Jerome Powell:

Good afternoon. Before discussing today's meeting, let me comment briefly on recent developments in the banking sector. Conditions in that sector have broadly improved since early March, and the US banking system is sound and resilient. We will continue to monitor conditions in the sector. We're committed to learning the right lessons from this episode and will work to prevent events like these from happening again. As a first step in that process. Last week we released Vice-Chair for supervision, Barr's review of the Federal Reserve's supervision and Regulation of Silicon Valley Bank. The review's findings underscore the need to address our rules and supervisory practices to make for a stronger and more resilient banking system, and I'm confident that we will do so. From the perspective of monetary policy.

Our focus remains squarely on our dual mandate to promote maximum employment and stable prices for the American people. My colleagues and I understand the hardship that high inflation is causing and we remain strongly committed to bringing inflation back down to our 2% goal. Price stability is the responsibility of the Federal Reserve. 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 a quarter percentage point. Since early last year, we've raised interest rates by a total of five percentage points in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time. We are also continuing to reduce our securities holdings. Looking ahead, we'll take a data dependent approach in determining the extent to which additional policy affirming may be appropriate. 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 0.9%. The pace of economic growth in the first quarter of this year continued to be modest at 1.1% despite a pickup in consumer spending. Activity in the housing sector remains weak, largely reflecting higher mortgage rates. Higher interest rates and slower output growth also appear to be weighing on business fixed investment. The Labor Market remains very tight over the first three months of the year. Job gains averaged 345,000 jobs per month. The unemployment rate remained very low in March at 3.5%. Even so, there are some signs that supply and demand in the Labor Market are coming back into better balance.

The labor force participation rate has moved up in recent months, particularly for individuals aged 25 to 54 years. Nominal wage growth has shown some signs of easing and job vacancies have declined so far this year. But overall, labor demand still substantially exceeds the supply of available workers. Inflation remains well above our longer run goal of 2%. Over the 12 months ending in March total PCE prices arose 4.2%, excluding the Volvo food and energy categories. Core PCE prices rose 4.6%. Inflation has moderated somewhat since the middle of last year.

Nonetheless, inflation pressures continue to run high and the process of getting inflation back down to 2% has a long way to go. 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. 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% objective. At today's meeting, the committee raised

the target range for the Federal funds rate by a quarter percentage point, bringing the target range to five and a quarter percent. And we're continuing the process of significantly reducing our securities holdings. With today's action we have raised interest rates by five percentage points in a little more than a year. We are seeing the effects of our policy tightening on demand in the most interest rate sensitive sectors of the economy, particularly housing and investment.

It will take time however, for the full effects of monetary restraint to be realized, especially on inflation. In addition, the economy is likely to face further headwinds from tighter credit conditions. Credit conditions had already been tightening over the past year or so in response to our policy actions and a softer economic outlook. But the strains that emerged in the banking sector in early March appear to be resulting in even tighter credit conditions for households and businesses. In turn, these tighter credit conditions are likely to weigh on economic activity, hiring and inflation. The extent of these effects remains uncertain.

In light of these uncertain headwinds along with monetary policy restraint we've put in place, our future policy actions will depend on how events unfold. In determining the extent to which additional policy affirming may be appropriate to return inflation to 2% over time. The committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation. And economic and financial developments. We will make that determination meeting by meeting based on the totality of incoming data and their implications for the outlook for economic activity and inflation.

And we are prepared to do more if greater monetary policy restraint is warranted. We remain committed to bringing inflation back down to our 2% goal and to keep our 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. 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.

Speaker 2:

Thanks, Jeanna.

Jeanna Smialek:

Hi, Jeanna Smialek, New York Times. Thanks for taking our questions. I wonder if you could tell us whether we should read the statement today as a suggestion that the committee is prepared to pause interest rate increases in June. And I also wonder if the Fed staff has in any way revised their forecast for a mild recession from the March minutes. And if so, what a recession like what they're envisioning would look and feel like when it comes to, for example, the unemployment rate?

Jerome Powell:

So taking your question, of course, today our decision was to raise the Federal funds rate by 25 basis points. A decision on a pause was not made today. You will have noticed that in the statement from March we had a sentence that said, the committee anticipates that some additional policy firming may be appropriate. That sentences is not in the statement anymore. We took that out and instead we're saying that, in determining the extent to which additional policy firming may be appropriate to return inflation at 2% over time the committee will take into account certain factors. So that's a meaningful

change that we're no longer saying that we anticipate. And so we'll be driven by incoming data, meeting by meeting, and we'll approach that question at the June meeting.

Speaker 2:

[inaudible 00:08:43] session.

Jerome Powell:

So the staff's forecast is... So let me start by saying that that's not my own most likely case, which is really that the economy will continue to grow at a modest rate this year. And I think that's so... Different people on the committee have different forecasts. That's my own assessment of the most likely path. Staff produces its own forecast and its independent of the forecasts of the participants, which include the governors and the reserve bank presidents of course. And we think this is a healthy thing that the staff is writing down what they really think. They're not especially influenced by what the governors think and vice versa. The governors are not taking what the staff says and just writing that down. So it's actually good that the staff and individual participants can have different perspectives. So broadly, the forecast was for a mild recession, and by that I would characterize it as one in which the rise in unemployment is smaller than has been typical in modern era recessions. I wouldn't want to characterize the staff's forecast for this meeting. We'll leave that to the minutes, but broadly similar to that.

Speaker 2:

Rachel.

Rachel Siegel:

Thank you Chair Powell. Siegel from the Washington Post. Thanks for taking our questions. I'm wondering if you can talk about the account of possible effects of a debt limit standoff. You've said repeatedly that the ceiling must be raised, but do you see any economics effects of even getting close to a default? And what type of situation would that look like?

Jerome Powell:

So I wouldn't want to speculate specifically, but I will say this, these are fiscal policy matters for starters, and therefore Congress and the administration for the elected parts of the government to deal with. And they're really consigned to them. From our standpoint I would just say this, it's essential that the debt ceiling be raised in a timely way so that the US government can pay all of its bills when they're due. A failure to do that would be unprecedented. We'd be an uncharted territory and the consequences to the US economy would be highly uncertain and could be quite averse.

So I'll just leave it there. We don't give advice to either side. We just would point out that it's very important that this be done. And the other point I'll make about that though is that no one should assume that the Fed can protect the economy from the potential short and long term effects of a failure to pay our bills on time. It would be so uncertain, that it's just as important that we never get to a place where we're actually talking about or even having a situation where the US government's not paying its bills.

Rachel Siegel:

And just to follow up. Was discussion around the uncertainty of a possible standoff, did that affect today's monetary policy decision at all?

Jerome Powell:

I wouldn't say that it did. It was, of course it's something that came up. We talk a lot about risks to the outlook and that came up. A number of people did raise that as a risk to the outlook. I wouldn't say that it was important in today's monetary policy decision yet.

Speaker 2:

Steve.

Steve Leman:

Jeremy can... Oh, thank you. Yeah, Mike.

Steve Liesman, CNBC. Can you tell us what the Federal Reserve Board did in the wake of that February presentation where you were informed that Silicon Valley Bank and other banks were experiencing interest rate risks? And can you tell me what supervisory actions you've done in the wake of the recent bank failures to make sure that banks are currently appropriately managing interest rate risk? And kind of part three, but it's all the same question here. Do you still think this separation principle that monetary policy and supervision can be handled with different tools? Thank you.

Jerome Powell:

Sure. So the February 14th presentation, I didn't remember it very well, but now of course I've gone back and looked at it very carefully. I did remember it and what it was was a general presentation. It was an informational briefing of the whole board, the entire board. I think all members were there and it was about interest rate risk in the banks and lots of data. And there was one page on Silicon Valley Bank which talked about the amount of losses they... Or mark-to-market losses they had in their portfolio. There was nothing in it about, that I recall anyway, about the risk of a bank run. So I think the takeaway was they were going away to do an assessment, a horizontal assessment of banks. It wasn't presented as an urgent or alarming situation. It was presented as an informational, non-decisional kind of a thing.

And I thought it was a good presentation and as I said, did remember it in terms of what we're doing. Of course, I think banks themselves are... Many, many banks are now attending to liquidity and taking opportunity now really since the events of early March to build liquidity. And you asked about the separation principle. Like so many things it's very useful, but ultimately it has its limits. I mean, I think in this particular case we have found that the monetary policy tools and the financial stability tools are not in conflict. They're working well together. We've used our financial stability tools to support banks through our lending facilities. And at the same time we've been able to use our monetary policy tools to foster maximum employment and price stability.

Steve Leman:

Mr. Chairman, I'm sorry [inaudible 00:14:29]

I don't mean to be argumentative, but the staff report said SVB has significant interest rate risk. It said interest rate risk measurements failed at SVB and it said banks with large unrealized losses face significant safety and soundness risk. Why was that not alarming?

Jerome Powell:

Well, I mean I didn't say it wasn't alarming it. They're pointing out something that they're working on and that they're on the case. That I'm not sure whether they mentioned... I think they did actually. They mentioned that they had taken regulatory action matter or supervisory action in the form of matters requiring attention. So I think that was also in the presentation. I think it was to say, "Yes, this is a bank and there are many other banks that are experiencing these things and we're on the case."

Steve Leman:

Thank you.

Speaker 2:

Go to Victoria.

Victoria Guida:

Hi Chair Powell. I wanted to ask you, obviously with the recent bank turmoil, we've seen multiple banks by other banks. And I was just curious whether you think that further consolidation in the banking sector would increase or decrease financial stability and whether you have any concerns about the biggest bank in the US getting even larger?

Jerome Powell:

So we certainly don't, and I don't have an agenda to further consolidate banks. Consolidation has been a factor in the US banking industry really since interstate banking and before that even, it goes back more than 30 years. When I was in the government a while back, I think there were 14,000 banks. Now there are 4,000 and change. So that's going on. I personally have long felt that having small, medium and large size banks is a great part of our banking system.

The community banks serve particular customers very well. Regional banks serve very important purposes and the various kinds of G-SIBs, do as well. So I think it's healthy to have a range of different kinds of banks doing different things. I think that's a positive thing. Is it a financial... So I would just say in terms of JPMorgan buying First Republic, the FDIC really runs the process of closing and selling a closed bank completely. That is their role. So I really don't have a comment on that process. As you know there's an exception to the deposit cap for a failing bank. So it was legitimate and I think that the FDIC, I believe is bound by law to take the bid that is the least cost bid. So I would assume that's what they did.

Victoria Guida:

But do you have any concerns about the fact that they're getting larger in general?

Jerome Powell:

So I think it's probably a good policy that we don't want the largest banks doing big acquisitions. That is the policy. But this is an exception for a failing bank and I think it's actually a good outcome for the banking system. It also would've been a good outcome for the banking system, had one of the regional banks bought this company and that could have been the outcome. But ultimately we have to follow the law in our agencies and the law as it goes to the lease cost bid.

Speaker 2:

Let's go to Colby.

Colby Smith:

Thank you Colby Smith, with the Financial Times. At the March meeting, you mentioned that tightening of credit conditions from the recent bank stress could be equal to one or more rate increases. So given development since then, how has your estimate changed?

Jerome Powell:

Yeah, I think I followed that up by saying it's quite impossible to have a precise estimate of the words to that effect. But in principle, that's the idea. We've been raising interest rates and that raises the price of credit and that in a sense restricts credit in the economy working through the price mechanism. And when banks raise their credit standards, that can also make credit tighter in a kind of broadly similar way. It isn't possible to make a kind of clean translation between one and the other, although firms are trying that and we're trying it, but ultimately we have to be honest and humble about our ability to make a precise assessment.

So it does complicate the task of achieving a sufficiently restrictive stance. But I think conceptually though, we think that interest rates, in principle, we won't have to raise rates quite as high as we would have had this not happened. The extent of that is so hard to predict because we don't know how persistent these effects will be. We don't know how large they'll be and how long they'll take to be transmitted, but that's what we'll be watching carefully to find out.

Colby Smith:

Just to quickly follow up. What does it suggest about the scope for the committee to pause rate increases perhaps as early as next month? Even if the data remains strong, then if it's having some kind of substitute effect.

Jerome Powell:

This is just something that we have to factor in as we want to find ourselves. So I guess I would say it this way, the assessment of the extent to which additional policy firming may be appropriate is going to be an ongoing one. Meeting by meeting and we're going to be looking at the factors that I mentioned that are listed in the statement, the obvious factors. That's the way we're going to be thinking about it. And that's really all we can do. As I say, it does complicate... We have a broad understanding of monetary policy. Credit tightening is a different thing. There's a lot of literature on that, but translating it into rate Axis is uncertain, let's say it adds even further uncertainty. Nonetheless, we'll be able to see what's happening with credit conditions, what's happening with lending. There's a lot of data on that and we'll factor that into our decision making.

Speaker 2:

Howard.

Howard Schneider:

Howard Schneider with Reuters. Thank you. So noting that the statement dropped the reference to a sufficiently restrictive. I was wondering, given your baseline outlook, whether you feel this current rate of five to five and a quarter percent is in fact sufficiently restrictive?

Jerome Powell:

So that's going to be an ongoing assessment. We're going to need data to accumulate on that. Not an assessment that we've made. That would mean we think we've reached that point and I just think it's not possible to say that with confidence now. But nonetheless, you will know that the summary of economic projections from the March meeting. Showed that at that point in time that the median participant thought that this was the appropriate level of the ultimate high level of rates. We don't know that we'll revisit that at the June meeting. And we're just going to have to... Before we really declare that, I think we're going to have to see data accumulating and make that, as I mentioned, it's an ongoing assessment.

Howard Schneider:

A follow-up on credit if I could. Could you give us a sense of what the SLEUTH survey indicated? It was already, I think 40, 45% of banks were tightening credit as of the last survey. What did this one show and how did that weigh into two year deliberations?

Jerome Powell:

So we're going to release the results of the SLEUTHs on May 8th, in line with our usual timeframe. And I would just say that the SLEUTHs is broadly consistent when you see it with how we and others have been thinking about the situation and what we're seeing from other sources. You will have seen the Beige Book and listened to the various earnings calls that indicate that mid-size banks have, some of them have been tightening their lending standards. Banking data will show that lending has continued to grow, but the pace has been slowing really since the second half of last year.

Speaker 2:

Let's go to Nick.

Nick Timiraos:

I'm Nick Timiraos, so the Wall Street Journal. Chair Powell, the argument around the end of last year and the beginning of this year to slow down the pace of increases was to give yourself time to study the effects of those moves. After the bank failures in March as you've discussed, the Fed staff projected a recession starting later this year. So my question is why it was necessary to raise interest rates today? Or put differently if the whole point of slowing down the pace was to see the effects of your moves and now you've for the last two meetings, been seeing the effects of those moves. Why did the committee feel it was necessary to keep moving?

Jerome Powell:

The reason is that we, again, with our monetary policy, we're trying to reach and then stay at for an extended period, a level of a policy stance that's sufficiently restrictive to bring inflation down to 2% over time. And that's what we're trying to do with our tool. I think slowing down was the right move. I think it's enabled us to see more data and it will continue to do so. So we really have to balance, we

always have to balance the risk of not doing enough and not getting inflation under control. Against the risk of maybe slowing down economic activity too much. And we thought that this rate hike along with the meaningful change in our policy statement was the right way to balance that.

Nick Timiraos:

And just to follow up. What you said in response to Howard's question, you'll need data to accumulate to determine if this is a sufficiently restrictive stance. Does that data need to accumulate or could it accumulate over a longer period than a six week intermitting cycle?

Jerome Powell:

Yeah, as I mentioned. I would just say that this assessment will be an ongoing one. You can't with economic data, you can't... Take inflation from me, look back, we've seen inflation come down, move back up two or three times since March of 2021. We've seen inflation have a few months of coming down and then come right back up. So I think you're going to want to see that... A few months of data will persuade you that you've got this right kind of thing. And we have the luxury, we've raised 500 basis points.

I think that policy is tight. I think real rates are probably, that you can calculate them many different ways. But one way is to look at the nominal rate and then subtract a reasonable estimate of let's say one year inflation, which might be 3%. So you've got 2% real rates that's meaningfully above what most people, many people anyway, would assess as the neutral rate. So policy is tight and you see that in interest sensitive activities. And you also begin to see it more and more in other activities. And if you put the credit tightening on top of that and the QT that's ongoing. I think you feel like we may not be far off or possibly even at that level.

Speaker 2:

Great. Thank you Edward.

Edward Lawrence:

Thank you very much, Chair Powell. Edward Lawrence with FOX Business. So if the Federal Reserve gets down to the 3% inflation as the projections show at the end of this year or close to it. Would it be okay for you for a prolonged period of 3% inflation and hoping for some outside event to move down to 2% target?

Jerome Powell:

Look I think we're always going to have 2% as our target. We're always going to be focusing on getting there.

Edward Lawrence:

You're going to be okay with a prolonged 3%?

Jerome Powell:

You know what? Let me just say that's not what we're looking for. We're looking for inflation going down to 2% over time. That's not a question that's in front of us and it would depend on so many other things, but ultimately we're not looking to get to 3% and then drop our tools. We have a goal of getting

to 2%. We think it's going to take some time. We don't think it'll be a smooth process and I think we're going to need to stay at this for a while.

Edward Lawrence:

How does the other side of the mandate, the job side, once you get to 3% going from three to two. How does the other side of the mandate balance?

Jerome Powell:

I think they will both matter equally at that point. Right now you have a Labor Market that's still extraordinarily tight. You've still got 1.6 job openings, even with the lower job openings number for every unemployed person. We do see some evidence of softening in Labor Market conditions. But overall, you're near a 50-year low in unemployment wages. You all will have seen the wage number from late last week and it's... Whenever it was. And it's a couple percentage points above what would be consistent with 2% inflation over time. So we do see some softening. We see new labor supply coming in. These are very positive developments, but the Labor Market's very, very strong. Whereas inflation is running high well above our goal and right now we need to be focusing on bringing inflation down. Fortunately we've been able to do that so far without unemployment going up.

Speaker 2:

Matt?

Matthew Boesler:

Hi Chair Powell, Matthew Boesler with Bloomberg News. So many analysts noted at the time of the March FOMC meeting that at least half of Fed officials projections did imply or seem to imply that a recession was in their baseline forecast as well given the strong first quarter GDP tracking estimates. And so I'm just wondering if you could kind of elaborate on why you're optimistic that a recession can be avoided? Given that that's the Fed staff's forecast, possibly also the broader committee's forecast as well, and also of course most private sector forecasters.

Jerome Powell:

Yeah. I don't think... I know what's printed in the summary of economic projections and all that, I don't think you can deduce exactly what you said about what participants think, because you don't know what they were thinking for first quarter GDP at that point. They could have been thinking about a fairly low number, anyway. In any case, I'll just say I continue to think that it's possible that this time is really different. And the reason is there's just so much excess demand really in the Labor Market. It's interesting as we've raised rates by five percentage points in 14 months and the unemployment rate is three and a half percent, pretty much where it was, even lower than where it was when we started. So job openings are still very, very high. We see by surveys and much much evidence that the conditions are cooling gradually, but it really is different.

It wasn't supposed to be possible for job openings to decline by as much as they've declined, without unemployment going up. Well, that's what we've seen. So there are no promises in this, but it just seems that, to me, that it's possible that we can continue to have a cooling in the Labor Market without having the big increases in unemployment that have gone with many prior episodes. Now that would be against history.

I fully appreciate that that would be against the pattern. But I do think that the situation in the Labor Market with so much excess demand... Yet wages have been moving down, wage increases have been moving down and that's a good sign, down to more sustainable levels. So I think it's still possible. I think the case of avoiding a recession is in my view more likely than that of having a recession. But it's not that the case of having a recession is... I don't rule that out either. It's possible that we will have what I hope would be a mild recession.

Matthew Boesler:

The committee also noted in March that wage growth was still well above levels that would be consistent with 2% inflation. Do you see that as well? And could you explain how you come to that judgment?

Jerome Powell:

Sure. So we look at a range of wage measures and then that's a nominal, and so you assume wages should be equal to productivity increases plus inflation. And so you can look at the employment compensation index, average hourly earnings, the Atlanta wage tracker, compensation per hour, basically those four and many others. And you can look at what they would have to run at, over a long period of time for that to be consistent with 2% inflation. They can deviate, corporate margins can go up and down. And there is a feature of long expansions where they do go down, where labor gets a bigger share later in a recession, sorry, later in expansion.

And we calculate those and you have to take the precision with a degree of salt. But I would say that what they will show is that, if wages are running at 5%, 3% is closer to where they need to be. Wage increases and closer to 3% roughly, is what it would take to be consistent with inflation over a longer period of time. By the way, I don't want to... I do not think that wages are the principle driver of inflation. You're asking me a very specific question. I think there are many things. I think wages and prices tend to move together and it's very hard to say what's causing what, but I've never said that that wages are really the principle driver, because I don't think that's really right.

Chris Rugaber:

Great. Chris Rugaber at Associated Press. Well, you mentioned profit margins, those have expanded, did expand sharply during this inflationary period. And while there are some signs that they are starting to decline, many economists note they haven't fallen as much as might be expected given that we're seeing at least some pullback among consumer spending. So speaking of causes of inflation, do you see expanded profit margins as a driver of higher prices? And if so, would you expect them to narrow soon and contribute to reduced inflation in the coming months?

Jerome Powell:

So higher profits and higher margins are what happens when you have an imbalance between supply and demand. Too much demand, not enough supply. And we've been in a situation in many parts of the economy where supply has been fixed or not flexible enough. And so, the way the market clears is through higher prices. I think as goods pipelines have gotten back to normal so that we don't have the long waits and the shortages and that kind of thing, I think you will see inflation come down. And you'll see corporate margins coming down as a result of return of full competition where there's enough supply to meet demand and then you're really back to full competition. That would be the dynamic I would expect.

Speaker 2:

Michael.

Michael Mckee:

Michael Mckee, from Bloomberg Radio and Television. Can you tell us something about what your policy reaction function is, your policy framework is going forward? When you look at the economy at the next meeting, are you looking at incoming data, which is by definition backward looking? Are you going to be forecasting what you think is going to happen? Are you ruling out the rate cuts that the market has priced in?

Jerome Powell:

I didn't catch the last part. Ruling...

Michael Mckee:

Markets have priced [inaudible 00:33:58] did rate cuts by the end of the year. Do you rule that out?

Jerome Powell:

Sorry, sorry. Okay, I got it. So what are we looking at? I mean, we look at a combination of data and forecasts. Of course, the whole idea is to create a good forecast based on what you see in the data. So we're always looking at both. And of course, it'll be the obvious things. It'll be readings on inflation, it'll be readings on wages, on economic growth, on the Labor Market and all of those many things. I think a particular focus for us going now over the past six, seven weeks now, and going forward is going to be what's happening with credit tightening?

Are small and medium-sized banks tightening credit standards and is that having an effect on loans, on lending? So we can begin to assess how that fits in with monetary policy, that that'll be an important thing. We'll be looking at everything. Again, I would just point out we've raised rates by five percentage points. We are shrinking the balance sheet and now we have credit conditions tightening not just in the normal way, but perhaps a little bit more, due to what's happened. And we have to factor all of that in and make our assessment of whether our policy stance is sufficiently restrictive. And we have to do that in a world where policy works with long and variable lags. So this is challenging, but we will make our best assessment and that's what we'll be thinking.

Michael Mckee:

What about the idea of rate cuts?

Jerome Powell:

Yeah, so we on the committee have a view that inflation is going to come down, not so quickly, but it'll take some time. And in that world, if that forecast is broadly right. It would not be appropriate to cut rates, and we won't cut rates. If you have a different forecast and markets have been from time to time pricing in quite rapid reductions in inflation, we'd factor that in, but that's not our forecast. And of course, the history of the last two years has been very much that inflation moves down. Particularly now if you look at non-housing services, it really hasn't moved much and it's quite stable. So we think we'll have to... Demand will have to weaken a little bit and Labor Market conditions may have to soften a bit

more, to begin to see progress there. And again in that world, it wouldn't be appropriate for us to cut rates.

Speaker 2:

Courtenay.

Courtenay Brown:

Courtenay Brown from Axios. I'm curious how you view the role of the overnight reverse repo facility in the context of the current banking stress. Do you think it's contributing to the stress by making it more attractive for money market funds to compete with banks for deposits? And did the committee discuss any changes to the structure of the facility? Or do you see that being put on the table in the future? Thanks.

Jerome Powell:

Sure. So we looked at that very carefully, as you would imagine, and it's really not contributing, we don't think now... It hasn't actually been growing, it moved down and then moved back up to where it was. What happened when there were the big deposit flows, which by the way have really stabilized now. What happened was institutional investors took their uninsured deposits and put them in government money market funds, which bought paper from the Federal home loan banks and things like that. Over the course of maybe the last year, retail investors had been gradually, as they do in every tightening cycle. They've been gradually moving their deposits into higher yielding places such as CDs and other things, including money market funds. So that's a gradual process that is quite natural and happens during a tightening cycle. What was unusual really was the institutional investors moving their uninsured deposits and spreading them around and things like that. But it doesn't seem to have had any effect overall on the overnight repo facility. That is really there to help us keep rates where they're supposed to be and it's serving that purpose very well.

Speaker 2:

Okay, Sarah.

Sarah Ewall-Wice:

Sarah Ewall-Wice, CBS News. I want to go back to the debt ceiling for a moment. I know you talked about that in terms of fiscal policy, but can you just speak towards what the impact of a default would mean for Americans across the country, the markets and borrowing?

Jerome Powell:

Yeah, I would just say, I don't really think we should be... We shouldn't even be talking about a world in which the US doesn't pay its bills. It just shouldn't be a thing. And again, I would just say, no one should assume that the Fed can really protect the economy and the financial system and our reputation globally from the damage that such an event might inflict.

Speaker 2:

Scott.

Scott Horsley:

Thanks Mr. Chairman. Scott Horsley from NPR. In his report last week, Vice-Chair Barr identified a couple of the factors that he thought contributed to the regulatory or the supervisory lapses at Silicon Valley Bank. A policy change in 2019 to exempt all but the biggest banks from strict scrutiny and also what he called a sort of cultural shift towards less aggressive oversight. You were here in 2019, do you share that view? And what would it take to get the stronger oversight that you and he said in your release would be necessary?

Jerome Powell:

So I didn't take part in creating the report or doing the work, but I have read it of course. And I find it persuasive. I would say it this way, a large bank, not a very large bank. A large bank failed quite suddenly and unexpectedly in a way that threatened to spread contagion into the financial system. I think the only thing that I'm really focused on, is to understand what went wrong. What happened? And identify what we need to do to address that. Some of that is... It may just have been technology evolving. We have to keep up with all that, but some of it may be our policies and supervisory and regulatory whatever... What our job is now, is to identify those things and implement them. And that's kind of the only thing I care about. And I feel like I am accountable for doing everything I can to make sure that that happens.

Speaker 2:

Evan.

Evan Ryser:

Thank you. Evan Ryser with MNI Market News. Chair Powell are we in the early stage or nearing the end stage of the banking turmoil among regional banks? And secondly, do you still have a bias to tighten rates? Is that what the statement is saying?

Jerome Powell:

So I guess I would say it this way. There were three large banks really from the very beginning that were at the heart of the stress that we saw in early March, the severe period of stress. Those have now all been resolved and all the depositors have been protected. I think that the resolution in sale of First Republic kind of draws a line under that period of... Is an important step toward drawing a line under that period of severe stress. Okay.

I also think we are very focused on what's happening with credit availability, particularly with what you saw in the Beige Book. And you will see in the SLEUTHs, is a small and medium-sized banks who are feeling that they need to tighten credit standards, build liquidity. What's going to be the macroeconomic effect of that? More broadly, we will continue to very carefully monitor what's going on in the banking system and we'll factor that assessment into our decisions in an important way going forward.

Speaker 2:

Okay. Greg.

Greg Robb:

Thank you. Fed Chairman, Greg Robb from MarketWatch. I just wondered if you've done any reflection on your own actions during this crisis and leading up to it? Over the last... Since you've been Fed Chairman, I think I've heard you say a couple of times that you deferred to the Vice-Chair for supervision. Do you think that was the right way to go about this and yeah, comments on that? Thank you.

Jerome Powell:

Sure. So let me say, first of all, I've been Chair of the Board for five plus years now, and I fully recognize that we made mistakes. I think we've learned some new things as well, and we need to do better. And as I mentioned, I thought the report was on flinching and appropriately so I welcome it and I agree with and we'll support those recommendations. And I do feel that I'm personally accountable to do what I can to foster measures that will address the problems.

So on the Vice-Chair for supervision. The place to start is the statutory role, which is quite unusual. The Vice-Chair it says, "Shall develop policy recommendations for the board regarding supervision and regulation of depository institution companies, and shall oversee the supervision and regulation of such firms." So this is Congress establishing a four-year term for someone else on the board, not the Chair as Vice-Chair for supervision, who really gets to set the agenda for supervision and regulation for the Board of Governors. Congress wanted that person to have political accountability for developing that agenda.

So the way it works, the way it has worked in practice for me is, I've had a good working relationship. I give my council my input privately, and I offer that and I have good conversations and I try to contribute constructively. I respect the authority that Congress has deferred on that person, including working with Vice-Chair Barr and his predecessor. And I think that's the way it's supposed to work and that's appropriate. I believe that's what the law requires, but I wouldn't say it's a matter of complete deference. It's more I have a role in presenting my views and discussing, having an intelligent discussion about what's going on and why. And that's my input. But ultimately, that person does get to set the agenda and gets to take things to the Board of Governors and really in supervision has sole authority over supervision.

Greg Robb:

Just wondered if you had any regrets or was there anything that... Decisions that maybe you regret now in light of what's happened?

Jerome Powell:

I've had a few. Sure. I mean, who doesn't look back and think that you could have done things differently, but honestly you don't get to do that. Again, my focus is on control the controllable. As one of my great mentors used to always say, "Control the controllable." What we control now is make a fair assessment, learn the right lessons, figure out what the fixes are and implement them. And I think that Vice-Chair Barr's report is an excellent first step in that, but we've got to follow through.

Speaker 2:

Great. Thank you.

Megan Cassella:

Hi there. Megan Cassella with Barron's. Did the possibility of pausing at this meeting come up at all? And how seriously was that considered? I'm curious if you can give us any color as to whether there were any initial concerns about raising rates again? Or what those discussions entailed.

Jerome Powell:

So support for the 25 basis point rate increase was very strong across the board. I would say, a number of people, and you'll see this in the minutes, I don't want to try to do the headcount in real time, but people did talk about pausing but not so much at this meeting. I mean, there's a sense that we're much closer to the end of this than to the beginning. That as I mentioned, if you add up all the tightening that's going on through various channels. We feel like we're getting closer or maybe even there. But that again, that's going to be an ongoing assessment and we're going to be looking at those factors that we listed, to determine whether there's more to do.

Megan Cassella:

I'm curious to how to interpret that and the changes to the statement. Is the bar higher now to raise rates at the next meeting? Or would a strong jobs' reporter inflation plan be enough to push the Fed to tighten again?

Jerome Powell:

I couldn't really say, I just think we've moved a long way fairly quickly, and I think we can afford to look at the data and make a careful assessment.

Speaker 2:

Okay. We'll go to Nancy for the last question.

Nancy Marshall-Genzer:

Hi Chair Powell, Nancy Marshall-Genzer with Marketplace. You mentioned a few times about the lessons you learned from the banking crisis, that you would learn the right lessons. What are those lessons?

Jerome Powell:

Well, yeah, I just would start with something that's changed really, which is, the run on Silicon Valley Bank was out of keeping with the speed of runs through history. And that now needs to be reflected in some way in regulation and in supervision. Now that we know it's possible. I think no one thought that was possible. I'm not aware of anybody thinking that this could happen quite so quickly. So I think that will play through. It will be up to Vice-Chair Barr to really take the lead in designing the ways to address that. But I think that's one thing. I guess I would just say that. Then we're obviously, we're going to revisit... It's pretty clear we need, to me anyway, clear that we need to strengthen both supervision and regulations for banks of this size. And I'm thinking that we're on the track to do that as well.

Nancy Marshall-Genzer:

Can you be any more specific on the stress testing or looking at banks that have specific concentrations in certain parts of the economy?

Jerome Powell:

Yeah, that's what Vice-Chair Barr's role really is and he'll take the lead on that.

Speaker 2:

Okay, thank you.

Jerome Powell:

Thank you.