Transcript of Chair Yellen's FOMC Press Conference Opening Statement
March 18, 2015

CHAIR YELLEN. Good afternoon. As you know, the Federal Open Market Committee this afternoon reaffirmed the current 0 to 1/4 percent target range for the federal funds rate. We also updated our forward guidance, indicating that an increase in the target range for the federal funds rate remains unlikely at our next meeting in April. With continued improvement in economic conditions, however, we do not want to rule out the possibility that an increase in the target range could be warranted at subsequent meetings. Let me emphasize, however, that the timing of the initial increase in the target range will depend on the Committee's assessment of incoming information. Today's modification of our guidance should not be interpreted to mean that we have decided on the timing of that increase. In other words, just because we removed the word "patient" from the statement doesn't mean we are going to be impatient. Moreover, even after the initial increase in the target funds rate, our policy is likely to remain highly accommodative to support continued progress toward our objectives of maximum employment and 2 percent inflation. I will come back to today's policy decisions in a few moments, but first I would like to review economic developments and the outlook, which formed the basis for our policy decisions.

We have seen continued progress toward our objective of maximum employment. The pace of employment growth has remained strong, with job gains averaging nearly 290,000 per month over the past three months. The unemployment rate was 5.5 percent in February; that's three-tenths lower than the latest reading available at the time of our December meeting. Broader measures of job market conditions—such as those counting individuals who want and are available to work but have not actively searched recently and people who are working part time but would rather work full time—have shown similar improvement. As we noted in our statement, slack in the labor market continues to diminish. Meanwhile, the labor force participation rate—the percentage of working-age Americans either working or seeking work—is lower than most estimates of its trend and wage growth remains sluggish, suggesting that some cyclical weakness persists. So considerable progress clearly has been achieved, but room for further improvement in the labor market continues.

We continue to expect sufficient underlying strength in economic growth to support ongoing improvement in the labor market. After averaging about 2-1/2 percent over 2014, growth of real gross domestic product appears to have slowed in the first quarter of this year, in part reflecting a moderation in household spending. In addition, the recovery in the housing sector remains subdued and export growth looks to have weakened. Looking ahead, however, the Committee continues to expect a moderate pace of GDP growth, with robust job gains and lower energy prices supporting household spending.

Inflation has declined further below our longer-run objective, largely reflecting the lower energy prices I just mentioned. Declining import prices have also restrained inflation and, in light of the recent appreciation of the dollar, will likely continue to do so in the months ahead. My colleagues and I continue to expect that as the effects of these transitory factors dissipate and as the labor market improves further, inflation will move gradually back toward our 2 percent objective over the medium term. In making this forecast, we are attentive to the low levels of market-based measures of inflation compensation. In contrast, survey-based measures of longer-term inflation expectations have remained stable. The Committee will continue to monitor inflation developments carefully.

This assessment of the outlook is reflected in the individual economic projections submitted for this meeting by the FOMC participants. As always, each participant's projections are conditioned on his or her own view of appropriate monetary policy. The unemployment rate projections over the next few years and in the longer run are generally a bit lower than the December projections. At the end of this year, the central tendency for the unemployment rate stands at 5.0 to 5.2 percent, in line with participants' estimates of the longer-run normal unemployment rate. Committee participants generally see the unemployment rate declining a little further over the course of 2016 and 2017. For economic growth, participants generally reduced their projections since December, with many citing a weaker outlook for net exports. Nonetheless, the central tendency of the growth projections for this year and next, at 2.3 to 2.7 percent, remains somewhat above estimates of the longer-run normal growth rate. Finally, FOMC participants project inflation to be quite low this year, largely reflecting lower energy and import prices. The central tendency of the inflation projections for this year is now below 1 percent, down noticeably since December. As the transitory factors holding down inflation abate, the central tendency rebounds to 1.7 to 1.9 percent next year and rises to 1.9 to 2.0 percent in 2017.

Returning to monetary policy, as I noted at the outset, the Committee reaffirmed its view that the current 0 to 1/4 percent target range for the federal funds rate remains appropriate. But with economic conditions improving, and with further improvement expected in the months ahead, we have again modified our forward guidance. In December and January, the Committee judged that it could be patient in beginning to normalize the stance of monetary policy. That meant that we considered it unlikely that economic conditions would warrant an increase in the target range for the federal funds rate for at least the next couple of FOMC meetings. While it is still the case that we consider it unlikely that economic conditions will warrant an increase in the target range at the April meeting, such an increase could be warranted at any later meeting, depending on how the economy evolves.

Let me emphasize again that today's modification of the forward guidance should not be read as indicating that the Committee has decided on the timing of the initial increase in the target range for the federal funds rate. In particular, this change does not mean that an increase will necessarily occur in June, although we can't rule that out. As we noted in our statement, the decision to raise the target range will depend on our assessment of realized and expected progress toward our objectives of maximum employment and 2 percent inflation. We continue to base that assessment on a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. We anticipate that it will be appropriate to raise the target range for the federal funds rate when the Committee has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term.

Once we begin to remove policy accommodation, we continue to expect that—in the words of our statement—"even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run."

This guidance is consistent with the paths for appropriate policy reported by FOMC participants. Compared with the projections made in December, most participants lowered their path for the federal funds rate, consistent with the downward revisions made to the projections for GDP growth and inflation as well as somewhat lower estimates of the longer-run normal unemployment rate. The median projection for the federal funds rate is just below 2 percent in late 2016 and rises a bit above 3 percent in late 2017. The median projected rate in 2017 remains below the 3-3/4 percent or so projected by most participants as the rate's longer-run value, even though the central tendency of the unemployment rate by that time is slightly below that of its estimated longer-run value and the central tendency for inflation is close to our 2 percent objective. Participants provide a number of explanations for the federal funds rate running below its normal longer-run level at that time. These include, in particular, the residual effects of the financial crisis, which are likely to continue to constrain spending and credit availability for some time. I would like to emphasize that these forecasts of the appropriate path of the federal funds rate are conditional on participants' individual projections for economic output, inflation, and other factors. But our actual policy actions over time will be data dependent. Accordingly, if the expansion proves to be more vigorous than currently anticipated and inflation moves higher than expected, then the appropriate path would likely follow a steeper and higher trajectory; conversely, if conditions were to prove weaker, then the appropriate trajectory would be lower and less steep.

Finally, the Committee will continue its policy of reinvesting proceeds from maturing Treasury securities and principal payments from agency debt and mortgage-backed securities. The Committee's sizable holdings of longer-term securities should help maintain accommodative financial conditions and promote further progress toward our objectives.

Thank you. Now I'll be happy to take your questions.