David:

Can I have your attention please? Can I have your attention? Okay, thank you. As I think everybody knows, our special guest is the chairman of the Federal Reserve Board, who has now completed five years as chairman as of two days ago, your fifth year, and now been on the Fed Board for almost 12 years. Jay, thank you very much for being here.

Why don't we start with an easy question? You made a speech last week commenting on the FOMC's decision to raise the fed discount rate by a small amount, relatively speaking, 25 basis points. Some people would say that was small. But at the time it wasn't clear that the jobs report would be as strong as it turned out to be subsequently. Had you known that the jobs report was going to be as strong, would you have done 25 basis points or something different?

Jerome Powell:

David, thank you for that question, and thank you for inviting me here today. It's great to be here. We don't get to play it that way, unfortunately. I'll take it this way. The message we were sending at the FOMC meeting last Wednesday was really that the disinflationary process, the process of getting inflation down, has begun. And it's begun in the goods sector, which is about a quarter of our economy. But it has a long way to go. These are the very early stages of disinflation. The services sector really, except for housing services, pardon me, is not really showing any disinflation yet.

Our message really was this process is likely to take quite a bit of time. It's not going to be, we don't think, smooth. It's probably going to be bumpy. So we think that we're going to need to do further rate increases as we said, and we think that we'll need to hold policy at a restrictive level for a period of time.

Then comes the labor market report for January. It's very strong. It's certainly stronger than anyone I know expected. We didn't expect it to be this strong, but I would say it kind of shows you why we think that this will be a process that takes a significant period of time.

The labor market is extraordinarily strong. By the way, it's good. It's a good thing that inflation has started to come down that has not happened at the cost of strong labor market. Of course since then, labor market, sorry, financial conditions have tightened significantly since then.

David:

Let me ask it another way. By the way, when the numbers coming out, the jobs numbers, 519,000 jobs, does anybody call you up in the government and give you a little heads up, this is going to happen, or they never do that?

Jerome Powell:

On some data. Sometimes we get data just the night before, and it's only me, only me, but not on all pieces of data. It's a very small amount of data, and we get it just the night before. For example, if we were going to get a big piece of data in the middle of an FOMC meeting, as often happens on the day of an FOMC meeting, it will help me to know it the night before.

David:

Okay. After your speech last week, the markets assume that therefore there would probably be another 25 basis point increase in your next FOMC meeting. Was that a bad assumption by the markets?

Jerome Powell:

Again, what we said at the meeting was that we believe that we anticipate is what we said, that ongoing rate increases will be appropriate. The reason is we're trying to achieve a stance of policy that is sufficiently restrictive to bring inflation down to 2% over time. We don't think we've achieved that yet. We said that, and now you see the labor market report. I think again, financial conditions are more well aligned with that than they were before.

David:

The assumption when you made your speech was that probably the Fed might consider decreasing rates by the end of this year. The markets no longer assume that. You think the markets are wrong?

Jerome Powell:

Let me say all of these numbers that we're throwing around here are conditional on incoming data and what happens. We never say this is what we think will happen. We make a tentative forecast and then we let the data come in.

For example, if the data were to continue to come in stronger than we expect and we were to conclude that we needed to raise rates more than is priced into the markets or than we wrote down at our last group of forecasts in December, then we would certainly do that. We would certainly raise rates more.

David:

Today, for people who aren't familiar with the FOMC, who is actually is on the FOMC?

Jerome Powell:

The US Defense Central Bank consists of a board of governors here in Washington. There are seven governors. Those governors are nominated by the president and confirmed by the Senate. We serve terms that are not synced up with the election cycle. We're independent.

There are also 12 reserve banks around the country which have a degree of independence. Each reserve bank is led by a president who works there full-time. All 12 of them sit on the FOMC. That's 19 people sit on the FOMC, so it's quite a large committee of which 12 vote in any given year. The reserve bank presidents vote on a rotating basis except New York, which votes every year.

David:

When you vote, do you vote at the beginning of an FOMC meeting and then just have discussions afterwards, or do you wait till the very end and then you vote?

Jerome Powell:

No, we vote at the end. The FOMC meeting process takes more than a full week. I'm talking to all of the participants all night, all the 18 other ones. Staff has sent around memos and there's something called the teal book, which is the staff's assessment of the economy and international economy and monetary policy and all that.

Then we have an extensive discussion on the morning of the first day about the economy. Everybody talks about that. On the second day, we talk about monetary policy, and then we vote on monetary policy around noon on the second day.

David:

Does the chairman of the Federal Reserve Board speak first and say, "Here's what I think," or does he wait until the end and say, "Well, thanks for what you think, but let me tell you what I think"? What do you do?

Jerome Powell:

Different chairs have done it different ways. I've tended to do what my immediate predecessor did, I think. Well, this is what I do. I speak last on the economic go around. Everyone else talks about what they think about the economy and in their district, for example, if they're reserve bank president. I listen to all that and then I give my comments at the end and I kind of sum up what people have said. And then I speak first on monetary policy.

David:

Okay, so you've said that inflation rate target is 2%, but why 2% and not 3%? 3% could be tolerable really. I mean, for most of organized history, 3% is considered okay. Why do you want 2%?

Jerome Powell:

2% is the global standard, and that is our objective, 2% piece as measured by the PCE index. That's not something we're looking at changing. That isn't going to change.

David:

That's not going to change.

Jerome Powell:

Not going to change, no.

David:

Okay, so you need to get to 2%, and your goal to get there is by what period of time would you like to get there?

Jerome Powell:

Well, we say that we're using our tools to get there over time. If you look at our forecasts, we expect 2023 to be a year of significant declines in inflation. It's actually our job to make sure that that's the case, but I would tell you that with inflation, headline PCE inflation is running about 5%. This is on a 12-month basis. Core is running in at 4.4. My guess is it will take certainly into not just this year, but next year to get down close to 2%.

David:

Okay, so 2% is firm. You're not going to get off that.

Jerome Powell:

Yes, yes.

David:

Okay. The theory of raising interest rates is that it will decrease economic activity and increase unemployment, but you've been increasing interest rates for a while and unemployment is now at a record low. So what's wrong with the theory? Why is unemployment not going higher?

Jerome Powell:

Well, the labor market is strong because the economy is strong. As I mentioned, it's a good thing that we've been able to see the beginnings of disinflation without seeing the labor market weaken. It's just that there's a lot of demand for workers. In fact, if you look at the supply of workers versus demand for workers, demand for US workers is now more than 5 million greater than the available supply. The available supply consists of people who were either working or actively looking for a job.

This was not the case before the pandemic. The pandemic really had a significant, left a lasting mark so far on labor supply in the United States, the labor force participation rate came down. And there now is a shortage of workers. It almost feels more structural than cyclical. So that's a significant issue.

David:

Now you've resisted, I think, saying what unemployment rate would be acceptable to you, I think, but is there an unemployment rate that you think would moderate inflation such that you would tolerate unemployment at 4%, 5%, 6%?

Jerome Powell:

I guess I think about it this way. We have two goals that Congress has assigned us, maximum employment and price stability. Price stability as we've agreed, is 2% inflation. Maximum employment means if you want a job you can get one. Right now the labor market is at least at maximum employment. Many would say that it is out of balance with more demand than there is supply.

What we're trying to do is get inflation down. We're not targeting a different unemployment rate, we're trying to use our tools to get inflation to come down over time.

David:

In hindsight, would you say that when COVID hit the economy and we injected $5 trillion of physical policy into the economy and the Fed did quantitative easing and other related things and kept interest rates very low, would you say in hindsight that was a mistake or it was the right policy at the time?

Jerome Powell:

I think you have to go back to the decisions that were made in real time. It was something nobody had ever seen. The global economy came to a virtual standstill. People were talking about depression, and we had no idea when we would get vaccines that worked. Congress took very strong measures and we took very strong measures. You see where the economy is. You've got a very, very strong labor market, but you have high inflation. As I mentioned, we're at the beginning of getting that down.

If you look around the world though, at other countries, they're also experiencing high inflation including countries that didn't do as much as we did either from a fiscal or monetary standpoint. That tells you though, that a big part of this inflation is actually related to the pandemic itself, the shutdown and then the reopening, that's a big part of it.

David:

Now, the quantitative easing program has increased the balance sheet, I guess, for the Fed. What is your balance sheet now?

Jerome Powell:

I think it's $8.4 trillion.

David:

You must sound like you know. 8.4 trillion.

Jerome Powell:

That was yesterday's number.

David:

Okay. All right. 8.4 trillion. What would you like it to get down to over the next year or two? Is there some lower number?

Jerome Powell:

We are in the process of shrinking the balance sheet actively, actually passively I should say. What happens is as treasury securities on our balance sheet mature up to a cap, a monthly cap, the balance sheet shrinks in that amount. Same thing with mortgage backed securities as they are prepaid. The balance sheet is shrinking.

In terms of the target level of it, we haven't put a specific dollar number on it. The idea is we are in a regime of ample reserves. Reserves are basically deposits at the reserve banks. And when we get close to that level where we feel that reserves are ample, kind of where we were before the pandemic, then we'll slow down and we'll sort of test where we are. But it'll be a couple of years we think till we get to that level.

David:

The Fed does not sell securities. It waits for them to mature and then you just cash them in, right? You're not in the market selling securities that are not yet mature. Is that correct?

Jerome Powell:

That is correct. It's also correct though that we've said we would consider sales of mortgage backed securities, but I will tell you that's not something that is on the list of active things being actively considered.

David:

There are some people that are worried about the federal debt limit and that we might not be able to extend it on time. We have $31.4 trillion of debt. Are you a little worried about the debt limit not getting extended?

Jerome Powell:

The debt limit is really something for the fiscal authorities to deal with. The Fed, our only role in this is that we're the fiscal agent of the Treasury Department. We're not a policymaker on that. I will just say this, this really can only end one way and that is with Congress raising the debt ceiling in a timely fashion so that the US can pay all of its bills when it has due. That's what has to happen. And if that doesn't happen, no one should think that the Fed has the ability to shield the financial markets or the economy from the consequences of moving too slow.

David:

So you don't have any program in place ready to go if in fact the debt limit isn't passed in time.

Jerome Powell:

This is something that Congress has to deal with.

David:

The so-called trillion dollar gold coin solution is not one you're in favor of, I guess.

Jerome Powell:

As I said, this ends in only one way, and that way is Congress voting to raise the debt ceiling so that the US can pay all of our bills when due.

David:

In terms of consultation, do you consult regularly with the treasury secretary or the head of the National Economic Council or the President of the United States? How do you relate to the administration?

Jerome Powell:

For a long, long time, 60 or 70 years there, I think there's been a weekly breakfast or lunch with the treasury secretary and the Fed chair. That's what I've had with treasury secretaries that I've had as Fed chair. I have regular, or call it irregular lunches with the head of the NEC. We also have regularly scheduled lunches with the Council of Economic Advisors. That's the institutional structure of our contacts with the administration.

David:

In the way the Fed works today, if you could reconstruct the operations of the Fed, would you change the legislation any way? Would you think the Fed operates in a way that's as efficient as you can realistically operate?

Jerome Powell:

We're not looking for any changes to the Federal Reserve Act. I mean, I think it does work. The structure that I discussed earlier where you've got the 12 reserve bank presidents coming in, what that assures really, it institutionalizes diversity of thought. We get different people coming in who've got different backgrounds, different careers, and they think different ways. I think that's enormously beneficial to our decision making process.

David:

There has been discussion recently about some Fed members, Fed Board presidents selling their securities, and maybe not doing everything they were supposed to do in terms of disclosing it. What have you done to fix that process?

Jerome Powell:

We've put a new system and a new set of rules in place, which I think are best in class for a public institution like the Fed. The innovations were that if someone wants to sell something that they own or buy something, they have to clear that in advance with staff at the Board of Governors and then you've got to wait 45 days for that to execute.

Also, you can't own individual stocks. You can only authorize these transactions or execute them during specific times. Of course, all of these are disclosed. If your idea is to trade things, buy and sell them because you think this stock is cheap and that kind of thing, that's just not something that will work.

David:

Oh, what is the salary of the chairman of the Federal Reserve Board?

Jerome Powell:

Around $190,000, I believe.

David:

Okay, so you live on $190,000. If you need to sell something, what do you do? You have to clear it for 45 days?

Jerome Powell:

I do. That's right. If we have family expenses, if we have them, that exceed my salary, then we have to sell an asset.

David:

You think that's a fair salary for the job?

Jerome Powell:

I do, yes.

David:

You do. Okay. Today, how do you coordinate with central banks, let's say in England or Japan or China? Do you have regular conversations with them about what they're doing?

Jerome Powell:

We do. I meet six times a year in Switzerland with the heads of many, many central banks, even the small and medium-sized ones in Basel, at the Bank for International Settlements. In addition, among the major central banks, I have regular dialogues going with most of them.

What we're talking though about is really what's happening in the economy and how are you thinking about policy and that kind of thing. It's very important that we keep those discussions going because particularly in a crisis, you're going to need to know each other and you're going to be able to trust each other.

David:

Do you think the US economy is pretty much in control of its own inflation rate? Are there events outside the United States like what China is doing or the Ukraine war that are affecting inflation and make you nervous about where inflation might be going?

Jerome Powell:

We have the tools, the Fed has the tools to achieve our 2% goal over time, but inflation in the United States is of course very closely related to things that happen here, including the balance between supply and demand. It's also affected by, for example, commodity prices that are really set on the global markets. Oil and main agricultural commodities are priced globally, so certainly it's an integrated global economy and global markets, and we are part of that.

David:

You get data from all the various government agencies, but do you ever use anecdotal things, like you go to the supermarket and you see prices are high and you say, "This price is high"? You ever get anecdotal things or people ever call you up or friends and say, "By the way, you should do this or that?" Do you ever get that kind of information, or do you only get it from the government reports?

Jerome Powell:

I mostly get data, but I will say I do believe that anecdotal information is very useful. One of the things the reserve banks are great at is all 12 of them have big operations where they talk to businesses and nonprofits, universities, every sector of the country and the economy. They bring that back to the FOMC meetings and they talk about what they're seeing, because staring at data is great, but you need to have a story. I think hearing the stories that people tell, it does help me to assess what's going on out there.

David:

As the chairman of the Federal Reserve is obviously an important job, how do you reduce the stress level you have? I mean, you can't be on watching economic numbers all the time, so what do you do to relieve the stress other than interviews like this?

Jerome Powell:

The usual things. I read pretty light fiction, detective and spy fiction. I exercise as much as I can. As you know, I like to ride my bike. I play the guitar.

David:

Is that safe?

Jerome Powell:

I play music.

David:

Wait a second. Is that safe riding a bike? Dangerous and-

Jerome Powell:

It's safe. Sorry, it's safe if you stay on the bike.

David:

You're good at that.

Jerome Powell:

That's what I try to do.

David:

Do you still play the guitar or you're still-

Jerome Powell:

I do, I do. Yeah.

David:

Your hair is awfully short for playing the guitar. Don't you need longer hair?

Jerome Powell:

Yes.

David:

Was your hair longer when you were younger?

Jerome Powell:

And grayer. It's too gray, too.

David:

Okay. Let me ask you about the issue of what it's like to be chairman of the Fed. You can't go have regular friendship dinners or meetings. People treat you much differently, I assume, than they used to. When you go to a restaurant, are people listening to what you're saying or something like that?

Jerome Powell:

I have always thought that my jokes were funny, David, but no. I've never been a public figure before this, and it's very different, but it's a great honor to serve. But yeah, when you go in public places, you have to be very careful about what you do.

David:

Does the President of the United States ever call you with any advice? Did President Trump ever call you or President Biden ever call you?

Jerome Powell:

Well, I think it's a matter of public record that President Trump did use to call me from time to time.

David:

Okay. What did he call you?

Jerome Powell:

No, I haven't gotten any calls from President Biden.

David:

The biggest challenge you have now is being able to keep a straight face, not telling people what you're going to do in the future and look at the data and then come up with the right solution, right? That's mostly it?

Jerome Powell:

I think the biggest challenge we face at the Fed is completing the process of getting inflation down to 2%. What I want to point out is that we're seeing disinflation in the goods sector. We expect to see it in the housing services sector. These are the three parts of the core PCE inflation index that we look at.

There's 56% of the economy, which is the rest of the services sector. It's the biggest part obviously, and we're not seeing disinflation there yet. That's going to take some time. We need to be patient, and we think we're going to need to keep rates at a restrictive level for a period of time before that comes down.

David:

When you made your speech the other day, when you talked about the Fed discount rate, you used the word disinflation 11 times, not that I'm counting, but 11 times. You were saying that disinflation is beginning to appear. Would you use that word 11 times again today after the jobs report, or you would be less inclined to use that word so much?

Jerome Powell:

I would certainly use the word disinflation, yes, which means declining inflation. I would call it declining inflation too.

David:

And today, what about the total debt of the United States, which produces some inflation with 31.4, leaving aside the debt limit? Are you worried about the total indebtedness of the United States producing inflation or you don't think that's a big problem?

Jerome Powell:

Yeah, it's not the level of debt. The thing I'd say about the level of debt is really first of all, it's not the Fed's job, but I would say that we've on an unsustainable fiscal path at the federal government level. That has been the case for some time, and it's something we will have to deal with. Better to deal with it sooner rather than later.

David:

Now, many of your predecessors were economists. You were trained as a lawyer. They spoke in what I call Fed speak, which is to say incomprehensible kind of economic language, which was done intentionally I think sometimes they would say. You tend to speak in English. Has that been a plus you'd say when you're dealing with members of Congress, they can understand what you're saying?

Jerome Powell:

I'd like to think so. I've made it a real priority to engage a lot with Congress in our system of government, unlike the parliamentary system. Our accountability is to the legislature, it's to Senate and the House, and particularly the two oversight committees, Senate Banking and House Financial Services. I think it's very important that we respect that and explain what we're doing and listen to their concerns and share with them how we're thinking about things. And I think they appreciate that.

But that is we have this precious independence. We can't be removed from office. We serve these long terms. The other side of that has to be accountability. The way for us to get accountability is to be as transparent as possible and try to reach the people of the United States through their elected representatives. This is a very high priority, and we're going to keep doing it.

David:

When you testify in front of Congress, how much time does it take to prepare for that? Is that a one-hour preparation session or is it a one-day session or a one-week session?

Jerome Powell:

These are supposed to be monetary policy hearings under the Humphrey-Hawkins Act, and they're actually on any political issue. It's quite extensive. You have to prepare for everything that the Fed is involved in and many things that the Fed is not involved in. So it's a lot of preparation.

David:

When you get questions from some members, you have to bite your tongue and say, "Why are you asking a question like that?" Or you never have that problem?

Jerome Powell:

That never happens.

David:

Never happens. Okay. Okay. All right. Well, good. Today, as you look at the country's economy, what is the biggest worry you have about inflation? Is it just that the physical policy is not completely under control, we have exogenous events outside? What is your biggest worry about inflation today?

Jerome Powell:

Well, it's kind of what I was saying earlier, which is we're just at the beginning of this process, goods inflation. We need that process to continue. The whole thing began, the whole inflation began with people not being able to buy services, instead buying goods, and then global supply chains collapsing. And so you couldn't get goods and prices of goods went up. That's where it started.

But that is now starting to get better as supply chains are improving and as people are rotating their purchases back to services. You move on though. We're not seeing it yet in housing services, which is either rent or the ownership, the imputed costs of house ownership. But we expect to see that. So we need that to happen. That's another big part of the economy. It's got to come. It should come in the second half of this year.

Then the biggest piece of it, and what I worry about the most, is when are we going to see disinflation or declining inflation in core services ex housing. That's what I worry about. The last thing I worry about is just another exogenous event. It's a risky world out there with the war in Ukraine and the reopening of China. Those are things that can affect our economy and the path of inflation.

David:

Right. The balloon was not your worry though. You don't care about the balloon.

Jerome Powell:

It's not within our ambit.

David:

Okay. Today the Federal Reserve gets data from all over the country. Are you convinced that you get the best data, you have the best data collection methods, or do you think it's not as modern as what Wall Street gets?

Jerome Powell:

Most of the data that we get are just the same. We don't collect the data on unemployment or inflation or most things. Most of that is just government data. And a lot of that's, for example, very high quality. The labor market data is very high quality.

What we get, which I think is better and different from what everybody else gets, is what I mentioned earlier. That is the Reserve Banks putting together the the beige, no, not the beige book.

David:

The beige book.

Jerome Powell:

Yeah, the beige book, putting together the beige book, and also coming in and sharing the anecdotes, what they're hearing, what's happening. Each district is different. You have agricultural districts and energy districts. I think our anecdotal but just the hall of information we get through that network, I don't think anybody else has that.

David:

Do you consult regularly with some of your predecessors? I mean, obviously one is Secretary of the Treasury now, but Ben Bernanke, for example?

Jerome Powell:

I do. I talk to former Chairman Bernanke, I talk to Secretary Yellen. I still talk to Alan Greenspan now and again.

David:

When you're dealing with your colleagues on the Fed Board and you disagree with them, do you say, "Look, I'm the chairman of the Fed. I am the person who has to make the final decision and this is what we should do," or you don't quite do it that way?

Jerome Powell:

It's a process of reaching agreement. I hear what people have to say. I tell them what I think. And then I'm the one who has to bring a proposal in front of the full committee, not just the board, in front of the full committee on monetary policy. And it works. We have to reach an agreement and we get to a place.

I think you can tell today we are blessed with a diversity of perspectives on the FOMC with 19 people. Of course we are. But you have one thing that unites all of us and that is a very strong commitment to getting inflation down.

David:

In some parts of Washington, people say, "If you give me this, I'll give you that. I'll trade this for that." You never do that at the Fed when you're coming up with a decision? I'll do what you want if you do what I want. That doesn't happen ever?

Jerome Powell:

Not really, no. You mean a better office or something like that?

David:

Well, I'll say what you want me to say if you say what I want you to say or something. That never happens, right?

Jerome Powell:

No, no, it doesn't happen.

David:

When you want to talk to members of the board, of the Federal Reserve Board, do you go to their office or do they come to your office?

Jerome Powell:

I like to do both. I mean, I really don't like to sit in my office all day and just have people come to see me. I like to go barge in on people. I think it's much better to get up and walk around and see people.

David:

The Fed has been pretty good at avoiding leaks of its decisions. How do you do that? Because most people in Washington are not so good at that. How do you avoid leaks? [inaudible 00:29:16].

Jerome Powell:

We've got very strict rules around confidentiality, particularly around the written materials that we have. We publish these things internally for the FOMC meeting, the memos and the teal book and all that.

But the other thing to remember though is we're not trying to hide our decisions from the public. We actually, in modern monetary policy, we want the public to understand how we think, how we're thinking. And if markets really understand how you're thinking and a new piece of data comes in, the markets will go, "Well, they're going to do this." It sort of happens organically.

That happened all last year. As we were talking about raising rates, the market priced in rate increases long before we actually enacted them. We want to be transparent. We're not looking to surprise markets with these decisions.

David:

But from the time that you make your decision on the FOMC, whatever time it is during the day, your press conference at two o'clock or something like that?

Jerome Powell:

2:30.

David:

2:30. So your decision is made by two o'clock or whenever it is or something like that. You got a half hour, but you have to avoid leaks during that half hour because that's very market sensitive information. How do you make sure nobody is calling their spouse and saying, "Guess what we're going to do?"

Jerome Powell:

Well, people take this very seriously. None of that happens. I mean, you're taking your professional life in your hands if you do something like that. I think people have a sense of self-preservation. People are very careful about this information. There is a period of a couple of hours after the meeting and until we announced the decision. Actually, we announce the decision at 2:00. The press conference is at 2:30.

It's a fairly small group of senior staff and policy makers that kind of know what happened and what we're going to say. I just think everybody understands that you've just got to be really careful with that.

David:

To go back to jobs discussion, if next month you had another 519,000 jobs created, net jobs, would that be good or bad from your point of view? We got a lot of people working but maybe producing more inflation.

Jerome Powell:

We don't have the luxury of thinking about good or bad, it just is what it is. But I would say again, most analysts, most economists would say that to get inflation down from high levels that we've had, if you look at history, there is some softening in labor market conditions that goes along with that. That is still very possible and indeed likely here, some softening in labor market conditions.

However, this cycle is different from other cycles because of where it came from. It's just confounded all sorts of attempts to predict what it would do. It is good that we have seen a very strong labor market, but at the same time we're seeing wages moderating. Wage increases are still very high, but wage increases have come down to a level that is closer to what would be sustainable, still well above what would be sustainable with 2% inflation.

Same thing with inflation. Inflation is starting to come down and the labor market hasn't softened. We do expect that it will soften, but it will do what it will do. Our job is to get inflation down to 2% and preserve maximum employment.

David:

When the FOMC meets as it does regularly, eight times a year?

Jerome Powell:

Yes.

David:

Eight times. You pretty much know how the decision is going to come out before you actually get together because you've been talking to each other, or does the meeting of the FOMC change minds in ways that you might not have expected before the meeting started?

Jerome Powell:

Well, it depends on the meeting. I talk to each of the 18 other participants at least once, and we go through everything. What's your analysis of the economy? How are you thinking about monetary policy? How are you thinking about the path forward? And all of that.

I will say some of the time you get into a discussion at the meeting which suggests that maybe you should communicate differently, and then we'll think about that. We might actually take a break in the middle of the meeting and then go off with a smaller group and think about that and come back and make changes. Sometimes though, everything plays out as expected.

David:

When you're having these FOMC meetings, I assume somebody sweeps the room to make sure there's no bugs and anything?

Jerome Powell:

Yes, all that.

David:

No leaks?

Jerome Powell:

No.

David:

Okay. Today, as you look forward, as we are going forward for the next remainder of this year, your basic view would be, you'd be happy if the inflation rate were to get down by the end of the year or two. 2% may be unrealistic, but your core inflation now or overall inflation you think is about 4%, 4.5%, something like that? Or what would you say it is?

Jerome Powell:

It's in that range. There are different measures. Yes, we expect significant progress on inflation this year. Again, it's our job to produce it. I want to say again, we throw these numbers around, but the reality is we're going to react to the data. So if we continue to get, for example, strong labor market reports or higher inflation reports, it may well be the case that we have to do more and raise hikes more than it's priced in.

David:

If I wanted to go get a mortgage on a house I was going to buy, for example, you would say I'm not going to be any better off waiting till next year than now because rates aren't going to come down that much at the beginning of next year, so I might as well get the house now? Mortgage [inaudible 00:34:33].

Jerome Powell:

Surprisingly enough, I get a lot of requests for advice on those kind of things.

David:

And you don't have any?

Jerome Powell:

But I really can't. I really can't respond.

David:

Okay. On the whole, to summarize where you are, you're basically saying that the jobs data that came out was a little bit surprising, but in the end you're taking it into account and you're pretty comfortable with the guidance you gave last time and you're not prepared to give anything that's completely different guidance than you gave last week?

Jerome Powell:

Well, I mean, this is a world in which we've had the... sorry, the labor market report. I think it underscores the message that I was sending at the press conference and in the meeting that we have a significant road ahead to get inflation down to 2%. I think there's been an expectation that it'll go away quickly and painlessly. I don't think that's at all guaranteed. That's not the base case. The base case for me is that it will take some time and we'll have to do more rate increases and then we'll have to look around and see whether we've done enough.

David:

Okay. And 2% is the rate we had for the last 25 years before inflation came along. But prior to that, for most of US history, we were higher than 2%. Is it that 2% is we're now so used to 2% after 25 years of it that you think that's the appropriate level?

Jerome Powell:

We went through this long period where inflation was really anchored around 2%, and we think and economists think that that's because people start to expect 2% inflation. Inflation, in a way, if everyone expects that prices are going to go up, prices and wages are going to go up 2% per year plus productivity in the case of wages, then it will. That's what will happen.

Having that price stability, real price stability for an extended period of time is just enormously beneficial to the public because you can then on the back of that, you can build a very strong labor market as we had. We had a labor market with really 3.5% Unemployment in 2018 and '19, and we had inflation running just barely getting to 2%, wages moving up the most for people at the lower end of the spectrum. We all want to get back to that place, but the bedrock of the whole thing is to get inflation under control.

David:

The unemployment rate hasn't come down or going up as much as people thought. In part, some people say because we don't have as many immigrants coming in the country, illegal immigrants coming in, taking some of the jobs that otherwise would take. Do you think immigration is an issue in terms of giving us more labor workers, or do you think that's not a factor?

Jerome Powell:

Just as a matter of arithmetic, it was a factor because there was very little migration across borders during the pandemic, and that was part of what was happening, particularly in certain sectors like the agricultural sector and food service and things like that where there just weren't the people.

However, just very recently here, the immigration data have turned up again. I think that may be part of why people are feeling somewhat less pressure in the labor market to find workers.

This is an issue not for the Fed. Immigration is obviously a political issue. We do not seek to be a player on this, but it's just a fact though that right now the United States has fewer available workers than it has jobs plus job openings.

David:

When you increase interest rates, the traditional effect is to increase the value of the dollar versus other currencies. Do you have any concern about the value of the dollar going up too much, or that's not something you comment on?

Jerome Powell:

Actually, the responsibility for the exchange rate is really rests with the Treasury Department and the administration, not with us. Of course, that's another financial variable that goes into every economic model, but we don't look at it as something that we're working on.

David:

All right. Well, I think I haven't been able to get you to say anything you didn't want to say. I would say, Jay, I've known you a long time. I think you've done a great job in a difficult situation. I appreciate your service to the country at $180,000 a year or whatever the salary is, something like that. Thanks very much for being here, and thank you for your service.

Jerome Powell:

Thank you, David. Great to see you. Thank you.