**Transcript of Chair Yellen’s Press Conference March 19, 2014**

CHAIR YELLEN. Good afternoon. I am pleased to join you for the first of my post- FOMC press conferences. Like Chairman Bernanke before me, I appreciate the opportunity these press conferences afford to explain the decisions of the FOMC and respond to your questions.

The Federal Open Market Committee concluded a two-day meeting earlier today. As you already know from our statement, the Committee decided to make another modest reduction in the pace of its purchases of longer-term securities. The Committee also updated its guidance regarding the likely future path of the short-term interest rates. As I’ll explain more fully in a moment, this change in our guidance does not indicate any change in the Committee’s policy intentions as set forth in its recent statements; rather, the change is meant to clarify how the Committee anticipates policy evolving after the unemployment rate declines below 6½ percent. Let me explain the economic outlook that underlies these actions.

Despite some softer recent data, the FOMC’s outlook for continued progress toward our goals of maximum employment and inflation returning to 2 percent remains broadly unchanged. Unusually harsh weather in January and February has made assessing the underlying strength of the economy especially challenging. Broadly speaking, however, the spending and production data, while somewhat weaker than we had expected in January, are roughly in line with our expectations as of December, the last time Committee participants submitted economic projections. In contrast, labor market conditions have continued to improve. The unemployment rate, at 6.7 percent, is three-tenths lower than the data available at the time of the December meeting. Further, broader measures of unemployment—such as the U-6 measure, which includes marginally attached workers and those working part time but preferring full-time

work—have fallen even more than the headline unemployment rate over this period, and labor force participation has ticked up. While the Committee continues to monitor developments in global financial markets carefully, financial conditions remain broadly consistent with the FOMC’s objectives. In sum, the FOMC continues to see sufficient underlying strength in the economy to support ongoing improvement in the labor market.

Inflation has continued to run below the Committee’s 2 percent objective. Given that longer-term inflation expectations appear to be well anchored, and in light of the ongoing recovery in the United States and in many economies around the world, the FOMC continues to expect inflation to move gradually back toward its objective. The Committee is mindful that inflation running persistently below its objective could pose risks to economic performance. The Committee also recognizes, however, that policy actions tend to exert pressure on inflation that is manifest only gradually over time. The FOMC will continue assessing incoming data carefully to ensure that policy is consistent with attaining the FOMC’s longer-run objectives of maximum employment and inflation of 2 percent.

This outlook is reflected in the individual economic projections submitted in conjunction with this meeting by the 16 FOMC participants—4 Board members and 12 Reserve Bank presidents. As always, each participant’s projections are conditioned on his or her own view of appropriate monetary policy. The central tendency of the unemployment rate projections has shifted down by about two-tenths since December and now stands at between 6.1 and 6.3 percent at the end of this year. The unemployment rate is projected to reach its longer-run normal level by the end of 2016. The central tendency of the projections for real GDP growth stands at 2.8 to 3 percent for 2014 and remains somewhat above that of the estimates of longer-run normal growth through 2016. Meanwhile, as I noted, FOMC participants continue to see inflation

moving only gradually back toward 2 percent over time as the economy expands. The central tendency of the inflation projections is 1.5 to 1.6 percent in 2014, rising to 1.7 to 2.0 percent in 2016.

Let me now return to our decision to make another measured reduction in the pace of asset purchases. Starting next month, we will be purchasing $55 billion of securities per month, down $10 billion per month from our current rate. Even after today’s action takes effect, we will continue to significantly expand our holdings of longer-term securities, and we will also continue to roll over maturing Treasury securities and reinvest principal payments from the FOMC’s holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. These sizable and still-increasing holdings will continue to put downward pressure on longer-term interest rates, support mortgage markets, and make financial conditions more accommodative, helping to support job creation and a return of inflation to the Committee’s objective.

The FOMC views today’s decision to reduce the pace of asset purchases as consistent with the decisionmaking framework laid out last December and still in place today. As before, if incoming information broadly supports the Committee’s expectation of ongoing improvement in labor markets and inflation moving back over time toward its longer-run objective, the Committee will likely continue to reduce the pace of asset purchases in measured steps at future meetings. However, purchases are not on a preset course, and the Committee’s decisions about the pace of purchases remain contingent on its outlook for jobs and inflation as well as its assessment of the likely efficacy and costs of such purchases.

Today the FOMC also updated its forward guidance regarding the path of short-term interest rates. As emphasized in the statement, the new guidance does not indicate any change in

the policy intentions of the FOMC but instead reflects changes in the conditions we face. Let me explain this more fully.

In December 2012, the Committee first stated its guidance in terms of economic thresholds, stipulating that the current low range for the federal funds rate target would be appropriate at least as long as the unemployment rate remains above 6½ percent, inflation is projected to be no more than a half percentage point above our longer-run goal, and longer-term inflation expectations remain well anchored. Since that time, progress in the labor market has been more rapid than we had anticipated, while inflation has been lower than the Committee had expected. Although the thresholds served well as a useful guide to policy over the past year, last December the FOMC judged it appropriate to update that guidance, noting that the current target range for the federal funds rate would likely be maintained “well past the time that the unemployment rate declines below 6½ percent, especially if projected inflation continues to run below the Committee’s 2 percent longer-run goal.”

Today the Committee has further revised its forward guidance to better reflect conditions as they now stand and are likely to evolve over coming quarters. The revised formulation starts with a general description of the factors that drive FOMC decisionmaking and then provides the FOMC’s current assessment of what those factors will likely imply for the future path of short- term interest rates. In particular, the Committee states that “[i]n determining how long to maintain the current 0 to ¼ percent target range for the federal funds rate, it [the Committee] will assess progress—both realized and expected—toward its objectives of maximum employment and 2 percent inflation.” In short, the larger the shortfall of employment or inflation from the respective objectives set by the FOMC, and the longer any such shortfall is expected to persist, the longer the target federal funds rate is likely to remain in the present 0 to ¼ percent range.

The FOMC will base its ongoing assessment on a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments.

As I’ve noted, the FOMC’s assessment of these factors at present is consistent with the characterization provided in previous forward guidance. The Committee continues to anticipate that conditions will likely warrant maintaining “the current range for the federal funds rate for a considerable time after the asset purchase program ends, especially if projected inflation continues to run below the Committee’s 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored.”

The FOMC also supplemented its guidance pertaining to the period after the asset purchase program ends and the initial increase in the federal funds rate target has occurred. The statement continues to note that in deciding on the pace for removing accommodation, the Committee will take a balanced approach to attaining its objectives. The statement now adds the Committee’s current anticipation that “even after employment and inflation are near mandate- consistent levels, economic conditions may, for some time, warrant keeping” short-term interest rates “below levels the Committee views as normal in the longer run.” This guidance is consistent with the paths for appropriate policy as reported in the participants’ projections, which show the federal funds rate for most participants remaining well below longer-run normal values at the end of 2016. Although FOMC participants provide a number of explanations for the federal funds rate target remaining below its longer-run normal level, many cite the residual impacts of the financial crisis, and some note that the potential growth rate of the economy may be lower, at least for a time.