Transcript of Chair Powell's Press Conference September 21, 2022

CHAIR POWELL: Good afternoon. My colleagues and I are strongly committed to bringing inflation back down to our 2 percent goal. We have both the tools we need and the resolve it will take to restore price stability on behalf of American families and businesses. Price stability is the responsibility of the Federal Reserve and serves as the bedrock of our economy. Without price stability, the economy does not work for anyone. In particular, without price stability, we will not achieve a sustained period of strong labor market conditions that benefit all.

Today, the FOMC raised its policy interest rate by 3/4 percentage point, and we anticipate that ongoing increases will be appropriate. We are moving our policy stance purposefully to a level that will be sufficiently restrictive to return inflation to 2 percent. In addition, we are continuing the process of significantly reducing the size of our balance sheet. I will have more to say about today's monetary policy actions after briefly reviewing economic developments.

The U.S. economy has slowed from the historically high growth rates of 2021, which reflected the reopening of the economy following the pandemic recession. Recent indicators point to modest growth of spending and production. Growth in consumer spending has slowed from last year's rapid pace, in part reflecting lower real disposable income and tighter financial conditions. Activity in the housing sector has weakened significantly, in large part reflecting higher mortgage rates. Higher interest rates and slower output growth also appear to be weighing on business fixed investment, while weaker economic growth abroad is restraining exports. As shown in our Summary of Economic Projections, since June FOMC participants have marked down their projections for economic activity, with the median projection for real GDP growth standing at just 0.2 percent this year and 1.2 percent next year, well below the median estimate of the longer-run normal growth rate.

Despite the slowdown in growth, the labor market has remained extremely tight, with the unemployment rate near a 50-year low, job vacancies near historical highs, and wage growth elevated. Job gains have been robust, with employment rising by an average of 378,000 jobs per month over the last three months. The labor market continues to be out of balance, with demand for workers substantially exceeding the supply of available workers. The labor force participation rate showed a welcome uptick in August but is little changed since the beginning of the year. FOMC participants expect supply and demand conditions in the labor market to come into better balance over time, easing the upward pressure on wages and prices. The median projection in the SEP for the unemployment rate rises to 4.4 percent at the end of next year, onehalf percentage point higher than in the June projections. Over the next three years, the median unemployment rate runs above the median estimate of its longer-run normal level.

Inflation remains well above our 2 percent longer-run goal. Over the 12 months ending in July, total PCE prices rose 6.3 percent; excluding the volatile food and energy categories, core PCE prices rose 4.6 percent. In August, the 12-month change in the Consumer Price Index was 8.3 percent, and the change in the core CPI was 6.3 percent. Price pressures remain evident across a broad range of goods and services. Although gasoline prices have turned down in recent months, they remain well above year-earlier levels, in part reflecting Russia's war against Ukraine, which has boosted prices for energy and food and has created additional upward pressure on inflation. The median projection in the SEP for total PCE inflation is 5.4 percent this year and falls to 2.8 percent next year, 2.3 percent in 2024, and 2 percent in 2025; participants continue to see risks to inflation as weighted to the upside.

Despite elevated inflation, longer-term inflation expectations appear to remain well anchored, as reflected in a broad range of surveys of households, businesses, and forecasters, as well as measures from financial markets. But that is not grounds for complacency; the longer the current bout of high inflation continues, the greater the chance that expectations of higher inflation will become entrenched.

The Fed’s monetary policy actions are guided by our mandate to promote maximum employment and stable prices for the American people. My colleagues and I are acutely aware that high inflation imposes significant hardship as it erodes purchasing power, especially for those least able to meet the higher costs of essentials like food, housing, and transportation. We are highly attentive to the risks that high inflation poses to both sides of our mandate, and we are strongly committed to returning inflation to our 2 percent objective

At today’s meeting the Committee raised the target range for the federal funds rate by 3/4 percentage point, bringing the target range to 3 to 3-1/4 percent. And we are continuing the process of significantly reducing the size of our balance sheet, which plays an important role in firming the stance of monetary policy.

Over coming months, we will be looking for compelling evidence that inflation is moving down, consistent with inflation returning to 2 percent. We anticipate that ongoing increases in the target range for the federal funds rate will be appropriate; the pace of those increases will continue to depend on the incoming data and the evolving outlook for the economy. With today’s action, we have raised interest rates by 3 percentage points this year. At some point, as the stance of monetary policy tightens further, it will become appropriate to slow the pace of increases, while we assess how our cumulative policy adjustments are affecting the economy and inflation. We will continue to make our decisions meeting by meeting and communicate our thinking as clearly as possible.

Restoring price stability will likely require maintaining a restrictive policy stance for some time. The historical record cautions strongly against prematurely loosening policy. As shown in the SEP, the median projection for the appropriate level of the federal funds rate is 4.4 percent at the end of this year, 1 percentage point higher than projected in June. The median projection rises to 4.6 percent at the end of next year and declines to 2.9 percent by the end of 2025, still above the median estimate of its longer-run value. 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.

We are taking forceful and rapid steps to moderate demand so that it comes into better alignment with supply. Our overarching focus is using our tools to bring inflation back down to our 2 percent goal and to keep longer-term inflation expectations well anchored. Reducing inflation is likely to require a sustained period of below-trend growth, and there will very likely be some softening of labor market conditions. Restoring price stability is essential to set the stage for achieving maximum employment and stable prices over the longer run. We will keep at it until we are confident the job is done.

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 achieve our maximum employment and price stability goals. Thank you, and I look forward to your questions.

Q: Hi, thank you for taking our questions. Can you give us detail around how you'll know when the slow down the rate increases and when to stop?

POWELL: My main message has not changed at all since Jackson Hole. The FOMC is resolved to bring inflation down and we will keep at it until the job is done. So, the way we're thinking about this is the overarching focus of the committee is getting inflation back down to 2%. To accomplish that, we'll need to do two things in particular to achieve a period of growth below trend and softening in labor market conditions to foster a better balance.

So, on the first, the committee's forecast and those of most outside forecasters show growth running below its longer-run potential this year and next year. So far there is only modest evidence that labor market is cooling off. Job openings are down a bit. Quits are off their all-time highs. There's signs that wage measures may be flattening out. Payroll gains have moderated, but not much. In light of the high inflation we're seeing, we think we'll -- in light of what I just said -- we'll need to bring our funds rate to a restrictive level and to keep it there for some time. What will we be looking at, is your question. We'll be looking at a few things. First, we'll want to see growth continuing to run below trend, to see movements in the labor market showing a return to a better balance between supply and demand, and clear evidence that inflation is moving back down to 2%. That's what we'll be looking for. In terms of reducing rates, we'd want to be very confident that inflation is moving back down to 2% before we would consider that.

Q: Can you talk about how you factor in the variable lags on inflation, and the extent to which the outlook for rates should be seen as linear? Can you envision a time when there's a pause to look at what has been wrought in the economy from the rate increases? Thank you.

POWELL: Sure. So, monetary policy works with lags. Things have been affected when we announce changes in financial decisions begin to affect economic activity within a few months. But it's likely to take some time to see the full effect on inflation. So we are very much mindful for that. And that's why I noted in my opening remarks that at some point as the stance of policy tightens, it will become appropriate to slow the pace of rate hikes while we assess how adjustments are affecting the economy. So that's how we think about that. Your second question, sorry, was –

Q: Is there a point in time you can see pausing? Is it linear? Oh, sorry. I should know better than to not talk with the microphone.

POWELL: I should know better than to answer your second question. (Laughter)

Q: There you go. Is it linear? Do you keep raising rates, or is there a pause you could envision where you figure out what has happened to the economy and give time to catch up in the real economy? Thank you.

POWELL: It's very hard to say with precise certainty the way this is going to unfold. As I mentioned, what we think we need to do and should do is to move our policy rate to a restrictive level that's restrictive enough to bring inflation down to 2% where we have confidence of that. What you see in the SEP numbers is people's views as of this meeting, today, to the kind of levels that will be appropriate. Now, those will evolve over time. And we'll have to see how that goes. There is a possibility that we would go to a certain level that we're confident in and stay there for a time. But we're not at that level. Clearly today we're just -- we've just moved into the very lowest level of what might be restrictive. In my view and the view of the Committee, there's a ways to go.

Q: Thank you for taking our questions. The projections show the unemployment rate rising to 4.4% next year. And historically, that kind of rise in the unemployment rate would bring a recession with it. Should we interpret that to mean no soft landing? Is that kind of rise necessary to get inflation down?

POWELL: You're right. In the SEP there is what I would characterize as a relatively modest increase in the unemployment rate. Why is that? So, that is what we generally expect, because we see the current situation as outside of historical experience in a number of ways. And I'll mention a couple. First, job openings are incredibly high relative to the number of people looking for work. It's plausible, I'll say, that job openings could come down. And they need to, without as much of an increase in unemployment as has happened in earlier historical episodes. In addition, expectations have been well-anchored. There's no basis for complacency there. But to the extent that continues to be the case, that should make is easier to restore price stability. The third thing that's different this time is that part of this inflation is caused by this series of supply shocks that we've had, beginning with the pandemic and really with the re-opening of the economy, amplified by Russia's invasion of Ukraine, have all contributed to the increase in inflation. These are the kinds of events that are not seen in prior business cycles. And in principle, if those things start to get better -- and we do see some evidence of the beginnings of that. It's not much more than that, but it's good to see that. For example, commodity prices look like they may have peaked. Supply chain disruptions are beginning to resolve. Those developments, if sustained, could help ease the pressures on inflation. So, how much these factors will turn out to matter in this sequence of events remains to be seen. We have always understood that restoring price stability while achieving a relatively modest increase in unemployment and a soft landing would be very challenging. And we don't know. No one knows whether this process will lead to a recession or if so, how significant that recession would be. That's going to depend on how quickly wage and price inflation pressures come down, whether expectations remain anchored, and whether -- also do we get more labor supply, which would help as well. In addition, the chances of a soft landing are likely to diminish if policy needs to be more restrictive or for longer. We're committed to getting inflation down to 2% because a failure to restore price stability would mean far greater pain later on.

Q: Are vacancies at the top of your list in terms of understanding the labor market?

POWELL: Yes. Vacancies are still almost 2:1 ratio to unemployed people. That and quits are really very good ways to look at how tight the labor market is and how different it is from other cycles where generally the unemployment rate is the best indicator. We think those things have for quite a time added value in terms of understanding where the labor market is.

Q: You said in describing the policy destination there's still a way to go. But I imagine you have to have some idea about how you're thinking about your destination, whether it's a stopping point or a pausing point. So I was wondering if you could discuss how you are thinking about, as the data come in, where that destination is, how it's moving up, if inflation doesn't perform as you'd expect. Do you want to have a policy rate that's above the underlying inflation rate, for example? And do you have an estimate for where you think the underlying inflation rate might be in the economy right now?

POWELL: Again, we believe that we need to raise our policy stance overall to a level that is restrictive. And by that I mean is meaningfully -- putting meaningful downward pressure on inflation. That's what we need to see. We know there are -- variable -- it's a challenging assessment. You look at broader financial conditions. You look at where rates are, credit spreads, at financial condition indexes. This is something we talk about in all of our meetings. You see this in the committee forecast. You want to be at a place where real rates are positive. I think that would be the case if you look at the numbers we're writing down and think about -- measure those against a forward-looking assessment of inflation expectations. You would see positive real rates across the yield curve and that is an important consideration.

Q: Thanks for the opportunity. I just want to be clear. You say it's meeting by meeting, but it sure looks like we're going 75, 50, 25. Is 75 next month the baseline?

POWELL: We make one decision per meeting. This meeting, we decided to raise the rate by 75. You're right that the median for the year end suggests another 125 basis points and rate increases, but there's also another fairly large group that saw 100 basis points addition to where we are today, that would be 25 basis points less. We didn't make that decision today. We didn't vote on that. I would say that we're committed to getting to a restrictive level for the federal fund rate and getting there pretty quickly. And that's what we're thinking about.

Q: I'm wondering about the risk management considerations here. Given there is discussion of overdoing it, what's the incentive to continue front-loading row? Is it lack of progress on inflation, or is it a motivation to get as much done while the job market is still as strong as it is?

POWELL: Our expectation has been that we would begin to see inflation come down, largely because of supply-side healing. By now we would have thought we would have seen some of that. We haven't. We have seen some supply-side healing but inflation has not really come down. If you look at core PCE inflation, a good measure of where inflation is running now, on a three, six, and twelve-month trailing basis, inflation is at 4.8%, 4.5%, and 4.8%. So that's a pretty good summary of where we are with inflation. And that's not where we expected or wanted to be. So that tells us we need to continue, and we can keep doing these. And we did today do another large increase. As we approach the level that we think we need to get to. And we're still discovering what that level, but people are writing that down in their SEP where they think policy needs to be. That's how we're thinking about it.

Q: How should we interpret the fact that core inflation is not forecast to be back to target in 2025, and yet the plot projects cuts as early as 2024? Does that mean there's a level of inflation above the 2% target that the Fed is going to tolerate?

POWELL: Core is 2.1% in 2025 in the median and headline is at 2.0. That's pretty close. We write down our forecasts. And we figure out what the median is. And we publish it. I would say that if, actually if the economy followed this path, that would be a pretty good outcome. But it is a tenth higher than 2%.

Q: As a quick followup, if the concern is that underlying inflation is becoming more entrenched each month, then why forego the more aggressive 100-point increase today, and does that risk having to do more later on?

POWELL: As we said at the last press conference and in between that one and this one, we said that we would make our decision based on the overall data coming in. If you remember, we got a surprisingly low reading in July. And a surprisingly high reading for August. So you have to -- you can't -- you never want to overreact to any one data point. If you look at them together -- if you really look at this year's inflation, three, six, and twelve-month, it's running too high. You don't need to know much more than that. This Committee is committed to getting to a meaningfully restrictive stance of policy and staying there until we feel confident that inflation is coming down. That's how we think about it.

Q: I wanted to ask about the balance sheet. You have left open the possibility that you might sell securities, but we've seen significant slowing in the housing market. Mortgage rates have gone up. I'm wondering whether conditions there might affect your plans for the how quickly you have the runoff on the MBS side.

POWELL: We said we would consider that once balance sheet runoff is well under way. It's not something we're considering right now and not something I expect to be considering in the near term. It's something we will turn to, but the time for turning it to is not close.

Q: Will conditions in the housing market affect that decision?

POWELL: A number of things might affect that. We're not considering that and I don't expect that we will anytime soon.

Q: A number of commentators have come to the view that simultaneous global tightening creates a risk of a global recession that's worse than is necessary to bring inflation down. How do you see that risk? How do you think of coordination with your fellow central bankers, and is there much risk of overdoing it on a global level?

POWELL: My colleagues and I, a number of my FOMC colleagues and I just got back from one of our frequent trips to Switzerland to meet with other senior central bank officials from around the world. We are in pretty regular contact. We all serve a domestic mandate, but we regularly discuss what we're seeing in terms of our own economy and international spillovers. It's a constant process. So, we are very aware of what's going on in other economies and what that means for us and vice versa. The forecast that we put together, that our staff puts together and that we put together on our own always try to take all of that into account. I can't say that we do it perfectly, but it's not as if we don't think about the policy decisions, monetary policy, the economic developments that are taking place in major economies that can have an effect on the U.S. economy. That is very much baked into our own forecast and understanding of the U.S. economy as best we can. It won't be perfect. It's hard to talk about collaboration in a world where people have very different levels of interest rates. If you remember, there were coordinated cuts and raises at various times, but we're in very different situations. But I will tell you our contact is more or less ongoing and it's not coordination, but there's a lot of information-sharing. And we all are informed by what other important economies, economies that are important to the United States are doing.

Q: You talked about some ways the higher interest rates are affecting the economy, but we've also seen a resilient labor market with durable consumption, strong corporate profits. And I'm wondering what your story is on the resilience of the economy. After all, you and your colleagues said we started typing in March when we were talking about interest rates in the future. And Treasury rates moved up. We should have had a lot of tightening taking effect. Why is the economy, in your view, so resilient, and it does it mean we might need a possibly higher terminal rate?

POWELL: You're right. The labor market has been very strong. But there -- the sectors of the economy that are most interest rate sensitive are certainly showing the effects of our tightening. The obvious example is housing, where you see declining activity and price increases moving down. We're having an effect on sensitive spending. Through exchange rates, we're having an effect on exports and imports. I think -- all of that is happening. This is a strong, robust economy. People have savings on their balance sheet from the period where they couldn't spend and were getting government transfers. There are significant savings, although not as much at the lower end of the income strum, but still some savings, but still savings. The states are flush with cash. There's good reason to think this will be a reasonably strong economy. The data sort of are showing that growth will be below trend. Trend is 1.8%. We're forecasting growth below that and most are. But there's a possibility that growth can be stronger than that. That's a good thing because that means the economy will be more resistant to a significant downturn. But, of course, we are focused on getting inflation back down to 2%. We can't fail to do that. That would be the thing that would be most painful for the people that we serve. So, for now that has to be our overarching focus. And you see that in the SEP, in the levels of rates that we'll be moving to reasonably quickly, assuming things turn out roughly in line with the SEP. So that's how we think about it.

Q: In a world of euphemisms that we live in, below trend growth, modest increase in unemployment, I wonder if I could ask direct questions for the American people. Given where you are and are going with interest rates, do the odds favor a recession? 4.4% unemployment is 1.3 million jobs. Is that acceptable job loss? Given that the data you look at is backward-looking and the lags in your policy are forward-looking, how will you know, or will you know if you've gone too far?

POWELL: So, I don't know what the odds are. There's a very high likelihood that we'll have a period of what I mentioned is below-trend, by which I mean much lower growth. And we're seeing that now. So the median forecast this year among my colleagues and me was 0.2% growth. That's very slow growth. And below trend next year. The median was 1.2, also well below. That's a slower -- that's a very slow level of growth and it could give rise to increases in unemployment. But I think that's -- that is something that we think we need to have. We think we need to have softer labor market conditions as well. We're never going to say that there are too many people working, but the real point is this. Inflation -- what we hear from people when we meet with them is that they really are suffering from inflation. If we want to set ourselves up, light the way to another period of very strong labor market, we have got to get inflation behind us. I wish there were a painless way to do that. There isn't. What we need to do is get rates up to the point where we're putting meaningful downward pressure on inflation. That's what we're doing. We haven't given up the idea that we can have a relatively modest increase in unemployment. Nonetheless, we need to complete this task.

Q: But how will you know if you're gone too far?

POWELL: It's hard to hypothetically deal with that question. Our focus is ongoing rate increases to get the policy rate where it needs to be. You can look at this SEP as today's estimate of where we think those rates would be. They will evolve over time.

Q: I wanted to follow up with when you mentioned about the labor market. You said several times that to have the labor market we want we need price stability. And you suggested maybe there isn't a tradeoff in the long run. But in the short run, there is a lot of concern, as people have been expressing, about higher unemployment as a result of these rate hikes. So can you explain, though, what about high inflation now threatens the job market? You seem to suggest that inflation, high inflation will eventually lead to a weaker job market. Can you spell that out a little more for the general public?

POWELL: People are seeing their wage increases eaten up by inflation. If your family is one where you spend most of your paycheck every cycle on gas, food, transportation, clothing, basics of life, and prices go up the way they've been going up, you're in trouble right away. You don't have a cushion. And this is very painful for people at the lower end of the income and wealth spectrum. So that's what we're hearing from people, very much that inflation is really hurting. How do we get rid of inflation? It would be nice if there were a way to just wish it away, but there isn't. We have to get supply and demand back into alignment. The way we do that is by slowing the economy. Hopefully we do that by slowing the economy and we see some softening in labor market conditions and we see a big contribution from supply-side improvements and things like that. But none of that is guaranteed. Our job is to deliver price stability. You can think of price stability as an asset that delivers large benefits to society over a long period of time. We saw that for a long time, the United States had 2% inflation, didn't move around much. And that was enormously beneficial to the public that we serve. And we have to get back to that and keep it for another long period of time. To pull back from the task of doing that, you're just postponing -- if you postpone that, the delay is only likely to lead to more pain. So, we're moving to do what we need to do and do our jobs. And that's what you see us doing.

Q: You said Americans in business need to feel economic pain. How long should Americans be prepared for that economic pain?

POWELL: How long? It really depends on how long it takes for wages and more than that, prices to come down, for inflation to come down. What you see in our projections today is that inflation moves down significantly over the course of next year and then more the next year after that. And I think once you're on that path, that's a good thing. And things will start to feel better to people. They'll feel lower inflation, the economy is improving. If our projections are close to right, you'll see that the costs in unemployment are very meaningful to the people who lose their jobs. We talk about that in our meetings quite a lot. But at the same time, we'd be setting the economy up for another long period. This era has been noted for very long expansions. We've had three of the four longest in measured history since we got inflation under control. When inflation is stable you can have ten-year expansions and you can see what we saw in 2018, '19, and '20, which was very low unemployment, the biggest wage gains going to people at the low end of the spectrum, the smallest racial gaps that we've seen since we started keeping track of that. To get there, we're going to have to get supply and demand back in alignment. And that's going to take tight monetary policy for a period of time.

Q: What is that economic pain in your mind? Is it job losses? Is it higher interest rates on credit cards?

POWELL: It's all of those things. Higher interest rates, slower growth and a softening labor market are all painful for the public that we serve, but they're not as painful as failing to restore price stability and having to come back and do it down the road again, at a time when actually, now people have really come to expect high inflation. If the concept of high inflation becomes entrenched in people's economic thinking about their decisions, then getting back to price stability, the cost of getting back to price stability just rises. So we want to avoid that. We want to act aggressively now and get this job done and keep at it until it's done.

Q: Existing home sales have fallen for seven months straight, mortgage are the highest since 2008, yet mortgage demand increased and housing prices are still elevated. You mentioned plans to reset the market. Could you elaborate on what you mean, and what you think it will take to get there?

POWELL: When I say reset, I'm not looking at a particular specific set of data or anything. What I'm really saying is that we've had a time of a red hot housing market all over the country where famously houses were selling to the first buyer at 10% above the ask before even seeing the house, that kind of thing. So, there was a big imbalance between supply and demand. Housing prices were going up at an unsustainablely fast level. The deceleration should help bring prices more closely in line with rents and other housing market fundamentals. And that's a good thing. For the longer term, what we need is supply and demand to get better aligned so housing prices go up reasonably and people can afford houses again. In the housing market, we have to go through a correction to get back to that place. There are also longer-run issues with the housing market. It's difficult to find lots now close enough to cities and things like that, so builders are having a hard time getting zoning in lots, and workers and materials. From a business cycle standpoint, this difficult correction should put the housing market back into better balance.

Q: Shelter made up such a large part of the hot CPI report. Do you think that there is a lag and we will see that come down in the coming months, or do you think there's still an imbalance that needs to be addressed?

POWELL: I think that shelter inflation is going to remain high for some time. We're looking for it to come down, but it's not clear when that will happen. So it may take some time. So I think hope for the best, plan for the worst. On shelter inflation you've got to assume it's going to remain pretty high for a while.

Q from MNI's Jean Yung: You've talked about the need to get real rates into positive territory. You said earlier that policy is just moving into that territory now. I'm curious how restrictive is rates at 4.6%? Is that expected to be next year? How restrictive?

POWELL: I think if you look, when we -- let's assume we do get to that level, which is likely. What you're going to do is adjust that for some forward measure -- looking measure of inflation. And that could be -- you pick your measure. It could be -- there are all different things you could pick. You'll get a positive number. In all cases you will get forward inflation expectations in the short term that will be significantly less. So you'll have a positive federal funds rate at that point, which could be 1% or so. But I don't know exactly when it would be, but it would be significantly positive when we get to that level. And let me say, we've written down what we think is a plausible path. The path that we actually execute will be enough. It will be enough to restore price stability. So this is something that as you can see, they've moved up. And we're going to continue to watch incoming data and the evolving outlook and ask ourselves whether our policy is in the right place wherever we go. Thank you very much.