

Jerome Powell:

Good afternoon and welcome. My colleagues and I understand the hardship that high inflation is causing and we are strongly committed to bringing inflation back down to our 2% goal. Over the past year, we've taken forceful actions to tighten the stance with monetary policy. We've covered a lot of ground and the full effects of our rapid tightening so far are yet to be felt. Even so, we have more work to do. 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 labor market conditions that benefit all.

Today, the FOMC raised our policy interest rate by 25 basis points. We continue to anticipate that ongoing increases will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time. In addition, we are continuing the process of significantly reducing the size of our balance sheet. Restoring price stability will likely require maintaining a restrictive stance for some time. I will have more to say about today's monetary policy actions after briefly reviewing economic developments.

The US economy slowed significantly last year with real GDP rising at a below trend pace of 1%. Recent indicators point to modest growth of spending and production this quarter. Consumer spending appears to be expanding at a subdued pace, in part reflecting tighter financial conditions over the past year. Activity in the housing sector continues to weaken, largely reflecting higher mortgage rates. Higher interest rates and slower output growth also appear to be weighing on business fixed investment.

Despite the slowdown in growth, the labor market remains extremely tight with the unemployment rate at a 50-year low. Job vacancy is still very high and wage growth elevated. Job gains have been robust with employment rising by an average of 247,000 jobs per month over the last three months. Although the pace of job gains has slowed over the course of the past year and nominal wage growth has shown some signs of easing, the labor market continues to be out of balance.

Labor demand substantially exceeds the supply of available workers and the labor force participation rate has changed little from a year ago. Inflation remains well above our longer run goal of 2%. Over the 12 months ending in December, total PCE prices rose 5.0% excluding the volatile food and energy categories. Core PCE prices rose 4.4%. The inflation data received over the past three months show a welcome reduction in the monthly pace of increases. And while recent developments are encouraging, we will need substantially more evidence to be confident that inflation is on a sustained downward path.

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's not grounds for complacency. Although inflation has moderated recently, it remains too high. 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 inflation poses to both sides of our mandate and we are strongly committed to a returning inflation to our 2% objective.

At today's meeting, the committee raised the target range for the federal funds rate by 25 basis points, bringing the target range to four and a half, to four and three quarters percent. And we are continuing

the process of significantly reducing the size of our balance sheet. With today's action, we have raised interest rates by four and a half percentage points over the past year.

We continue to anticipate that ongoing increases in the target range for the federal funds rate will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time. We are seeing the effects of our policy actions on demand in the most ultrasensitive sectors of the economy, particularly housing. It will take time however for the full effects of monetary restraint to be realized, especially on inflation.

In light of the cumulative tightening of monetary policy and the lags with which monetary policy affects economic activity and inflation, the committee decided to raise interest rates by 25 basis points today. Continuing the step down from last year's rapid pace of increases. Shifting to a slower pace will better allow the committee to assess the economy's progress toward our goals as we determine the extent of future increases that will be required to attain a sufficiently restrictive stance.

We will continue to make our decisions meeting by meeting taking into account the totality of incoming data and their implications for the outlook for economic activity and inflation. We have been taking forceful 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% goal and to keep longer term inflation expectations well anchored. Reducing inflation is likely to require a period of below trend growth and 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. The historical record cautions strongly against prematurely loosening policy. We will stay the course until 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.

Michelle:

Chris Rugaber.

Chris Rugaber:

Chris Rugaber, Associated Press. Thank you for doing this. As you know, financial conditions have loosened since the fall with bond yields falling, which is also brought down mortgage rates and the stock market posted a solid gain in January. Does that make your job of combating inflation harder and could you see lifting rates higher than you otherwise would to offset the increase, or to offset the easing of financial conditions?

Jerome Powell:

So it is important that overall financial conditions continue to reflect the policy or restraint that we're putting in place in order to bring inflation down to 2%. And of course, financial conditions have tightened very significantly over the past year. I would say that our focus is not on short-term moves, but on sustained changes to broader financial conditions. And it is our judgment that we're not yet at a sufficiently restrictive policy stance, which is why we say that we expect ongoing hikes will be appropriate.

Of course, many things affect financial conditions, not just our policy and we will take into account overall financial conditions along with many other factors as we set policy.

Michelle:

Rachel.

Rachel Siegel:

Hi, Chair Powell. Thank you for taking our questions. Rachel Siegel from the Washington Post. Over the last quarter, we've seen a deceleration in prices, in wages and a fall in consumer spending all while the unemployment rate has been able to stay at a historic low. Does this at all change your view of how much the unemployment rate would need to go up if at all to see inflation come down to the levels you're looking for?

Jerome Powell:

So I would say it is a good thing that the disinflation that we have seen so far has not come at the expense of a weaker labor market. But I would also say that, that disinflationary process that you now see underway is really at an early stage. What you see is really in the good sector. You see inflation now coming down because supply chains have been fixed. Demand is shifting back to services and shortages had been abated. In the housing services sector, we expect inflation to continue moving up for a while, but then to come down assuming that new lease continue to be lower.

So in those two sectors you've got a good story. The issue is that we have a large sector called service core non-housing services where we don't see disinflation yet. But I would say that so far what we see is progress, but without any weakening in labor market conditions.

Rachel Siegel:

Has your... Oh, I'm sorry.

Jerome Powell:

Go ahead.

Rachel Siegel:

Has your expectation for where the unemployment rate might go changed since December?

Jerome Powell:

No. We're going to write down new forecasts at the March meeting and we'll see you at that time. I will say that it is gratifying to see the disinflationary process now getting underway and we continue to get strong labor market data, but we'll update those forecasts in March.

Michelle:

Neil.

Neil Irwin:

Hi, Chair Powell. Neil Irwin with Axios. You and some of your colleagues have emphasized the possibility that job openings could come down and that would let some of the air out of the labor market without major job losses. We saw the opposite in the December jolts this morning. Job openings actually rising. That also is coincided with slow down in wage inflation. Do you believe that openings are important indicator to understand where the labor market is and where wage inflation might be heading?

Jerome Powell:

So you're right about the data, of course. What we did see, we've seen average hourly earnings and now the employment cost index abating a little bit, still off of their highs of six months ago and more, but still at levels that are fairly elevated. The job openings number in jolts has been quite volatile recently and I did see that it moved up back this morning. I do think that it's probably an important indicator. The ratio I guess is back up to 1.9 job openings to unemployed people, people who are looking for work. So it's an indicator but nonetheless, you're right, we do see wages moving down.

If you look across the rest of the labor market, you still see very high payroll job creation and quits are still at an elevated level. So by many indicators the job market is still very strong.

Michelle:

Colby and then Howard.

Colby Smith:

Thank you. Colby Smith with the Financial Times. Given the economic data since the December meeting, is the trajectory for the Fed funds rate in the most recent SEP still the best guidepost for the policy path forward or does ongoing now mean more than two rate rises now?

Jerome Powell:

So you're right. At the December meeting, we all wrote down our best estimates of what we thought the ultimate level would be and that's obviously back in December. And the median for that was between five and five and a quarter percent. At the March meeting, we're going to update those assessments. We did not update them today. We did, however, continue to say that we believe ongoing rate hikes will be appropriate to attain a sufficiently restrictive stance of policy to bring inflation back down to 2%.

We think we've covered a lot of ground and financial conditions have certainly tightened. I would say we still think there's work to do there. We haven't made a decision on exactly where that will be. I think we're going to be looking carefully at the incoming data between now and the March meeting and then the May meeting. I don't feel a lot of certainty about where that will be. It could certainly be higher than we're writing down right now. If we come to the view that we need to write down to move rates up beyond what we said in December, we would certainly do that. At the same time, if the data come in the other direction, then we'll make data dependent decisions at coming meetings of course.

Colby Smith:

Just as a quick followup, how are you viewing the balance of risk between those two options of the likelihood of maybe falling short of that or going beyond that level?

Jerome Powell:

I guess I would say it this way. I continue to think that it's very difficult to manage the risk of doing too little and finding out in six or 12 months that we actually were close, but didn't get the job done and inflation springs back and we have to go back in. And now you really do worry about expectations getting unanchored and that kind of thing. This is a very difficult risk to manage, whereas of course we have no incentive and no desire to overtighten, but if we feel like we've gone too far, we can certainly... And inflation is coming down faster than we expect, then we have tools that would work on that. So I do think that in this situation where we have still the highest inflation in 40 years, the job is not fully done.

As I started to mention earlier, we have a sector that represents 56% of the core inflation index where we don't see disinflation yet. So we don't see it. It's not happening yet. Inflation in the core services X housing is still running at 4% on a six and 12 month basis. So there's nothing happening there. In the other two sectors representing less than 50%, you actually I think now have a story that is credible that's coming together, although you don't actually see disinflation yet in housing services, but it's in the pipeline, right? So for the third sector, we don't see anything here. So I think it would be premature, it would be very premature to declare victory or to think that we've really got this.

We need to see, our goal, of course, is to bring inflation down and how do we get that done? There are many, many factors driving inflation in that sector and they should be coming into play to have the disinflationary process begin in that sector. But so far we don't see that and I think until we do, we see ourselves as having a lot of work left to do.

Michelle:

Howard?

Howard Schneider:

Hi. Howard Schneider with Reuters and thanks as usual. So I just wanted to connect a couple dots here. This statement made a number of changes that seem to be saying things are getting better. You're saying inflation has eased. That's new. You've taken out references to the war in Ukraine that's causing price increases. You've taken out references to the pandemic. You've eliminated all the reasons that you said prices were being driven higher. Yet that's not mapping to any change in how you describe policy. We still have ongoing increases to come. So I'm wondering why is that the case and does it have more to do with uncertainty around the outlook, or more to do with you not wanting to give a very overeager market a reason to get ahead of itself and overreact?

Jerome Powell:

So I guess I would say it this way. We can now say I think for the first time that the disinflationary process has started. We can see that and we see it really in goods prices so far. Goods prices is a big sector. This is what we've thought would happen since the very beginning and now here it is actually happening and for the reasons we thought... It's supply chains. It's shortages and it's demand revolving back towards services. So this is a good thing. This is a good thing. But that's around a quarter of the PCE price index, core PCE price index.

So the second sector is housing services and that's driven by very different things. As I mentioned with housing services, we expect and other forecasters expect that measured inflation will continue moving up for several months but will then come down assuming that new leases continue to be soft. And we do assume that.

So we think that that's sort of in the pipeline and we actually see disinflation in the goods sector and we see it in the pipeline for two sectors that amount to a little less than half. So this is good and that we note that when we say inflation is coming down. This is good. We expect to see that disinflation process will be seen, we hope soon in the core goods X housing. Sorry, the core services X housings sector that I talked about. We don't see it yet. It's seven or eight different kinds of services. Not all of them are the same and we have a sense of what's going on in each of those different subsections.

Probably the biggest part of it, probably 60% of that is research would be sensitive to slack in the economy and so the labor market will probably be important. Some of the other ones, the labor market it's not going to be important. Many other factors will drive it. In any case, we don't see disinflation in that sector yet. And I think we need to see that. It's the majority of the core PCE index, which is the thing

that we think is the best predictor of headline PCE, which is our mandate. So it's not that we're neither optimistic nor pessimistic, we're just telling you that we don't see inflation moving down yet in that large sector.

I think we will fairly soon, but we don't see it yet. Until we do, I think we see ourselves, we got to be honest with ourselves. We see ourselves as having perhaps more persistent. We'll see more persistent inflation in that sector which will take longer to get down and we're just going to... We have to complete the job. I mean, that's what we're here for.

Michelle:

And Nick.

Nick Timiraos:

Nick Timiraos, the Wall Street Journal. Chair Powell, you observed several years ago that we learned we can have a low unemployment rate without above target inflation and we have learned lately that inflation can come down from its uncomfortably high level despite a historically low unemployment rate. Given that and given how much you did over the last year, why do you think further rate increases are needed? Why not stop here and see what transpires in the coming months before raising rates again?

Jerome Powell:

We've raised rates four and a half percentage points and we're talking about a couple of more rate hikes to get to that level we think is appropriately restrictive. Why do we think that's probably necessary? We think because inflation is still running very hot. We're, of course, taking into account long and variable lag and we're thinking about that. The story we're telling about inflation to ourselves and the way we understand it is basically the three things that I've just gone through a couple times. Again, we don't see it affecting the services sector X housing yet, but I mean I think our assessment is that we're not very far from that level. We don't know that though. We don't know that. So I think we're living in a world of significant uncertainty.

I would look across the spectrum of rates and see that real rates are now positive by an appropriate set of measures are positive across the yield curve. I think policy is restrictive. We're trying to make a fine judgment about how much is restrictive enough. That's all. That's why we're slowing down to 25 basis points. We're going to be carefully watching the economy and watching inflation and watching the progress of the disinflationary process.

Nick Timiraos:

Did you or your colleagues discuss the conditions for a pause at this meeting this week?

Jerome Powell:

You'll see the minutes will come out in three weeks and we'll give you a lot of detail. We spent a lot of time talking about the path ahead and the state of the economy. I wouldn't want to start to drive describe all the details there, but that was the sense of the discussion was really talking quite a bit about the path forward.

Michelle:

Victoria.

Victoria Guida:

Hi, Chair Powell. I wanted to ask about the debt ceiling, given that we've now hit up against it. I was wondering if the US goes past the X date, will the Fed do whatever the treasury directs as it relates to making payments as the fiscal agent or will it do its own analysis of any legal constraints?

Jerome Powell:

So your question is, would we... Say your question again?

Victoria Guida:

Will the Fed do what Treasury directs as it relates to making payments or will it do its own analysis of any legal constraints?

Jerome Powell:

So you're really asking about... You're asking about prioritization in effect is what you're-

Victoria Guida:

Yes.

Jerome Powell:

So I feel like I have to say this. There's only one way forward here and that is for Congress to raise the debt ceilings so that the United States government can pay all of its obligations when due. And any deviations from that path would be highly risky and that no one should assume that the Fed can protect the economy from the consequences of failing to act in a timely manner. In terms of our relationship with the treasury, we are their fiscal agent and I'm just going to leave it at that.

Victoria Guida:

Are you actively doing any planning of what might happen in the event that would happen?

Jerome Powell:

I'm just going to leave it at that. This is a matter that's to be resolved between really... It's really Congress's job to raise the debt ceiling and I gather their discussions happening but they don't involve us. We're not involved in those discussions. So we're the fiscal agent.

Michelle:

Jeanna and then Steve.

Jeanna Smialek:

Hi. Jeanna Smialek from the New York Times, thanks for taking our questions. I wonder was there any discussion today of the possibility of pausing rate increases and then restarting them? Lorie Logan from the Federal Reserve Bank of Dallas seemed to suggest that that would be a possibility in a recent speech and I wonder if that view is broadly shared on the committee.

Jerome Powell:

So the committee obviously did not see this as a time to pause. We judged that the appropriate thing to do at this meeting was to raise the federal funds rate by 25 basis points and we said that we continue to anticipate that ongoing increases in the target range will be appropriate in order to attain that stance of sufficiently restrictive monetary policy that will bring inflation down to 2%.

So that's the judgment that we made. We're going to write down new forecasts in March and we'll certainly be looking at the incoming data as everyone else will.

Jeanna Smialek:

Sorry, I should have been clear. I mean would it be possible to take a meeting off for example and then resume? Could you rather than just doing at every meeting a move, go a little bit more slowly, take some gaps in between moves?

Jerome Powell:

This is not something that the committee is thinking about or exploring in any kind of detail. In principle though, what we used to do was go every other meeting, if you remember 25 basis points and that was considered a fast pace. So I think a lot of options are available. I mean, you saw what the Bank of Canada did and they left it that they're willing to raise rates after pausing, but this is not something that the federal open market committee is on the point of deciding right now.

Michelle:

Steve.

Steve Liesman:

Steve Liesman, CNBC, Mr. Chairman, the SEP has the PCE inflation rate in 2023 at 3.1%. Meanwhile the three-month annualized PCE is 2.1% and you've achieved this without going to your 5.1% funds rate, which is what you have penciled in for this year. And you've also achieved it without the one percentage point increase in the unemployment rate, which you have penciled in for this year. I'm wondering if you've considered the idea of whether or not your understanding of the inflation dynamic may be wrong and it's possible to achieve these things without raising rates that high and also without the sergeant unemployment.

Specifically, I wonder if you might comment on the speech given by vice chair, Lael Brainard who said to the extent that inputs other than wages may have been responsible in part for important price increases for some non-housing services, an unwinding of these factors. In other words, it may not be wages, the idea that it may not require unemployment rising to get this sector of inflation under control. Thanks.

Jerome Powell:

So a couple things. First on the forecast, you're right, if you take very short term three months say measures of core PCE inflation, they're quite low right now, but that's because that's driven by significantly negative readings from goods inflation. Most forecasters would think that the significantly negative readings will be transitory and that goods inflation will move up fairly soon back up to its longer run trend of something around zero, something like that.

So a lot of forecasts would call for core PCE to go back up to 4% by the middle of the year for example. So that's really where the sustainable level is, is more like at 4%. So that would suggest there's work left to do. Let's say inflation does come down much faster than we expect, which is possible. As I mentioned



obviously our policy is data dependent, we would take that into account. In terms of the core non-housings services, as I mentioned earlier, it's a very diverse sector. Six or seven sectors. And so sectors that represent 55 or 60% of that sector we think are sensitive to slack in the economy, sensitive to the labor market in a way.

But some of the other sectors are not. And for example, financial services is a big sector. That's really not driven by labor markets wages. So that's why I said there are a number of things that will affect... Take restaurants. So clearly labor is important for restaurants, but so are food prices and transportation services is going to be driven by fuel prices for example. So there are lots of things in that mix that will drive inflation.

I would say overall though, my own view would be that you're not going to have a sustainable return to 2% inflation in that sector without a better balance in the labor market. I don't know what that will require in terms of increased unemployment, your question. I do think there are a number of dimensions through which the labor market can soften and so far we've got... As I mentioned in goods, we have inflation moving down without the softening in the labor market.

I think most forecasters would say that unemployment will probably rise a bit from here, but I still think... I continue to think that there's a path to getting inflation back down to 2% without a really significant economic decline or a significant increase in unemployment. And that's because the setting we're in is quite different. The inflation that we originally got was very much a collision between very strong demand and hard supply constraints, not something that you really have seen in prior business cycles. And so now we see goods inflation coming down for the reasons we thought and we understand why housing inflation will come down and I think a story will emerge on the non-housing services sector soon enough. But I think there's ongoing disinflation and we don't yet see weakening in the labor market, so we'll have to see.

Speaker 11:

Can we get there with 5%?

Jerome Powell:

Certainly possible. Yeah. Absolutely, it's possible. It's a question no one really knows. I think it's because this is not like the other business cycles in so many ways. It may well be that it will take more slowing than we expect and I expect to get inflation down to 2%. That's not my base case. My base case is that the economy can return to 2% inflation without a really significant downturn or a really big increase in unemployment. I think that's a possible outcome. I think many, many forecasters would say it's not the most likely outcome, but I would say there's a chance of it.

Michelle:

Michael.

Michael McKee:

Michael McKee From Bloomberg TV and radio. I'd like to pick up on what you were just saying about a substantial downturn and ask with the full weight of your tightening not in place yet, and with the progress against inflation, there's still a lot of talk about very, very slow growth going forward in 2023. And the recession indicators are all suggesting that we are going to see recession this year. So I'm wondering if you've changed your view or you have a more nuanced view of what you think the danger to economic growth is going forward and whether you're very close to perhaps tipping it into the wrong place, which calls for more restraint on your part?

Jerome Powell:

So I do think most forecasts and my own assessment would be that growth will continue, positive growth will continue but at a subdued pace as it did last year. We had a GDP growth of 1% last year and also final sales growth which we think is a better indicator of about 1%. I think most forecasts and certainly my assessment would be that growth will continue at a fairly subdued level this year. There are other factors though that need to be considered. You will have seen that the global picture is improving a bit and that will matter for us potentially.

The labor market remains very, very strong and that's job creation. That's wages. As inflation does come down, sentiment will improve. State and local governments are really flush these days with money and many of them are considering tax cuts or even sending checks. So I think that's going to support... They're also spending a lot. There's a lot of spending coming in the construction pipeline, both private and public and so that's going to support economic activity. So I think there's a good chance that those factors will help support positive growth this year and that's my base case is that there will be positive growth this year.

Michelle:

Rich.

Rich Miller:

Thank you. Rich Miller from Bloomberg. First of all, how are you doing?

Jerome Powell:

Fine, thanks. Fine.

Rich Miller:

Good. Second off, I think earlier on the post conference you said you need to see substantially more evidence of inflation coming down. Can you give us some idea of what you're thinking of? You mentioned three months that we've seen three months in a row. Governor Waller suggested he might want to see six months. Is it just the inflation data or do you have to see the labor market coming back into better balance to have that substantially more evidence metric?

Jerome Powell:

I don't think there's going to be a light switch flipped or anything like that. I think it's just an accumulation of evidence. So of course we'll be looking. By the time of the March meeting we'll have two more employment reports, two more CPI reports and we'll be looking at those carefully as all of us will and we'll be asking ourselves what are they telling us? And soon after that, we'll have another ECI wage report, which as you know is a report that we like because it adjusts for composition and it's very complete.

And the one we got, I guess it was yesterday was constructive. It shows wages coming down, but still at a high level. They're still at a level that's well above where they were before the pandemic. So I don't want to put a number on it in terms of months, but as the accumulated evidence comes in, it's going to be reflected in our assessment of the outlook and that will be reflected in our policy over time.

But I will say though, it is our job to restore price stability and achieve 2% inflation for the benefit of the American public. Market participants have a very different job. And it's a fine job, it's a great job. I did that job for years in one form or another. But we have to deliver that. And so we are strongly resolved

that we will complete this task because we think it has benefits that will support economic activity and benefit the public for many, many years.

Michelle:

Edward.

Edward Lawrence:

Thank you, Michelle. Thank you Fed chairman for taking the questions. So you've talked about we had solid job growth. I'm Edward Lawrence from Fox Business, by the way. We had solid job growth, slight falling in the increase in consumer spending. It seems so far it's been relatively mild from the economy to go to from a 9.1% CPI inflation to 6.5% CPI inflation. Is the hard part yet to come to go from 6.5 to two?

Jerome Powell:

I don't think we know, honestly. So we of course expected goods inflation to start coming down by the end of 2021 and it didn't. It didn't come down all through '22. And now it's coming down and it's coming down pretty fast. So I would say this is not a standard business cycle where you can look at the last 10 times there was a global pandemic and we shut the economy down and Congress did what it did and we did what we did. It's unique.

So I think certainty is just not appropriate here. It's just harder to forecast inflation. It may come down faster, it may take longer to come down. And our job is to deliver inflation back to target and we will do that, but I think we're going to be cautious about declaring victory and sending signals that we think that the game is won because we've got a long way to go. It's the early stages of disinflation and it's most welcome to be able to say that we are now in disinflation, but that's great, but we just see that it has to spread through the economy and that it's going to take some time. That's all.

Edward Lawrence:

How long do you see then the federal funds rate remaining at this elevated level?

Jerome Powell:

Again, my forecast and that of my colleagues, as you will see from the SEP. I mean there are many different forecasts, but generally it's a forecast of slower growth, some softening in labor market conditions and inflation moving down steadily, but not quickly. And in that case, if the economy performs broadly in line with those expectations, it will not be appropriate to cut rates this year to loosen policy this year. Of course, other people have forecasts with inflation coming down much faster. That's a different thing if that happens, inflation comes down much faster. And it'll be incorporated into our thinking about policy.

Michelle:

Simon.

Simon Rabinovitch:

Thank you, Chair Powell. Simon Rabinovitch with The Economist. May I ask a further question about the language around ongoing increases. That of course implies at least two further rate rises. If you look at fed fund and futures pricing, the implication is that you'll raise rates one more time and then pause. Are

you concerned about that divergence or do you think if everything breaks right. Is that a plausible outcome?

Jerome Powell:

I'm not particularly concerned about the divergence, no, because it is largely due to the market's expectation that inflation will move down more quickly. I think that's the bigger part of that. So again, as I just mentioned, our forecast, the different participants have different forecasts, but generally those forecasts over before continued subdued growth, some softening in the labor market, but not a recession. Not a recession. We have inflation moving down into somewhere in the mid-threes or maybe lower than that this year. We'll update that in March, but that's what we thought in December.

Markets are past that. They show inflation coming down in some cases much quicker than that. So we'll just have to see. We have a different view and a different view, it's a different forecast really. And given our outlook, I don't see us cutting rates this year. If our outlook turns true, as I mentioned just now, if we do see inflation coming down much more quickly, that'll play into our policy saying, of course.

Michelle:

Scott.

Scott Horsley:

Hi, Chair Powell. Scott Horsley from NPR. One of the changes in the statement this month is that the committee is no longer listing public health as among the data points you'll consider in assessing conditions. What should we make of that? Does the Federal Reserve no longer see the pandemic as weighing on the economy?

Jerome Powell:

That's the general sense of it. I personally understand well that COVID is still out there, but that it's no longer playing an important role in our economy. We kept that statement in there for quite a while and I think we knew we would take it out at some point. There's never a perfect time, but we thought that people are handling it better in the economy and the society are handling it better now. It doesn't really need to be in the fed's monthly post-meeting statement as an ongoing economic risk as opposed to a health issue.

Michelle:

Nancy.

Nancy Marshall-Genzer:

Hi, Chair Powell. Nancy Marshall-Genzer with Marketplace. I wanted to go back to another thing that Fed Vice Chair Brainard said recently. She said she doesn't see signs of a wage price spiral and I'm wondering if you agree with that.

Jerome Powell:

I do. Yeah, I do. I don't see that yet, but the whole point is once you see it, you have a serious problem. That means that effectively in people's decision-making, inflation has become a really salient issue. And once that happens, that's what we can't let allow to happen. So that's why we worry that the longer we're at this and the longer people are talking about inflation all day long, every day, the more risk of

something like that. But no, there's not much... It's more of a risk. It always has been more of a risk than anything else. By the way, I think it's becoming less salient and we picked that up in conversations and I've seen some data too that show people are gradually... They're glad that inflation is coming down. People really don't like inflation, and as we see it coming down, that could also add a boost to economic activity.

You look at a sentiment surveys now and they're very, very low with three and a half percent unemployment and high wage increases nominally by historical standards. Why can that be? It has to be inflation. So I think once inflation is seen to be coming down in coming months even, you will also see a boost to sentiment, I hope

Nancy Marshall-Genzer:

So that's what you're looking at most closely is consumer expectations?

Jerome Powell:

That's at the very heart is consumers and businesses are... Essentially we believe that expectations of future inflation at a very important part of the process of creating inflation. That's a bedrock belief in one way or another, we think it's important and in this case, I would say the risk eight months ago or so, longer term inflation expectations had moved up. We moved quite vigorously last year. Expectations seem to be well anchored, including at the shorter end now. Not just the longer end.

I think that's very reassuring. I think the markets have decided and the public has decided that inflation is going to come back down to 2% and it's just a matter of us following through. That's measurably helpful to the process of getting inflation down. The fact that people now do generally believe that it will come down, that'll be part of the process of getting it down and it's a very positive thing.

Michelle:

Greg.

Greg Robb:

Thank you, Chair Powell. Greg Robb from MarketWatch. In the minutes of the December meeting, there was a couple sentences that struck people as important. When the committee said participants talked about this unwarranted easing of financial conditions was a risk and it would make your life harder to bring inflation down, I haven't heard you talk much about that today or in the statement. So I was wondering has that concern eased among members or is that still something you're concerned about? Thank you.

Jerome Powell:

I would put it this way. It's something that we monitor carefully. Financial conditions didn't really change much from the December meeting to now. They mostly went sideways, are up and down, but came out in roughly the same place. It's important that the markets do reflect the tightening that we're putting in place. As we've discussed a couple times here, there's a different difference in perspective by some market measures on how fast inflation will come down. We're just going to have to see. I mean, I'm not going to try to persuade people to have a different forecast, but our forecast is that it will take some time and some patience and that we'll need to keep rates higher for longer. But we'll see.

Michelle:

Go to Brendan for the last question.

Brendan Pedersen:

Hi, Chair Powell. Brendan Pedersen with Punchbowl News. I wanted to ask if the Fed takes into account at all the debt ceiling when it comes to quantitative tightening, given the fact that rapid or faster quantitative tightening could bring us closer faster to that drop-dead debt ceiling deadline. Could it play in effect as we get closer to that drop-dead deadline this summer?

Jerome Powell:

Look, it's very hard to think about all the different possible ramifications, and I think the answer is basically, I don't think there's likely to be any important interaction between the two because I believe Congress will wind up acting and as it will and must in the end to raise the debt ceiling in a way that doesn't risk the progress we're making against inflation and the economy and the financial sector. I believe that that will happen. I believe it will happen.

We of course will monitor money market conditions carefully as the process moves on. For example, the treasury general account will shrink down and then it will grow back up and we understand there'll be lots of flows between there and the overnight repo facility and reserves. We understand all that. We're watching it carefully. We'll just be monitoring it. Thank you very much.