. So that's a judgment for the committee to make. The committee will make a judgment that we've achieved labor market conditions consistent with maximum employment. It is admittedly a judgment call when it makes that because it's a range of factors, unlike inflation, where we have one number that dominates. It's a broad range of things. So as I mentioned in my opening remarks, in my view, we are making rapid progress toward maximum employment. And you see that in, of course, in some of the factors that I mentioned.

Michelle: Great. Thank you—Steve at CNBC.

Steve Liesman: Thank you, Mr. Chairman. My question is, it's often said that monetary policy has long and variable lags; how does continuing to buy assets now, even though it's at a slower pace, address the current inflation problem? Won't the impact of today's changes not affect six months or a year down the road on the current inflation problem? And aren't you lengthening that time by continuing to buy assets such that it could be not until the long and variable lag after you end purchases sometime in March that you'll start to have any impact on the inflation problem?

Jerome Powell: So on the first part of your question, which is why not stop purchasing now, I would just say this. We've learned that we're in dealing with balance sheet issues; we've learned that it's best to take a careful, methodical approach to make adjustments. Markets can be sensitive to it. And we thought that this was a doubling of the speed. We're two meetings away now from finishing the

taper. And we thought that was the appropriate way to go. And so we announced it. And that's what will happen.

The question of long and variable lags is an interesting one. That's Milton Friedman's famous statement. And I do think that in this world where the global financial markets are connected, economic conditions can change very quickly. And my sense is that they get into financial situations that affect the economy fairly rapidly longer than the traditional thought of a year or 18 months, shorter than that, somewhat. But in addition, when we communicate about what we're going to do, the markets move immediately to that. So financial conditions are changing to reflect the forecast that we made, and basically, which was, I think, relatively in line with what markets were expecting. But financial conditions don't wait to change until things happen. They vary on the expectation of things happening. So I don't think it's a question of having to wait.

Steve Liesman: Can I just follow up in thinking about having to wait? Is it still the policy or the committee's position that you will not raise rates until the taper is complete? Thank you.

Jerome Powell: Yes. The sense of that, of course, being that buying assets is adding accommodation and raising rates is a removing accommodation. Since we're two meetings away from completing the taper, assuming things go as expected, I think if we wanted to lift off before then, then you would stop the taper potentially sooner. But that's not something I expect to happen. But I do not think it would be appropriate. And we don't find ourselves in a situation where we might have to raise rates while still purchasing assets.

Michelle:
Okay, let's go to Colby at the FT.

Colby Smith: Thank you, Michelle. Chair Powell, I'm curious exactly how much distance you think there should be between the end of the taper and the first interest rate increase? Back in 2014, the guidance was for the Fed Funds Rate to remain at the target level for a considerable time after the end of the asset purchase program. Is that an approach you support now, or does the current economic situation warrant something slightly different? Thank you.

Jerome Powell: So we haven't made any decision of that nature. And so, no, I wouldn't say that's our position at all. We haven't taken part in that. I will say that

we did talk today. We had our first discussion about the balance sheet, for example, and we went through the sequence of events regarding the runoff and that sort of thing with the balance sheet last time. And I think people thought that was an interesting discussion. They believed that it was informative, but people pointed out that this is a significantly different economic situation that we have at the current time. And that those the differences that we see now would tend to influence how we think about the balance sheet. And the same thing would be true about raising rates. I don't foresee that there would be that kind of very extended weight at this time. The economy is so much stronger.

I was here at the Fed when we lifted off the last time, and the economy is so much stronger now; it's so much closer to full employment, inflation is running well above target, and growth is well above potential. There wouldn't be the need for that kind of long away. We'll make this decision in the coming meetings. And it's not a decision that the committee has focused on yet.

Michelle:
Let's go to Nick at the Wall Street Journal.

Nick Timiraos: Thank you. Nick Timiraos of the Wall Street Journal. Chair Powell, in March, you answered a question about maximum employment like this. You said 4% would be an excellent unemployment rate to get to, but it'll take more than that to get to full employment. More recently, you have hinted at a possible distinction between the level of maximum employment that's achievable in the short run versus in the long run. Has your view of the level of maximum employment changed this year? And if so, how? And how close is the economy right now to your judgment of the short-run level of maximum employment? Thank you.

Jerome Powell: Right. So the thing is, we're not going back to the same economy we had in February of 2020. And I think early on; the sense was that that's where we were headed. The post-pandemic labor market and the economy, in general, will be different. And the maximum level of employment consistent with price stability evolves within a business cycle over a more extended period, in part reflecting the evolution of the factors that affect labor supply, including those related to the pandemic.

So I would say, look, we're at 4.2% now, and the unemployment rate has been dropping very quickly. So we're already in the vicinity of 4%. How, the important metric that has been disappointing has been labor force participation, of course,

where we had widely thought. I had indeed thought that last fall, as unemployment insurance ran off as vaccinations increased, as schools reopened, that we would see a significant surge if you will, or at least a rise in labor force participation. So we've begun to see some improvement. We've certainly welcomed the two-tenths of progress that we got in the November report.

But I do think that it feels likely now that the return to higher participation will take longer. That has been the pattern in past cycles that labor force participation has tended to recover in the wake of a strong recovery in unemployment, which is what we're getting right now. So it could well have been that this cycle was different because of the transient nature and the number of job openings. For example, you would've thought that would've pulled very strong, the number of job openings, for example, you would've thought that would've pulled people back in, but it's the pandemic. It's a range of factors, but the reality is we don't have a strong labor force participation recovery yet, and we may not have it for some time. At the same time, we have to make policy now. And inflation is well above the target. So something we need to take into account.

Nick Timiraos: If I could follow up. You've talked recently about risk management, and so, does that mean that the committee might feel compelled to raise interest rates before you're convinced that you've achieved the employment test in your forward guidance?

Jerome Powell: So this is not at all a decision that the committee has made, but you're asking a question about how our framework works? And yes, there is a provision that used to be called the Balanced Approach Provision. It says in effect that in situations in which the pursuit of the maximum employment goal and the price stability goal are not complimentary, we have to take account of the distance from the purpose and the speed at which we're approaching it. And so, that is in effect in off-ramp, which could in concept, be taken, and it's in our framework.

It's been in our framework a long time; I've talked about it on several occasions. It is a provision that would enable us to, in this case, because of high inflation, move before achieving maximum employment. Now, as I said, we're making rapid progress toward maximum employment in my thinking, in my opinion. And I don't at all know that we'll have to invoke that paragraph, but just as a factual matter, that is part of our framework and has been really for a very long time.

Nick Timiraos: Thank you.

Speaker 1: Thanks as usual. So I guess I got to ask about the elephant in the room, the omicron variant. This seems to already be pushing one of your colleagues, the Bank of England, off its course; things have evolved very fast there. It hasn't quite hit the shores of the U.S. in full, for that people seem to expect it to. So I'm wondering about your feelings about this. Are you convinced that this will be perhaps a more infectious but less severe variant of the virus, or are you simply confident that the U.S. economy can continue its divorce from the pandemic?

Jerome Powell: Well, I think there's a lot of uncertainty, which is why we called it out in our statement, our post-meeting statement as a risk. We follow the same experts, talk privately to the same experts that everyone else does, and read the same articles in the paper and the same research. So you mentioned the early assessment is highly transmissible, perhaps not as severe, with some continuing protection from existing vaccines and existing immunity from having had the disease. That's the first draft. We're a long way from knowing what it will turn out to be. It may well come to the United States and replace Delta as the dominant variant reasonably quickly; that could soon happen.

I think there's another step there, though, which will affect the economy, depending on how much it suppresses demand instead of stopping supply. It is not clear how significant the effects would be on either inflation or growth or hiring on top of what's already going on. This is quite a strong wave of Delta that's hitting large parts of the country across the Northern United States and the Eastern seaboard and is now coming down. We're having quite a wave of Delta. So coming in on top of that, again, it's challenging to say what the economic effects would be. I think wave after wave; people are learning to live with this more and more people are getting vaccinated.

So, for people who get the new variant, it affects them much less than it tends to act in the aggregate of people who are not vaccinated. So the more people get vaccinated, the less the economic effect. It won't have an economic impact. Delta had an effective slowing down hiring, and it affected global supply chains, which hurt the process of the worldwide supply chains getting worked out. So it can have an economic effect. I just think at this point; we don't know much. We'll know a whole lot more in three weeks, and we'll learn more than that in six weeks.

Howard Schneider: But if I could follow up, you're clearly from a risk standpoint, comfortable putting away one of your tools pretty soon, which implies that whatever Omicron brings, you are satisfied the economy can handle it without

quantitative.

Jerome Powell: Yes. Yes. Look, if you look at the state of the economy and the strength of demand, the power of just the overall market, the strength of demand for labor, look at inflation, look at wages. I think moving forward the end of our taper by a few months is an appropriate thing to do, and I believe Omicron doesn't have much to do with that.

Howard Schneider: Thank you.

Speaker 1: Let's go to Jeanna at the New York Times.

Colby Smith: Hey. Thanks for taking our questions. I wondered if you could talk a little bit about what prompted your recent pivot toward greater weariness around inflation?

Jerome Powell: Sure. So I guess I would go back. It's been a continual process. Inflation popped up in the late spring last year, and we believed it was very, widely held in the forecasting community that this would be temporary. It was pretty narrow; a limited number of factors were causing it. And there was a decent amount of evidence to support that view, that it would be temporary or transitory, as we said. Indeed, we had five months of declining month-on-month monthly readings of inflation, but we didn't see much in the way of progress on labor supply or other supply-side issues. Then in September, I'd say after labor day, it became clear that this was larger in its effect on inflation and more persistent.

And of course, I said so on many occasions, and one of the consequences is that we move the taper forward. We move the taper forward, and it's a much faster taper than planned. So we've been adapting. I've been saying we're adjusting our policy. So come to your actual question. We got the ECI reading on the eve of the November meeting. It was the Friday before the November meeting. It was a very high, 5.7% reading for the employment compensation index for the third quarter, not annualized for the third quarter, just before the meeting. And I thought for a second there whether we should increase our taper and decided to go ahead with what we had socialized.

The following Friday after the meeting, two days after the meeting, we got a solid employment report and revisions to prior readings, and no increase in labor supply. And the Friday after that, we got the CPI, which was hot, a high reading. And

honestly, at that point, we decided that I thought we needed to look at speeding up the taper, and we went to work on that. So that's what happened. It was essentially higher inflation and faster, turns out much faster progress in the labor market. Really what's happening is the unemployment rate is catching up, seems to be catching up with a lot of the other readings of a tight labor market, six tenths over one cycle. So that's really what happened and is widely supported in the committee today. As you can see, a unanimous vote, but I think I widely supported this move beyond that.

Colby Smith: If I could do just follow up quickly. You noted that the ECI was one of the things that made you nervous, but you also said earlier that you don't see signs that wages are factoring into inflation yet. And I guess I wonder how you think about the wage picture as you're making these assessments.

Jerome Powell: Right, so you quoted me correctly. So far, we don't see wages are not a big part of the high inflation story that we're seeing. As you look forward, let's assume that the goods economy does sort itself out, and supply chains get working again, and maybe there's a rebalancing back to services and all that kinds of thing. But what that leaves behind is the other things that can lead to persistent inflation. In particular, we don't see this yet. Still, if you had something where wages were steady, real wages were persistently above productivity growth, which puts upward pressure on firms and raises prices.

It would take something persistent and material for that to happen, and we don't see that yet, but with the hot labor market readings, wages we're seeing, it's something that we're watching. And the other thing, of course, is significant rents owners equivalent rent. That's another very economically sensitive thing, unlike the things causing inflation. Now, this is financially sensitive and would be expected to move up. So, as some things go down, the question is where will we be when we come out the other side of this, and we need to keep our eyes on those things.

Colby Smith: Thank you.

Speaker 1: Thanks. We'll go to Chris at the AP.

Chris Rugaber: Thank you. Well, next year, you could see growth flowing, and you could see some disinflation, mainly if the omicron variant does spread more widely. Would you delay rate hikes in that situation, and how would you think about that? And also, how would you explain rate hikes if you follow through in that situation

with inflation fading and growth flowing? How would you explain rate hikes to the public, particularly those who may still be looking for work?

Jerome Powell: Well, as you know, the SEP is not a plan. It's not something we debate, negotiate over, or discuss in terms of the correct answer. People write down their assumptions and assess appropriate policy based on their economic forecast. And so, the median, what you're talking about, the three rate increases, that's the committee's meeting. The committee's appointment is also that growth will be 4% and that unemployment will be three and a half percent by the end of the year, so that's a robust economy. And, and of course, if the economy turns out to be quite different from that, then so will the rate.

No one will say, "Oh, we can't change our policy because we wrote No one will say, "Oh, we can't change our policy because we wrote something down in December." No one's ever said that or will. The actual rate decisions we make will depend on our evolving forecast assessment. So, for example, if the economy were to slow down significantly, you would expect that would affect slowing down rate increases. But we look at our two goals, maximum employment and price stability, and we make policy based on them and not concerning what we wrote down in a prior SEP.

Speaker 1: Thank you. Let's go to Victoria Guida at Politico.

Victoria Guida:
Hi Chair Powell. I wanted to follow up on maximum employment. So the new framework was designed as I understand it so that there was a de-emphasis on guessing where inflation would pick up because of career. And basically, you were going to wait until you saw the whites of the eyes of inflation, and that's how you would know that you reached maximum employment. So I'm wondering, you've talked a lot about the different ways that you might measure maximum employment, but from what I understand, that's still basically the way you know that you're there is inflation. So is that understanding correct, and are those signals likely to be clear right now, given that you have inflation that's caused by these supply chain disruptions that might also lead to inflation and wages and those sorts of things. So how do you tease out the signal of maximum employment?

Jerome Powell: Okay. So let me start by saying that the inflation we got was not the inflation we were looking for or talking about in the framework. It was a completely different thing. It was to do with firm monetary policy and fiscal stimulus into an economy recovering rapidly. There were these supply-side barriers, which

effectively led to, in certain parts of the economy, what you might call a vertical supply curve. So, automobile purchases are very interest-rate sensitive, and you would think demand would drive up the number of cars, but it can't because they don't have semiconductors. So, that was very different inflation. This is not the inflation we were looking for under our framework.

It's nothing to do with our framework and the way we've approached; it is nothing to do with our framework but come to maximum employment, which is your question. How do you know? So I think you look at it at prices and quantities. If you want to look at maximum employment, you look at costs and amounts, and the main expense you look at is wages. It's one of the things you look at. So I mentioned a number of the things you could get to 20 if you wanted to quickly. Still, labor force participation, the unemployment rate, different age groups, prime-age labor force participation, in particular, gets much focus. The jolts data get much focus, and wages are significant signals. The quits rate is another one.

According to many labor economists, the quits rate is one of the very best indicators because people quit because they feel like they can get a better job. There are record amounts, historically high levels of that going on, suggesting again that you've got a very tight labor market. So on wages, that's the price indicator we look at to tell us along with all the other data whether we have labor market conditions that are consistent with maximum employment. And so, that's how we think about it.

But one of the complications is that we've got to make policy in real-time again. So how do we think about that? If we think participation might move up, if, let's say, we knew that it would start to move up in two years, would we wait years when inflation is running way above target? Probably not. So you have to make an assessment. The level of maximum employment consistent with price stability in real-time is one way to think about it.

Victoria Guida: To follow up on that for a second. If you raise interest rates next year, you're unsure whether you're at maximum employment. I mean, are you all going to point when you raise interest rates? Are you going to tell how the labor market could still improve?

Jerome Powell: Yes. I mean. Whether or not we say we're at conditions, labor market conditions consistent with maximum employment next year, we would all be open. I think to expect the level of available over time, and I believe that the level

of total engagement consistent with price stability would increase further over time, for example, through increased participation. So we would certainly, we would not in any way want to foreclose the idea that the labor market can get even better. But again, with inflation as high as it is, we have to make policy in real-time. We've got to make that assessment in real-time.

Michelle: Thank you. We'll go to Olivia from Bloomberg.

Colby Smith: Thank you. Good afternoon, Chair Powell, and thank you for taking our questions. I wanted to follow up on your earlier comments about labor force participation. And I wondered what do you think needs to change the economy to kind of get a meaningful recovery in labor force participation, and also whether running the economy hot, like in the last expansion, is one way of doing that?

Jerome Powell: Well, the labor market is, by so many measures, hotter than it ever ran in the last expansion if you think about it. The ratio of job openings, for example, to vacancies is at all-time highs, quits, the wages, all those things are even hotter. But what would it take for labor force participation to move up more? Really, why is it low is the question? So that there are a bunch of answers, and all of them probably have some validity. Part of it will be that certain people don't want to go back to the labor force because either they're medically vulnerable or they're not comfortable going back while COVID is still everywhere. That's one thing. The lack of availability of childcare for the caretaker is undoubtedly part of it, not just for children, but for older people.

It has been pointed out by many that the stock market is high. People's portfolios are stronger. They may go back to being one-income rather than a two-income family, and it's the same thing with people's houses. They have a mortgage with leverage and house price increases, the equity they have in their home might have doubled, and they might reach the same conclusion. And people have savings on their balance sheet because of forced savings because they couldn't spend on travel and things like that and because of government transfers.

So for all of those reasons, and it's hard to know precisely the part each of them plays, we have a situation where we've had a shock to labor force participation that is not unwinding as quickly as many have expected. And in effect, a good part of it is voluntary. And people, this is how they want to maximize their welfare. And that's certainly their choice. In other cases, it's something that will abate very quickly if and when the pandemic gets under control. And the longer the pandemic goes on,

maybe the less likely it is that people will come back because they get used to their new life and lose contact with their old jobs. That's what the evidence would say.

So it's a range of things. It isn't that the economy lacks stimulus. Usually, there aren't enough jobs in every other expansion, and people can't find jobs, and we're stimulating demand and trying to get demand to come up. That's not the problem here. The problem is a supply-side problem, which it would take to work out. I think it's going to be time. And number one thing would be to have the pandemic get under control. That's what everyone would like to see. What does the labor market look like in a world without COVID? That would be the thing that we'd really like to see, but it doesn't look like that's coming anytime soon.

Colby Smith: And just to quickly follow up on that, if some of the reason that labor force participation isn't back to February 2020 levels, because people are voluntarily making life decisions that are different, does that make you think we're going to end up at a lower rate overall?

Jerome Powell: Well, there's a demographic trend underlying all of this, and we got above the demographic trend at the end of the last expansion. So one would expect labor force participation to decrease over time because an aging population, the older people are, the lower their participation rate is. So you would expect that the trend would be lower and that participation would move down over time.

The question of how much we can get back up closer to where we were in February of 2020, and indeed for the year or so before that, is a good one. What we can do is try to create the conditions. There's much good for society when you have a tight but stable labor market where people are coming in; they're getting in the labor force, they're getting paid well. In the labor market we had before, the most significant wage increases were going to people at the bottom end of the wage spectrum for the last couple of years. There were just a lot of really desirable aspects of a labor market like that. Higher participation is one of them, and we'd love to get back there.

But again, ultimately, we have the tools that we have, which are essential to stimulate demand and control inflation. I mean, it might be one of the two significant threats to getting back to maximum employment is high inflation because to get back to where we were, the evidence grows that it's going to take some time. And what we need is another long expansion like the ones we've been having over the last 40 years. We've had, I think, three of the four most extended in

our recorded history, including the last one, which was the longest in our recorded history. That's what it would take to get back to the kind of labor market we'd like to see. And to have that happen, we need to make sure that we maintain price stability.

Michelle: Okay. Let's go to Edward Lawrence at Fox.

Edward Lawrence: Thanks. Thanks, Michelle. And thanks for taking the question, Chair Powell. So I was looking at the census data to estimate monthly sales changes. And what you're seeing is fewer people spending at restaurants and drinking places, more people spending at grocery stores. You see electronic sales down 4.6% month over month, and department store sales down 5.4% month over month. How concerned or what is your level of concern the consumer may be turning away from this economy or pulling back because of inflation, the virus or something else? Thank you.

Jerome Powell: We see consumer expenses very strong in the quarter. I don't know, Edward, whether you're talking about more shopping online versus shopping in the store, but consumer demand is robust. Incomes are solid because people are going back to work and getting wage increases. Admittedly, some of the wage increases are being eaten away by inflation, but overall incomes are going up significantly because of increased employment. And spending has been strong. There may be something in the seasonality that this year's holiday spending may have been pulled forward. And of course, there may be effects from Delta, and there might be going on from Omicron. But fundamentally, the consumer is healthy, and we expect personal consumption expenditures to be pretty substantial in the fourth quarter.

Michelle: Okay. Let's go to Mike at Bloomberg,

Michael McKee: Mr. Chairman, the median forecast for inflation in this meeting's economic projections has been revised up significantly for 2021 but barely moved for 2022 and 2023. You've said you expect inflation to fall significantly. Is that because you're going to raise interest rates or because the virus will fade and the effects are going to disappear. In other words, is it a question of when, not if you raise interest rates, and does it suggest that maybe your critics are correct and you might be afraid you're behind the curve?

Jerome Powell:

So actually, I'm looking at the SEP here, and the median forecasts for core and headline inflation did move up by four-tenths each. So in a SEP, that's a pretty significant move up. It's based on both of those things, I suppose. I do think there's a general expectation among forecasters, including our own, that the bottleneck will sometimes alleviate I'm over the course of this year. If you look at where blue-chip forecasts are, the group of well resourced, large forecasting operations with a long track record, they'll show inflation coming back down significantly toward the back end of next year.

I would say, though, that our policy should begin to have an effect. There will be a lag, but it should also start to affect that. And that's the most likely cause. I guess the thing I would want to say, though, is we can't act as though that's a certainty, and we're not going to act as though that's a certainty. There's a real risk now; we believe, I believe, that inflation may be more persistent and that may be putting inflation expectations under pressure, and that the risk of higher inflation becoming entrenched has increased. It's undoubtedly increased. I don't think it's high at this moment, but I think it's improved, and I think that's part of the reason behind our move today is to put ourselves in a position to deal with that risk.

And I think we are in a position to deal with that risk. We need to see more data. We need to know how the inflation data and all the data evolve in the coming months, but we are prepared to use our tools to ensure that higher inflation doesn't get entrenched. For one reason, as I just mentioned, it's one of the two significant threats, the other being the pandemic itself, to getting back to maximum employment.

Michelle: Let's go to Michael Derby, the Wall Street Journal.

Michael Derby: Yeah. Thank you for taking my question. So as the fed shifts towards an accelerated taper, I wonder what you read about financial stability risks right now. I mean, these periods can be. It seems like the taper process has gone relatively smooth so far, but what do you see in terms of stability risks? Are there any parts of the financial sector that concern you right now? And are there any significant systemic issues on your radar, maybe from the cryptocurrency sector or something like that?

Jerome Powell: For a decade and more, we have had a four-part financial stability framework that we use to hold ourselves to the kind of framework and not just treat each event individually. There are four key areas, asset valuations, debt owed by

households and businesses, funding risk, and leverage among financial institutions. So I would say asset valuations, I'm going to go superficial here, but asset valuations are somewhat elevated, I would—debt owed by businesses and households. Households are in solid financial shape. Enterprises have many obligations, but their default rates are meager.

Nonetheless, it's something we're watching. Funding risk is, by and large, low among financial institutions. But we do see money market funds as a vulnerability and would applaud the SEC's action this week.

Leverage among financial institutions is low in the sense that capital is high. So overall, financial stability, that's how I would make an overall characteristic if we break it down to those pieces. In terms of the things that we're looking for, looking at, it's the things we've already talked about to some extent. It's the emergence of a new variant that could lead to significant economic. If there were to be a variant, for example, that was quite resistant to vaccines, it could have another important effect on the economy. We don't see that we don't have any basis for thinking that the new variant we have is that one, but it's certainly one we're looking at. I would say cyber risk, the risk of a successful cyberattack, is, for me, always the one that would be very difficult to deal with. We know how to deal with bad loans and things like that. I think a cyber attack that would take down a major financial institution or financial market utility would be a significant financial stability risk that we haven't faced yet. I could go on with a list of horribles, but I think that's a decent picture of where I would start.

Michael Derby: How about the cryptocurrency issues? Does that concern you at all?

Jerome Powell: I think there are not so much current financial stability concerns. I, of course, would support the views expressed in the president's working group report on stable coins. Stable coins can undoubtedly be a good, efficient consumer serving part of the financial system if they're properly regulated. And right now, they aren't. And they have the potential to scale, mainly if they were to be associated with one of the extensive tech networks that exist. And you could have a payment network that was immediately systemically or close to immediately systemically important that didn't have appropriate regulation and protections. The public relies on the government and the fed in particular to make sure that the payment system is safe and reliable and the dollar provides a safe and reliable, trusted currency. But I do think those are longer term.

In terms of cryptocurrencies that are speculative assets, I don't see them as a financial stability concern at the moment. I do think they are risky. They're not backed by anything. And I believe there are significant consumer issues for consumers who may or may not understand what they're getting. And there's undoubtedly developments in the markets that are worth following, which are not in our jurisdiction, but things like the kind of leverage built into them and those sorts of things are worth watching.

Michelle: Let's go to Nancy Marshall-Genzer at Marketplace.

Nancy Marshall-Genzer: Sure. Hi Chair Powell. Thanks for the question. Going back to inflation, is the Fed behind the curtain on getting inflation under control?

Jerome Powell:
So I would say this, I think we are well-positioned to deal with what's coming, with the range of plausible outcomes that can come. Suppose you look at how we got here. In that case, I believe we've been adapting to the incoming data all the way along and noticing and calling out both the effects and the persistence of inflation, of bottlenecks and labor shortages, and things like that. So we've been calling out that those were becoming longer and more persistent and larger, and those were becoming longer and more persistent and larger. And now, we're in a position where we're ending our taper within the next, well, by March in two meetings. And we'll be in a place to raise interest rates, as and when we think it's appropriate, and we will, to the appropriate extent. At the same time, we will see a few more months of data. I don't think we're out of position now. I think this was an important move for us to make. I believe that the data we got toward the end of the fall was a powerful signal that inflation is more persistent and higher and that the risk of it remaining higher for longer has grown. And I think we're reacting to that now. And we'll continue to adapt our policy. So, I wouldn't look at it that we're behind the curve. I would look at it that we're actually in a position now to take the steps that we'll need to take in a thoughtful manner to address all of the issues, including that of too-high inflation.

Moderator: Let's go to Evan at Market News.

Evan Ryser: Hi, Chair Powell. Thank you. I wondered if we should still see the taper and interest rate hikes as separate.

And secondly, in the last cycle, the Fed started shrinking the balance sheet when

short-term interest rates were about 1% to 1.25% range. Do you think the FOMC might be able to start running off assets before that, this time potentially?

Jerome Powell: Are they separate? So, our interest rate, yeah. I mean, they are separate tools. So, asset purchases are a different tool from interest rates. Stopping asset purchases does not remove accommodation; it just stops adding additional capacity, whereas rising interest rates start to remove housing from a highly accommodative stance.

We haven't discussed the extent to which they'll be separated in time at the committee yet. We will be discussing that, obviously, in forthcoming meetings. I don't think that there was quite a long separation before interest rates in the last cycle. I don't think that's at all likely in this cycle. We're in a very different place with high inflation, vigorous growth, and a robust economy. As I mentioned, the SEP medians are for 4% growth next year, 3.5% unemployment at the end of the year. And the headline inflation of 2.6% next year. Core at 2.7%. So, this is a strong economy, one in which it's appropriate for interest rate hikes. So, they're separate, I would say.

Jerome Powell: Sorry. Your second question was…

Evan Ryser: My second question was about runoff.

Jerome Powell: Ah, runoff.

Evan Ryser: in the last cycle.

Jerome Powell: So, we did have a balance sheet discussion with the balance sheet. It's our first discussion of balance sheet issues today, sheet issues, at our meeting this week. We'll have another at the next meeting and another after that. I suspect these are interesting issues to discuss, and decisions were not made. We looked back at what happened in the last cycle. And people thought that was interesting and informative. But, to one degree or another, people noted that this is just a different situation, and those differences should inform our decisions about the balance sheet this time.

So, we haven't made any decisions about when runoff would start, but we'll be continuing to when either liftoff happens or the end of the taper. But those are precisely the decisions we'll be turning to in coming meetings.

Moderator: Thank you. We'll go to Scott Horsley at NPR.

Scott Horsley: Thanks, Mr. Chairman; I think you said a few minutes ago that the inflation we got during the pandemic was not the inflation you anticipated when you crafted the framework. And you described it as a collision of a lot of monetary and fiscal stimulus with these supply-side hiccups. Does that mean the inspiration was mistaken? Or is inflation just a consequence that we have to put up with because of that?

Jerome Powell: No. I'm not expressing any judgment about the stimulus in that comment. I'm saying that there's a sense amongst some that you wanted inflation, this is what you wanted, how do you like it, you know? And the truth is this is not inflation. In the framework, we were talking about inflation that comes from a tight labor market. So, we had 3.5% unemployment for a period, and we had inflation that was just barely getting to 2%. And I think in that setting, our thinking was, "We can afford to wait to raise rates until we see actual inflation rather than preempt it," because no one had seen what 3.5% unemployment would look like, with a high labor force participation by the way. No one had seen what it had looked like for an extended period, for decades. And we didn't know what the inflation or the implications were. It turned out there was barely 2% inflation and no sense that it was gaining momentum and that kind of thing. So, we incorporated that into our framework.

This is something completely different. That's a situation where you had a very high level of employment and low inflation. This is the opposite, or it has been the opposite, where we have very high inflation, and we've had it since the labor market was in terrible shape. So, so far, this inflation has really nothing to do with tightness in the labor market. It does have to do with the strong demand that the Fed supported. Congress supported it. I'm not making any judgments on Congress. It's not my job. But I will just say, we're coming out of what we certainly hope will be a once-in-a-lifetime, indeed historic, the first global modern pandemic, which looked, in the beginning, like it might cause a global depression. And so, we threw much support at it. And what's coming out now is robust growth, robust demand, high incomes, and all that kind of thing. People will judge in 25 years, whether we overdid it or not, but the reality is we are where we are. And we think our policy is the right one for the situation that we're in.

Moderator: Thank you. Let's go to Brian Cheung.

Brian Cheung: Hi, Chairman Powell. I wanted to ask about the bond markets. When you see the 10-year at 146 basis points, do you have any concerns about an environment into which you might be hiking interest rates into? Would you prefer the curve to be a little bit steeper? What are you gleaning from the bond market actions over the last six weeks?

Jerome Powell: So, I think the short-end actions are easy to understand, which is they're very policy-sensitive rates at the short end. And it makes sense that it's reacting to changes in expectations for policy. I think many things go into the long rate. And the place I would start is just to look at global sovereign yields around the world. Look at JGBs, look at bond. And they're so much lower. You can get a much higher profit on U.S. Treasuries by buying USTs rather than bonds. And you can hedge the currency risk back into yen, back into euros, and still be way ahead. So, in a way, it's not surprising that there's a lot of demand for U.S. sovereigns in a world, in a risk-free world, where they're yielding so much more than bonds or than JGBs. So, that's a big part of it.

I also think there may be some assessment of the neutral rate or the terminal speed. I don't know about that. And I would just say that we write down our estimates of the terminal rate or the neutral interest rate. Those are highly uncertain. And we'll make policy based on what we see in the economy, rather than based on what a model might say the neutral rate is. And we've all had the experience over the last cycle, where we, all through that cycle, were trying to estimate what the neutral rate was. And it turned out I think we learned a lot from seeing what happens. We wound up cutting rates three times after raising them 2%, 2.25%, 2.5%.

So, I'm not troubled by where the long bond is. I see that it's low. I mean, we're focused on broader financial conditions. We're concentrated on maximum employment and price stability.

Moderator: Thank you. For the last question, we'll go to Greg Robb.

Greg Robb: Thank you very much. Chair Powell, I wanted to allow you to talk about something I've heard that's been discussed. Your pivot towards a tighter policy, a hawkish policy stance, had something to do with the timing of your renomination by the president. Thank you.

Jerome Powell: Sure. I'd be happy to talk about that. So, as I mentioned, we got

the ECI reading just before the November meeting. We got the labor market report two days after the meeting. And then, one week after that, I think we got the CPI reading on the 12th of November. It was the CPI reading in concert with those two. And I just came to the view over that weekend that we needed to speed up the taper. And we started working on that. That's a full ten days or so before the president decided on renominating me, so honestly, it had nothing to do with that at all, and I just thought, "This is what we got to do."

My colleagues were out talking about a faster taper. And that doesn't happen by accident. They were out talking about a quicker taper before the president decided. So, it's a decision that effectively was more than in train and to the point where people were talking about it publicly.

So, that's what happened. And it had absolutely nothing to do with it whatsoever. We're always going just to do what we think is the right thing. And I certainly will always just do what I think the right thing is for the economy and for the people that we serve.

Greg Robb: Just a quick follow-up. I guess that some people are saying that it was the stimulus in March, that was sort of over, we didn't need all that stimulus, and that there was talk even then that would be a mistake, and it would lead to higher inflation, and perhaps that you didn't push back as much as you might have otherwise.

Jerome Powell: I didn't push back at all. And the reason I didn't, and there was lots of talk about that, but not from the Fed because that is not our job. We are not the CBO, and nobody elects us, so we take fiscal policy as it arrives at our front door. We don't comment; we make our assessments inside the Fed, but it's not our role, and I think it very important that we stay out of that business, no matter who's in the White House, who's in Congress. It's just not our job. And it's something we avoid pretty assiduously.

Greg Robb: Thank you.

Jerome Powell: Thank you**.**

Moderator: Thank you, Mr. Chair. Thank you, everyone.



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