Transcript of Chair Powell's Press Conference Opening Statement
February 1, 2023

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 percent goal. Over the past year, we have taken forceful actions to tighten the stance of monetary policy. We have 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 percent 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 U.S. economy slowed significantly last year, with real GDP rising at a below-trend pace of 1 percent. 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 vacancies 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 percent. Over the 12 months ending in December, total PCE prices rose 5.0 percent; excluding the volatile food and energy categories, core PCE prices rose 4.4 percent. 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 returning inflation to our 2 percent 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 4-1/2 to 4-3/4 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 4-1/2 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 percent over time.

We are seeing the effects of our policy actions on demand in the most interest-sensitive 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 percent 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. I look forward to your questions.