

**Transcript of Chair Powell's Press Conference
December 15, 2021**

CHAIR POWELL. Good afternoon. At the Federal Reserve, we are strongly committed to achieving the monetary policy goals that Congress has given us: maximum employment and price stability.

Today, in support of these goals, the Federal Open Market Committee kept interest rates near zero and updated its assessment of the progress that the economy has made toward the criteria specified in the Committee's forward guidance for interest rates. In addition, in light of the strengthening labor market and elevated inflation pressures, we decided to speed up the reductions in our asset purchases. As I will explain, economic developments and changes in the outlook warrant this evolution of monetary policy, which will continue to provide appropriate support for the economy.

Economic activity is on track to expand at a robust pace this year, reflecting progress on vaccinations and the reopening of the economy. Aggregate demand remains very strong, buoyed by fiscal and monetary policy support and the healthy financial positions of households and businesses. The rise in COVID cases in recent weeks, along with the emergence of the Omicron variant, pose[s] risks to the outlook. Notwithstanding the effects of the virus and supply constraints, FOMC participants continue to foresee rapid growth. As shown in our Summary of Economic Projections (SEP), the median projection for real GDP growth stands at 5.5 percent this year and 4 percent next year.

Amid improving labor market conditions and very strong demand for workers, the economy has been making rapid progress toward maximum employment. Job gains have been solid in recent months, averaging 378,000 per month over the last three months. The unemployment rate has declined substantially—falling 6/10 of a percentage point since our last

meeting and reaching 4.2 percent in November. The recent improvements in labor market conditions have narrowed the differences in employment across groups, especially for workers at the lower end of the wage distribution, as well as for African Americans and Hispanics. Labor force participation showed a welcome rise in November—but remains subdued, in part reflecting the aging of the population and retirements. In addition, some who otherwise would be seeking work report that they are out of the labor force because of factors related to the pandemic, including caregiving needs and ongoing concerns about the virus. At the same time, employers are having difficulties filling job openings, and wages are rising at their fastest pace in many years. How long the labor shortages will persist is unclear, particularly if additional waves of the virus occur. Looking ahead, FOMC participants project the labor market to continue to improve, with the median projection for the unemployment rate declining to 3.5 percent by the end of the year. Compared with the projections made in September, participants have revised their unemployment rate projections noticeably lower for this year and next.

Supply and demand imbalances related to the pandemic and [to] the reopening of the economy have continued to contribute to elevated levels of inflation. In particular, bottlenecks and supply constraints are limiting how quickly production can respond to higher demand in the near term. These problems have been larger and longer lasting than anticipated, exacerbated by waves of the virus. As a result, overall inflation is running well above our 2 percent longer-run goal and will likely continue to do so well into next year. While the drivers of higher inflation have been predominantly connected to the dislocations caused by the pandemic, price increases have now spread to a broader range of goods and services. Wages have also risen briskly, but, thus far, wage growth has not been a major contributor to the elevated levels of inflation. We are attentive to the risks that persistent real wage growth in excess of productivity [growth] could put

upward pressure on inflation. Like most forecasters, we continue to expect inflation to decline to levels closer to our 2 percent longer-run goal by the end of next year. The median inflation projection of FOMC participants falls from 5.3 percent this year to 2.6 percent next year; this trajectory is notably higher than projected in September.

We understand that high inflation imposes significant hardship, especially on those least able to meet the higher costs of essentials like food, housing, and transportation. We are committed to our price-stability goal. We will use our tools both to support the economy and a strong labor market and to prevent higher inflation from becoming entrenched. We will be watching carefully to see whether the economy is evolving in line with expectations.

The Fed's monetary policy actions have been guided by our mandate to promote maximum employment and stable prices for the American people. In support of these goals, the Committee reaffirmed the 0 to $\frac{1}{4}$ percent target range for the federal funds rate. We also updated our assessment of the progress the economy has made toward the criteria specified in our forward guidance for the federal funds rate. With inflation having exceeded 2 percent for some time, the Committee expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment.

All FOMC participants forecast that this remaining test will be met next year. The median projection for the appropriate level of the federal funds rate is 0.9 percent at the end of 2022, about $\frac{1}{2}$ percentage point higher than projected in September. Participants expect a gradual pace of policy firming, with the level of the federal funds rate generally near estimates of its longer-run level by the end of 2024. Of course, these projections do not represent a

Committee decision or plan, and no one knows with any certainty where the economy will be a year or more from now.

At today's meeting, the Committee also decided to double the pace of reductions in its asset purchases. Beginning in mid-January, we will reduce the monthly pace of our net asset purchases by \$20 billion for Treasury securities and \$10 billion for agency mortgage-backed securities. If the economy evolves broadly as expected, similar reductions in the pace of net asset purchases will likely be appropriate each month, implying that increases in our securities holdings would cease by mid-March—a few months sooner than we anticipated in early November. We are phasing out our purchases more rapidly because, with elevated inflation pressures and a rapidly strengthening labor market, the economy no longer needs increasing amounts of policy support. In addition, a quicker conclusion of our asset purchases will better position policy to address the full range of plausible economic outcomes. We remain prepared to adjust the pace of purchases if warranted by changes in the economic outlook. And, even after our balance sheet stops expanding, our holdings of securities will continue to foster accommodative financial conditions.

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 complete the recovery in employment and achieve our price-stability goal.

Thank you. I look forward to your questions.

MICHELLE SMITH. Mr. Chair, we'll go to Rachel from the *Washington Post*.

RACHEL SIEGEL. Thank you very much, Michelle. And thank you, Chair Powell, for taking our questions. The latest FOMC materials say that the FOMC thinks it will be appropriate

to keep rates near zero until labor market conditions reach levels consistent with maximum employment. And there are also three rate hikes penciled in the projections for next year. In order to set up those hikes, what will maximum employment have to look like? When will you know that that threshold has been met? And how will that be communicated? Thank you.

CHAIR POWELL. So maximum employment, if you look at our Statement on Longer-Run Goals and Monetary Policy Strategy, maximum employment is something that we look at a broad range of indicators. And those would include, of course, things like the unemployment rate, the labor force participation rate, job openings, wages, flows in and out of the labor force in various parts of the labor force. We'd also tend to look broadly and inclusively at different demographic groups and not just at the headline and aggregate numbers. So that's a—that's a judgment for the Committee to make. The Committee will make a judgment that we've achieved labor market conditions consistent with maximum employment when it makes that—it is, admittedly, a judgment call because it's a range of factors. Unlike inflation, where we have one number that sort of dominates, it's a broad range of things. So, as I mentioned in my opening remarks, in my view, we are making rapid progress toward maximum employment. And you see that, of course, in some of the factors that I mentioned.

MICHELLE SMITH. Great, thank you. Steve at CNBC.

STEVE LIESMAN. All right. Thank you, Mr. Chairman. My question is: If—It's often said that monetary policy has long and variable lags. How does continuing to buy assets now, even though it's at a slower pace, address the current inflation problem? Won't the impact of today's changes not really have any impact for six months or a year down the road on the current inflation problem? And aren't you actually lengthening that time by continuing to buy assets

such that it could be not until the long and variable lag after you end purchases sometime in March that you'll start to have any impact on the inflation problem?

CHAIR POWELL. So, on the first part of your question, which is, "Why not stop purchasing now?" I would just say this: We've learned that, in dealing with balance sheet issues, we've learned that it's best to take a careful sort of methodical approach to make adjustments. Markets can be sensitive to it. And we thought that this was—this was a doubling of the speed. We're basically two meetings away now from finishing the taper. And we thought that was the appropriate way to go. So we announced it, and that's what will happen.

You know, the question of long and variable lags is, is an interesting one. That's, that's Milton Friedman's famous statement. And I do think that in this world, where everything is—where the global financial markets are connected together, financial conditions can change very quickly. And my own sense is that they get into—financial conditions affect the economy fairly rapidly, longer than the traditional thought of, you know, a year or 18 months. Shorter than that, rather. But in addition, when we communicate about what we're going to do, the markets move immediately [in response] to that. So financial conditions are changing to reflect, you know, the forecasts that we made and basically, which was, I think, fairly in line with what markets were expecting. But financial conditions don't wait to change until, until things actually happen. They, they change on the expectation of things happening. So I don't think it's a question of having to wait.

STEVE LIESMAN. Can I just follow up? Thinking about having to wait, is it still the policy, or the position, of the Committee that you will not raise rates until the taper is complete? Thank you.

CHAIR POWELL. Yes. The sense of that, of course, being that buying assets is adding accommodation and raising rates is removing accommodation. Since we're two meetings away from completing the taper, assuming things go as, as expected, I think if we wanted to lift off before then, then, then what we—you would stop the taper potentially sooner. But it's not something I expect to happen. But I do—I do not think it would be appropriate, and we—and we don't find ourselves in a situation where we—where we might have to raise rates while we're still purchasing assets.

MICHELLE SMITH. Okay, let's go to Colby at the *FT*.

COLBY SMITH. Thank you, Michelle. Chair Powell, I'm curious exactly how much distance you think there should be between the end of the taper and the first interest rate increase. Back in 2014, the guidance was—that was given was for the fed funds rate to remain at the target level for a considerable time after the end of the asset purchase program. Is that an approach you support now? Or does the current economic situation warrant something a bit different?
Thank you.

CHAIR POWELL. So we, we haven't made any decision of that nature. And so, no, I wouldn't say that's our position at all. We really haven't taken a position on that. I will say that we did talk today—We had our first discussion about the balance sheet, for example. And we went through the way—the sequence of events regarding the runoff and that sort of thing with the balance sheet, last time. And I think people thought that was an interesting discussion. They thought that it was informative, but people pointed out that this is a significantly different economic situation that we have at the current time, and that those—the differences that we see now would tend to influence how we think about the balance sheet. And the same thing would be true about raising rates. I don't—I don't foresee that there would be that kind of very

extended wait at this time. The economy is so much stronger. I was here at the Fed when we lifted off the last time. And the economy is so much stronger now, so much closer to full employment. Inflation is running well above target, and growth is well above potential. There wouldn't be the need for that kind of long delay. Having said that, I—you know, we'll make this decision in coming meetings, and it's not—it's not a decision that the Committee has really focused on yet.

MICHELLE SMITH. Let's go to Nick at the *Wall Street Journal*.

NICK TIMIRAOIS. Thank you, Nick Timiraos at the *Wall Street Journal*. Chair Powell, in March you answered a question about maximum employment like this: You said 4 percent would be a nice unemployment rate to get to, but it'll take more than that to get to maximum employment. More recently, you have hinted at a possible distinction between the level of maximum employment that's achievable in the short run versus in the long run. Has your view of the level of maximum employment changed this year? And if so, how? And how close is the economy right now to your judgment of the short-run level of maximum employment?

Thank you.

CHAIR POWELL. Right. So the—you know, the thing is, we're not going back to the same economy we had in February of 2020. And I think early on, that was—the sense was that that's where we were headed. The post-pandemic labor market, and the economy in general, will be different. And the maximum level of employment that's consistent with price stability evolves over time within a—within a business cycle and over a longer period, in part reflecting [the] evolution of the factors that affect labor supply, including those related to the pandemic. So I would say: Look, we're, we're at 4.2 percent now and it's been—the unemployment rate has been dropping very quickly. So we're already in the vicinity of 4 percent.

The way in which—The important metric that has been disappointing really has been labor force participation, of course, where we had widely thought—I had certainly thought—that, last fall, as unemployment insurance ran off, as vaccinations increased, [and] as schools reopened, that we would see a significant surge, if you will, or at least a surge, in labor force participation. So we've begun to see some improvement. We certainly welcome the 2/10 improvement that we got in the November report. But I do think that it's—it feels likely now that the return to higher participation is going to take longer. And, in fact, that's, that's been the pattern in past cycles—that labor force participation has tended to recover in the wake of a strong recovery in unemployment, which is what we're getting right now. So you—it could well have been that this cycle was different because of the short nature of it and the very strong—the number of job openings, for example, you would have thought that that would have pulled people back in. But, really, it's the pandemic, it's a range of factors. But the reality is, we don't have a strong labor force participation recovery yet, and we may not have it for some time. At the same time, we have to make policy now. And inflation is well above target. So this is something we need to take into—take into account.

NICK TIMIRAOIS. If I could—if I could follow up, you've talked recently about risk management. And so does that mean that the Committee might feel compelled to raise interest rates before you're convinced that you've achieved the employment test in your forward guidance?

CHAIR POWELL. So this is—this is not at all a decision that the Committee has made. But you're really asking a question about how our framework works. And, yes, there is a—there's a provision, it used to be called the “balanced approach” provision, that says, in effect, that in situations in which the pursuit of the maximum-employment goal and [the pursuit of] the

price-stability goal are not complementary, we have to take account of the distance from the goal and the—and the speed at which we're approaching it. And so that is, in effect, an “off-ramp” which could, in concept, be taken and it’s in our framework, it’s been in our framework a long time. I’ve talked about it on a number of occasions. It, it is a provision that would enable us to, in this case, because of high inflation, move before achieving maximum employment. Now, we’re—as I said, we’re making rapid progress toward maximum employment in my—in my thinking, in my opinion. And I don’t at all know that we will—that we’ll have to invoke that, that paragraph. But just as a factual matter, that is part of our framework—and has been, really, for a very long time.

NICK TIMIRAOIS. Thank you.

MICHELLE SMITH. Thanks. We’ll go to Howard at Reuters.

HOWARD SCHNEIDER. Thanks, as usual. So I guess I gotta ask about the elephant in the room, which is the Omicron variant. You know, this seems to already be pushing one of your colleagues, the Bank of England, off its course. Things have evolved very fast there. Hasn’t quite hit the shores of the U.S. in full force yet. But people seem to expect it to. So I’m wondering, in your feelings about this, are you convinced that this is going to be perhaps a more infectious, but less serious, variant of the virus? Or are you simply confident that the U.S. economy can continue its divorce from the pandemic?

CHAIR POWELL. Well, I think there’s a lot of uncertainty, which is why we—why we called it out in our statement, our postmeeting statement, as a risk. It’s—we, we follow the same experts and I—we, we talk privately to the same experts that everyone else does and read the same articles in the paper and the same research and, you know, so the—you mentioned the early assessment is highly transmissible, perhaps not as severe, some continuing protection from, from

existing vaccines and also existing immunity from having had the disease. That's a first draft.

We're a long way from knowing what it will turn out to be. It may well come to the United States and replace Delta as the dominant variant fairly quickly. That could easily happen.

I think there's another step there, though—which is what's going to be the effect on the economy. And that will depend, you know, on how much it suppresses demand as opposed to suppressing supply. It is not clear how big the effects would be on either inflation or growth or hiring on top of what's already going on, which is quite a strong, you know, wave of Delta that's hitting large parts of the country across the northern United States and all the way to the eastern seaboard and now coming down. We're having quite a wave of Delta. So coming in on top of that, again, it's very difficult to say what the economic effects would be. I do think, wave upon wave, people are learning to live with this. More and more people are getting vaccinated. So [vaccinated] people who get the new variant, it affects them much less than it tends to affect, in the aggregate, people who are not vaccinated. So the more people get vaccinated, the less the economic effect. It doesn't mean it won't have an economic effect. Delta had an effect of slowing down hiring. And it actually—it had an effect on global supply chains. And that sort of—that hurt the process of the global supply chains getting worked out. So it can have an economic effect. I just think, at this point, we don't know much. We'll know a whole lot more in three weeks, and we'll know more than that in six weeks.

HOWARD SCHNEIDER. But if I can follow up: You're clearly, sort of from a risk standpoint, comfortable putting away one of your tools pretty soon. Which sort of implies that whatever Omicron brings, you're comfortable the economy can handle it without quantitative easing.

CHAIR POWELL. Yes. Yes, look, I think—if you look at the state of the economy and the amount—the strength of demand, the strength of just overall demand, and the strength of demand for labor, look at inflation, look at wages. I think moving, you know, moving forward the end of our taper by a few months is really—is really an appropriate thing to do. And I think, really, Omicron doesn't really have much to do with that.

HOWARD SCHNEIDER. Thank you.

MICHELLE SMITH. Let's go to Jeanna at the *New York Times*.

JEANNA SMIALEK. Hey, Chairman Powell. Thanks for taking our questions. I wonder if you could talk a little bit about what prompted your recent pivot toward greater wariness around inflation.

CHAIR POWELL. Sure. So I guess I would go back and—you know, it's been a continual process, really. Inflation really popped up, right? In the late spring last year. And we had a view—it was very, very widely held in the forecasting community—that this would be temporary. It was quite narrow, you know, a limited number of factors were causing it. And there was a decent amount of evidence to support that view, that it would be temporary or transitory, as we said. Certainly, we had five months of declining month on month—monthly readings of inflation, but we didn't see much in the way of progress on labor supply or on other supply-side issues. Then in September, I'd say after Labor Day, we started to see—it started to become clear that this was both larger in its effect on inflation and more persistent. And, of course, I said so on many occasions, and one of the consequences of that is that we move the taper forward. We moved the taper forward and we—and it's a much faster taper than had been planned. So we've been adapting—I've been saying we're adapting our policy.

So coming to your real question, we got the ECI reading on the eve of the November meeting—it was the Friday before the November meeting—and it was very high, 5.7 percent reading for the employment compensation index for the third quarter, not annualized, for the third quarter, just before the meeting. And I thought for a second there whether we—whether we should increase our taper, [We] decided to go ahead with what we had—what we had “socialized.” Then, right after that, we got the next Friday after the meeting, two days after the meeting, we got a very strong employment report and, you know, revisions to prior readings and, and no increase in labor supply. And the Friday after that, we got the CPI, which was a very hot, high reading. And I, honestly, at that point, really decided that I thought we needed to—we needed to look at, at speeding up the taper. And we went to work on that. So that’s, that’s really what happened. It was essentially higher inflation and faster—turns out much faster progress in the labor market. Really, what’s happening is the unemployment rate is catching up—seems to be catching up—with a lot of the other readings of a tight labor market, 6/10 [decline] over one cycle. So that’s really what happened and, you know, widely supported in the Committee today, as you can see—unanimous vote—but beyond that I think widely, widely supported, you know, this, this move.

JEANNA SMIALEK. If I could just follow up quickly, you noted that the ECI was one of the things that made you nervous, but you also said earlier that you don’t see signs that wages are actually factoring into inflation yet. And I guess I wonder how you think about sort of the wage picture as, as you’re making these assessments.

CHAIR POWELL. Right. So—but I said—you, you quoted me correctly. It’s, it’s—so far, we don’t see—wages are not a big part of the high-inflation story that we’re seeing. As you look forward, let’s assume that the goods economy does sort itself out, and supply chains get

working again, and maybe there's a rebalancing back to services and all that kind of thing. But what, what that leaves behind is the other things that can lead to persistent inflation. In particular—we don't see this yet, but if you had something where wages were persistently—[increases in] real wages were persistently above productivity growth, that puts upward pressure on, on firms, and they raise prices. It would take something that was persistent and material for that to happen. And we don't see that yet. But with the kind of hot labor market readings—wages we're seeing, it's something that we're—that we're watching. And the other thing, of course, is, is rents, which are very important. You know, owners' equivalent rent. That's another thing which is very economically sensitive. Unlike the things that are causing the inflation now, this is economically sensitive—and so would be expected to move up. And so as the—as some things go down, the question is: Where will we be when we come out the other side of this? And we need to keep our eyes on those things.

JEANNA SMIALEK. Thank you.

MICHELLE SMITH. Thanks. We'll go to Chris at the AP.

CHRISTOPHER RUGABER. Thank you. Well, next year, you could see growth slowing, and you could see some disinflation, particularly if the Omicron variant does spread more widely. Would you delay rate hikes in that situation? And how would you think about that? And also, how would you explain rate hikes if you do follow through, in that kind of situation, with inflation fading and growth slowing? How would you explain rate hikes to the public, particularly those who may still be looking for work?

CHAIR POWELL. Well, as you know, you know, the SEP is not a plan. It's not something we debate, negotiate over, or really discuss in terms of what the right answer should be. People write down their, their assumptions—their assessment of appropriate policy based on

their economic forecast. And so the median—what you're talking about, the three rate increases, that's the median of the Committee—the median of the Committee is also that growth will be 4 percent and then unemployment will be 3½ percent by the end of the year. So that's a really strong economy. And, of course, if the—if the economy turns out to be quite different from that, then so will the rate. You know, we—no one will say, "Oh, we can't change our policy because we wrote something down in December." No one's ever said that or will. It will—the actual rate decisions we make will depend on our evolving assessment of the forecast. So, for example, if, if the economy were to slow down significantly, then you would expect that that would have an effect of slowing down rate increases. But we'd have to—you know, we look at our two goals, maximum employment and price stability, and we make policy based on them, and not with respect to what we wrote down in a prior SEP.

MICHELLE SMITH. Thank you. Let's go to Victoria Guida at Politico.

VICTORIA GUIDA. Hi, Chair Powell. I wanted to follow up on maximum employment. So, you know, the new framework was basically designed, as I understand it, so that there was a de-emphasis on guessing where inflation would pick up because of employment. And, basically, you were going to wait until you saw the whites of the eyes of inflation. And that's how you would kind of know that you reached maximum employment. So, I'm wondering, you know, you've talked a lot about the different ways that you might measure maximum employment. But from what I understand, that's still basically: The way that you know that you're there is inflation. So is that understanding correct? And how is—are those signals likely to be clear right now given that you have inflation that's caused by, you know, these supply chain disruptions that might also lead to, you know, inflation in wages and those sorts of things? So how do you sort of, like, tease out the signal of maximum employment?

CHAIR POWELL. Okay. So let me start by saying that the inflation that we got was not at all the inflation we were looking for or talking about in the framework. This was—it really was a completely different thing. It was to do with, you know, strong monetary policy and fiscal stimulus into an economy that was recovering rapidly, and in which there were these supply-side barriers which effectively led to, you know, in certain parts of the economy, what you might call a vertical supply curve. So, you know, automobile purchases are very interest rate-sensitive, and you would think demand would drive up the quantity of cars, But it can't, because they don't have semiconductors. So, so that—it was a very different kind of inflation. This is not the inflation we were looking for under our framework at all. It's nothing to do with our framework. And our—the way we've approached it is really nothing to do with our framework.

But coming to maximum employment, which is really your question. How do you know? So I think you look at, you know, prices and quantities. When you—if you want to look at maximum employment, you look at prices and quantities, and the main price you look at is wages. It's one of the things you look at. And, you know, it's—So I mentioned a number of other things. You can get to 20, if you wanted to, easily, but labor force participation, the unemployment rate, different age groups of—you know, prime-age labor force participation, in particular, gets a lot of focus, the JOLTS data get a lot of focus. And wages, that's, that's really one of the great signals. The quits rate is another one. The quits rate is really one of the very best indicators, according to a lot of labor economists, because people quit because they feel like they can get a better job. And there's, you know, record amounts, historically high levels of that going on—suggesting, again, that you've got a very tight labor market.

So on wages, that's the price indicator we look at to tell us, along with all the other data, whether we're—whether we have labor market conditions that are consistent with maximum

employment. And so that's, that's how we think about it. But the—one of the complications is that, again, we've got to make policy in real time. So how do we think about that? Do we—if we think we can make labor, you know, participation might move up—if we, let's say we knew that it would start to move up in two years, would we wait two years when inflation is running way above target? Probably not, you know, so you have to make an assessment that what's max—what is the level of maximum employment that is consistent with price stability in real time is, is one way to think about it.

VICTORIA GUIDA. Just to kind of follow up on that for a second, if you do raise interest rates next year and, you know, it's—you're not certain whether you're at maximum employment, are you all going to point—when you raise interest rates, are you going to point to ways in which the labor market could still improve?

CHAIR POWELL. Yes. I mean, I—absolutely. I, I think—well, whether or not we—whether or not we say “we’re at conditions—labor market conditions consistent with, with maximum employment” next year, we would all be open and I think expect, over time, that the level of maximum employment that’s consistent with price stability would increase further over time—for example, through increasing participation. So I—we would certainly—we would not, in any way, want to foreclose the idea that the labor market can get even better. But, again, with inflation as high as it is, we have to make policy in real time. We’ve got to make that assessment in real time.

MICHELLE SMITH. Thank you. We’ll go to Olivia from Bloomberg.

OLIVIA ROCKEMAN. Thank you. Good afternoon, Chair Powell, and thank you for taking our questions. I wanted to follow up on some of your earlier comments about labor force participation. And I wondered, what do you think needs to change in the economy to kind of get

a meaningful recovery in labor force participation, and also whether running the economy hot, like in the last expansion, is one way of doing that?

CHAIR POWELL. Well, the labor market is, by so many measures, hotter than it ever ran in the last—in the last expansion, if you think about it. You know, the ratio of job openings, for example, to, to vacancies is at all-time highs. Quits, the wages—all those things are, are even hotter. But what would it take for labor force participation to move up more? You know, that's—really, “Why is it low?” is the question. So there, there are a bunch of answers, and all of them probably have some, you know, some validity. Part of it will be that people—for certain people, they don't want to go back in the labor force because either they're medically vulnerable or they're not comfortable going back while COVID is still everywhere. That's one thing. The lack of availability of childcare made for caretakers is certainly part of it—not just for children, but for older people. It has been pointed out by many that the stock market is high, people's portfolios are stronger—they may go back to being a one-income rather than a two-income family. The same thing with people's houses. People buy—they have a mortgage, you know, with leverage, and the house price increases, the equity they have in their home might have doubled. And they might make—reach the same conclusion. So they're—and people have savings on their balance sheet because of forced savings because they couldn't spend on travel and things like that and also because of, you know, because of government transfers.

So, for all of those reasons—and it's hard to know exactly the part each of them plays—we, we have a situation where we've had a shock to labor force participation that is not unwinding as quickly as, as many, as expected. And people—in effect, a good part of it is voluntary. You know, people—and this is how they want to maximize their welfare and that's, that's their, certainly their choice. In other cases, it's something that will abate very quickly if

and when the pandemic gets under control. And the longer the pandemic goes on, you know, maybe the less likely that people will come back because they're—you know, they get used to their new life and they lose contact with their old jobs. That's, that's what the evidence would say.

So it's a range of things. It isn't that the economy lacks stimulus. You know, usually, in every other expansion, it's that there aren't enough jobs and people can't find jobs and, you know, we're stimulating demand and trying to get demand to come up. That's not the problem here. The problem is a supply-side problem, which—what it would take to work it out, I think it's going to be time. And the number-one thing would, would really be to have the pandemic get under control. That's what everyone would really like to see: What does the labor force—what does the labor market look like in a world without COVID? That would be the thing that we'd really like to see but, you know, it doesn't look like that's coming anytime soon.

OLIVIA ROCKEMAN. And just to quickly follow up on that: If some of the reason that labor force participation isn't back to, you know, February 2020 levels is because people are voluntarily making life decisions that are different, does that make you think we're going to end up at a lower rate overall?

CHAIR POWELL. Well, there's a demographic trend underlying all of this. And we actually got above the demographic trend at the end of the last expansion. But—so one would expect over time that labor force participation would, would move down because an aging population, the older people are, the lower their participation rate is. So you would expect that, that the trend would be lower and that, over time, participation would move down.

The question of how much we can get back up closer to where we were in February of 2020—and, indeed, for the year or so before that—is a good one. And, I mean, I—What we can

do is try to create the conditions. There's a lot of good for society when you have a tight but stable labor market, where people are coming in, they're getting into the labor force, they're getting paid well. In the labor market we had before, we had, you know—the biggest wage increases were going to people at the bottom end of the wage spectrum for the last couple of years. There were just a lot of really desirable aspects of a labor market like that. Higher participation is one of them. And we'd love to get back there. But, again, ultimately, we have the tools that we have, which are essentially to stimulate demand and also to control inflation. I mean, really, it might be—one of the two big threats to getting back to maximum employment is actually high inflation, because, to get back to where we were, the evidence grows that it's going to take some time. And what we need is another long expansion, like the ones we've been having. Over the last 40 years, we've had, I think, three of the four longest in our recorded history, including the last one, which was the longest in our recorded history. That's what it would really take to get back to the kind of labor market we'd like to see. And to have that happen, we need to make sure that we maintain price stability.

MICHELLE SMITH. Okay, let's go to Edward Lawrence at Fox.

EDWARD LAWRENCE. Thanks. Thanks, Michelle, and thanks for taking the question, Chair Powell. So I was looking at the consensus data for estimated monthly changes on sales. And what you're seeing is fewer people spending at restaurants and drinking places, more people spending at grocery stores. You see electronic sales down 4.6 percent month over month, also department store sales down 5.4 percent month over month. How concerned or what is your level of concern the consumer may be turning away from this economy or pulling back because of inflation, the virus, or something else? Thank you.

CHAIR POWELL. We see consumer expense as very strong in this quarter. I don't know, Edward, whether you're talking about more shopping online versus shopping in the store, but consumer demand is very strong, incomes are very strong, you know, because people are going back to work and they're getting wage increases. Admittedly, some of the wage increases is being eaten away by inflation. But, nonetheless, incomes, overall, are going up really significantly because of increased employment and spending is—has been strong. There may be something in the seasonality that this year's holiday spending may have been pulled forward. And, of course, there may be effects from, from Delta and there might be going forward from Omicron. But fundamentally, though, the consumer is really healthy, and we expect personal consumption expenditures to be pretty strong in the fourth quarter.

MICHELLE SMITH. Okay, let's go to Mike at Bloomberg.

MICHAEL MCKEE. Mr. Chairman, the median forecast for inflation in this month's or this meeting's economic projections has been revised up significantly for 2021 but barely moved for 2022 and 2023. You've said you expect inflation to fall significantly. Is that because you're going to raise interest rates or because the virus is going to fade and the effects are going to fade? In other words, is it a question of when, not if, you raise interest rates? And does it suggest that maybe your critics are correct and you might be afraid you're "behind the curve"?

CHAIR POWELL. So, actually, I'm looking at the SEP here, and the median forecasts for core and headline inflation did move up by 4/10 each. So that's a significant—you know, in an SEP, that's a pretty significant move up. You know, it's, it's based on both of those things, I suppose. I do think there's a broad expectation among forecasters, including our own, that the bottlenecks will alleviate sometime over the course of this year. If you look at where Blue Chip forecasts are—which is, you know, a group of well-resourced, large forecasting operations with a

long track record—they'll show inflation coming back down significantly toward the back-end of next year.

I would say, though, as well that our policy should begin to have an effect. There will be a lag, but it should begin to have an effect on that as well. And, you know, that's the most likely case.

I guess what—the thing I would want to say, though, is we can't act as though that's a certainty, and we're not going to act as though that's a certainty. There's a real risk now, we believe, I believe, that inflation may be more persistent and that may be putting inflation expectations under pressure, and that the risk of higher inflation becoming entrenched has increased. It's certainly increased. I don't think it's high at this moment, but I think it's increased. And I think that's part of the reason behind our move today. [It] is to put ourselves in a position to be able to deal with that risk. And I think we are in a position to deal with that risk. We need to see more data. We need to see how the inflation data and the—all the data evolve in coming months, but we are prepared to, you know, to use our tools to make sure that higher inflation doesn't get entrenched. For one reason, as I—as I just mentioned, it's one of the two big threats, the other being the pandemic itself, to getting back to maximum employment.

MICHELLE SMITH. Let's go to Michael Derby at the *Wall Street Journal*.

MICHAEL DERBY. Yeah. Thanks for taking my question. So as the Fed shifts towards an accelerated taper, I wonder what your read is on financial-stability risks right now. I mean, these periods can be—you know, it seems like the taper process has gone fairly smooth so far. But, you know, what do you see in terms of stability risks? Are there any parts of the financial sector that concern you right now? And are there any significant systemic issues that are on your radar, you know, maybe from the cryptocurrency sector or something like that?

CHAIR POWELL. You know, we have—we have had now for a decade and more a four-part financial stability framework that we use so we can—we can hold ourselves to the same kind of framework and, you know, not just treat each event individually. And there are four key areas: asset valuations, debt owed by households and businesses, funding risk, and leverage among financial institutions. So I would say asset valuations—I'm going to go really superficially here, but asset valuations are somewhat elevated, I would say. Debt owed by businesses, you know, and households—households are in very strong financial shape. Businesses actually have a lot of debt, but their default rates are very, very low. But, nonetheless, it's something we're watching. Funding risk is, by and large, low among, among financial institutions. But we do see money market funds as a vulnerability and, and, you know, would applaud the SEC's action this week. Leverage among financial institutions is low, in the sense that [their] capital is high. So, overall, you know, financial stability, that's how—I wouldn't make an overall characteristic, but we break it down into those pieces.

In terms of the things, you know, that we're—that we're looking for, looking at, you know, it's the—it's the things we've already talked about, to some extent. It's, it's the emergence of a new variant that could, you know, that could lead to significant economic—if there were to be a variant, for example, [and if] that were quite resistant to vaccines, it could have another significant effect on the economy. We don't see that. We don't have any basis for thinking that the new variant that we have is that one, but it's certainly one we're looking at. I would say, you know, cyber risk, the risk of a successful cyberattack, is, for me, you know, always the most—you know, one that would be very difficult to deal with. I think we know how to deal with bad loans and things like that. I think more—a cyberattack that were to take down a major financial institution or financial market utility would be a really significant financial

stability risk that we haven't actually faced yet. So I could go on with a list of "horribles," but I think that's a decent picture of where I would start.

MICHAEL DERBY. How about the cryptocurrency issues? Anything that worries you there that's going on in there in terms of—you know, obviously a lot's happening in that sector. Does that concern you at all?

CHAIR POWELL. You know, I think the concerns there are not so much current financial-stability concerns. I, of course, would support the, the views expressed in the President's Working Group report on stablecoins. Stablecoins can certainly be a useful, efficient, consumer-serving, part of the financial system, if they're properly regulated. And, right now, they aren't. And, and they have the potential to scale [up], particularly if they were to be, you know, associated with one of the very large tech networks that exist and you could have a payment network that was immediately systemically important—close to immediately systemically important that didn't have appropriate regulation and protections. The public relies on the government—and [on] the Fed, in particular—to make sure that the payment system is safe and reliable, as well as the dollar and—you know, to provide a safe and reliable trusted currency. So—but I do think those are longer term.

In terms of, you know, the more—the cryptocurrencies, you know, that are really speculative assets, I don't see them as a financial-stability concern at the moment. I do think they are risky, they're not backed by anything, and I think there's big consumer—issues for consumers who may or may not understand what they're getting. And there's certainly developments in the—in the markets that are worth following, which are really not in our jurisdiction, but things like, you know, the kind of leverage that's built into and those sorts of things is certainly worth, worth watching.

MICHELLE SMITH. Let's go to Nancy Marshall-Genzer at Marketplace.

NANCY MARSHALL-GENZER. Chair Powell. Hi, Chair Powell, thanks for the question. Going back to inflation, is the Fed "behind the curve" on getting inflation under control?

CHAIR POWELL. So I would say this. I actually think we are well positioned to deal with, with what's coming, with the range of plausible outcomes that can come. I do. And I think if you look at how we got here, I do think we've, we've been adapting to the incoming data, really all the way along, and, you know, noticing and calling out that, that the—both the effects and the persistence of inflation of bottlenecks and labor shortages and things like that. So we've been calling out the fact that those were becoming longer, and more persistent, and larger. And now we're in a position where we're ending our taper within the next—well, by March, in two meetings, and we'll be in a position to raise interest rates as and when we think it's appropriate. And we will, if that—to the extent that's appropriate. At the same time, we're going to be seeing a few more months of data. I don't actually think we're out of position now. I think this was an important move for us to make. I think that the data that we got toward the end of the fall was a—was a really strong signal that inflation is more persistent and higher—and that the risk of it remaining higher for longer has grown. And I think we're reacting to that now. And we'll continue to adapt our policy. So I wouldn't look at it that we're "behind the curve." I would look at it that we're actually in position now to take the steps that we'll need to take, you know, in a thoughtful manner to address all of the issues, including that of, of too-high inflation.

MICHELLE SMITH. Let's go to Evan at Market News.

EVAN RYSER. Hi, Chair Powell. Thank you. I was wondering if we should still be seeing the taper and interest rate hikes as separate. And, secondly, in the last cycle, the Fed

started shrinking the balance sheet when short-term interest rates were about 1 to 1¼ percent range. Do you think the FOMC might be able to potentially start running off assets before that this time?

CHAIR POWELL. Are they separate? So our interest rate—I mean, they are separate tools. So the—you know, the, the asset purchases are a separate tool from interest rates. Stopping asset purchases does not remove accommodation. It just stops adding further accommodation. Whereas raising interest rates starts to remove accommodation from what is a highly accommodative stance. You know, the extent to which they'll be separated in time is, is something we haven't really discussed at the Committee [meetings] yet. We will be discussing that, obviously, in coming meetings. I don't think that, that—the last cycle, there was quite a long separation before interest rates. I don't think that's at all likely in this cycle. We're in a very, very different place with high inflation, strong growth, a really strong economy. You know, that—as I mentioned, the SEP medians are for 4 percent growth next year, 3½ percent—3½ percent unemployment at the end of the year, and the, the—you know, headline inflation of 2.6 percent next year, core at 2.7. So this is a strong economy, one in which it's appropriate for, for interest rate hikes. So they're separate, I would say. Your—sorry, your second question was?

EVAN RYSER. My second question was about runoff.

CHAIR POWELL. Runoff.

EVAN RYSER. In the last cycle.

CHAIR POWELL. So, you know, with the balance sheet, we did have a balance sheet discussion, sort of a prelim—a first, first discussion of balance sheet issues today, [balance] sheet issues, at our meeting this week. We'll have another at the next meeting and another at the

meeting after that I suspect. These are interesting issues to discuss. [We] didn't make any decisions today. We looked back at what happened in the last cycle, and people thought that was interesting and informative. And—but to one degree or another, people noted that this is just a different situation, and those differences should inform the decisions we make about the balance sheet this time. So [we] haven't made any decisions at all about, about when runoff would start, but we're—we'll be continuing to—you know, in relation to when either liftoff happens or the end of the taper. But those are exactly the decisions we'll be turning to in coming meetings.

MICHELLE SMITH. Thank you. We'll go to Scott Horsley at NPR.

SCOTT HORSLEY. Thanks, Mr. Chairman. I think you said a few minutes ago that the inflation that we got during the pandemic was not the inflation that we—that you anticipated when you crafted the framework. And you described it as a collision of a lot of monetary and fiscal stimulus with these supply-side hiccups. Does that mean the stimulus was mistaken, or is the inflation just a consequence of—that we have to put up with because of that?

CHAIR POWELL. No, I'm not expressing any judgment about, about the stimulus in, in that comment. What I'm saying is, there's a—there's a sense among some that "you wanted inflation, this is what you wanted, how do you like it?", you know? And the truth is, this is not the inflation that we were—what we were talking about in the—in the framework was inflation that comes from a tight labor market, right? So we had 3½ percent unemployment for a period, and we had inflation that was just barely getting to 2 percent. And I—you know, I think, in that setting, our thinking was, we can afford to wait to raise rates until we see actual inflation rather than [acting] preemptive[ly] because, you know, no one had seen what 3½ percent unemployment would look like—with high labor force participation, by the way. No one had seen what it would look—really look like for an extended period, for decades. And we didn't

know what the inflationary implications were. It turned out there was barely 2 percent inflation—and no sense that it was gaining momentum and that kind of thing. So we incorporated that into our framework.

This is something completely different. You know, that's a situation where you had a very, very high level of employment and low inflation. This is literally the opposite. Or, you know, it has been the opposite, where we have very high inflation and we've had it since the labor market was in terrible shape. It had nothing—so far, this inflation has really nothing to do with tightness in the labor market. It does have to do with, with strong demand, and strong demand was supported by the Fed, it was supported by Congress. I'm not making any judgments on Congress, it's not my job. But I will just say, we're coming out of a, you know, what we certainly hope will be a once in a lifetime, certainly historic—the first really global modern pandemic—which looked at the beginning like it might cause a global depression. And, you know, so we threw a lot of support at it [the economy]. And what's coming out now is, is, you know, really strong growth, really strong demand, high incomes, and all that kind of thing. You know, people will judge in 25 years whether we—whether we overdid it or not, but, you know, the reality is, we are where we are. And, you know, we think our policy is, is the right one for the situation that we're in.

MICHELLE SMITH. Thank you. Let's go to Brian Cheung.

BRIAN CHEUNG. Hi, Chairman Powell. Wanted to ask about the bond markets. When you see the 10-year at 146 basis points, do you have any sort of concerns about an environment by which you might be hiking interest rates into? Would you prefer the curve be a little bit steeper? What are you gleaning from the bond market actions over the last six weeks?

CHAIR POWELL. So I, I think the short-end actions are easy to understand, which is, you know, they're basically very [monetary] policy-sensitive rates at the short end, and it makes sense that it's reacting to changes in expectations for policy. I think a lot of things go into the, you know, the long rates. And the place I would start is just look at global sovereign yields around the world. Look at JGBs, look at bunds, and they're so much lower. You can get—you can get, you know, a much higher yield on U.S. Treasuries by buying USTs rather than bunds and you can—you can hedge, hedge the currency risk back into yen, back into euros and still be way ahead. So, in a way, it's not surprising that there's a lot of demand for, for U.S. sovereigns in a world—you know, in a risk-free world where, where there's so much—they're yielding so much more than bunds are, than JGBs. So that's, that's a big part of it.

I also think, you know, there, there may be some assessment in there of what the neutral rate is or what the terminal rate is. I don't know about that. But—and I would just say that we, you know, we write down our own estimates of the—of the terminal rate or the neutral rate of interest. Those are highly uncertain. And, you know, we'll make policy based on what we're seeing in the economy rather than based on what a neutral—what a model might say the neutral rate is. We, we all had the experience of the last cycle, where we all, through that cycle, were trying to estimate what the neutral rate was, and it turned out—you know, I think we learned a lot from seeing what happens. We ended up cutting rates three times after raising them to 2 $\frac{1}{4}$ to 2 $\frac{1}{2}$ percent. So I'm not troubled by where the long bond [rate] is. You know, I see that it's low. You know, I mean, we're really focused on broader financial conditions, [and] we're focused on maximum employment and price stability.

MICHELLE SMITH. Thank you. For the last question, we'll go to Greg Robb.

GREG ROBB. Thank you very much. Chair Powell, I was wondering if—I wanted to give you the opportunity to talk about something that I've heard that's been discussed—that, you know, your pivot towards a tighter policy, hawkish policy stance had something to do with the timing of your renomination by the President. Thank you.

CHAIR POWELL. Sure, I'd be happy to talk about that. So, as I mentioned, we got the ECI reading just before the November meeting. We got the labor market report two days after the meeting. And then, one week after that, I think on the 12th of November, we got the CPI reading. It was really the CPI reading, in concert with those two, and I, I just came to the view over that weekend that we needed to speed up the taper. And we started working on that. That's a full 10 days or so before the President made a decision of renominating me. So, honestly, it had—it had nothing to do with that at all. And I just thought this is what we got to do. My colleagues were out talking about the—a faster taper. And that doesn't happen by accident. They were out talking about a faster taper before the President made his decision. So it's a decision that effectively was in—more than in train and, you know, to the point where people were talking about it publicly. So that's what happened. And it had absolutely nothing to do with it whatsoever. We're always going to just do what we think is the right thing, and I certainly will always just do what I think the right thing is for the economy and for the people that we serve.

GREG ROBB. Just a quick follow-up. I guess that some people are saying that it was the, you know, the stimulus in March that was sort of over—we didn't really need all that stimulus, and that there was talk even then that that would be a mistake and it would lead to higher inflation. And perhaps that you didn't push back as much as you might have otherwise.

CHAIR POWELL. I didn't push back at all. And the reason I didn't—and there was no—there was lots of talk about that, but not from the Fed, because that is not our job. We are not the CBO, and we're not elected by anybody. So we take fiscal policy as it arrives at our front door, and we don't comment—you know, we make our own assessments inside the Fed, but it's really not our role. And I think, very important, that we stay out of that business, no matter who's in the White House, who's in Congress. It's just—it's just not our job and it's something we avoid pretty, pretty assiduously.

GREG ROBB. Thank you.

CHAIR POWELL. Thank you.

MICHELLE SMITH. Thank you, Mr. Chair. Thank you, everyone.