Transcript of Chair Powell's Press Conference
May 3, 2023

CHAIR 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 U.S banking system is sound and resilient. We will continue to monitor conditions in this sector. We are 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 am 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 percent 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 1/4 percentage point. Since early last year, we have raised interest rates by a total of 5 percentage points in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. We are also continuing to reduce our securities holdings. Looking ahead, we will take a data-dependent approach in determining the extent to which additional policy firming may be appropriate. 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 0.9 percent. The pace of economic growth in the first quarter of this year continued to be modest, at 1.1 percent, 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 thousand jobs per month. The unemployment rate remained very low in March, at 3.5 percent. 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 percent. Over the 12 months ending in March, total PCE prices rose 4.2 percent; excluding the volatile food and energy categories, core PCE prices rose 4.6 percent. 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 percent 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 percent objective.

At today's meeting the Committee raised the target range for the federal funds rate by 1/4 percentage point, bringing the target range to 5 to 5-1/4 percent. And we are continuing the process of significantly reducing our securities holdings.

With today's action, we have raised interest rates by 5 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 the monetary policy restraint we have put in place, our future policy actions will depend on how events unfold. In determining the extent to which additional policy firming may be appropriate to return inflation to 2 percent 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 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.

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.