Transcript of Chair Powell's Press Conference
December 13, 2023

CHAIR POWELL. Good afternoon. My colleagues and I remain squarely focused on our dual mandate to promote maximum employment and stable prices for the American people.

As we approach the end of the year, it's natural to look back on the progress that has been made toward our dual-mandate objectives. Inflation has eased from its highs, and this has come without a significant increase in unemployment. That's very good news. But inflation is still too high, ongoing progress in bringing it down is not assured, and the path forward is uncertain. As we look ahead to next year, I want to assure the American people that we're fully committed to returning inflation to our 2 percent goal. Restoring price stability is essential to achieve a sustained period of strong labor market conditions that benefit all.

Since early last year, the FOMC has significantly tightened the stance of monetary policy. We've raised our policy interest rate by 5¼ percentage points and have continued to reduce our securities holdings at a brisk pace. Our actions have moved our policy rate well into restrictive territory, meaning that tight policy is putting downward pressure on economic activity and inflation, and the full effects of our tightening likely have not yet been felt.

Today, we decided to leave our policy interest rate unchanged and to continue to reduce our securities holdings. Given how far we have come, along with the uncertainties and risks that we face, the Committee is proceeding carefully. We will make decisions about the extent of any additional policy firming and how long policy will remain restrictive based on the totality of the incoming data, the evolving outlook, and the balance of risks. I will have more to say about monetary policy after briefly reviewing economic developments.

Recent indicators suggest that growth of economic activity has slowed substantially from the outsized pace seen in the third quarter. Even so, GDP is on track to expand around

2½ percent for the year as a whole, bolstered by strong consumer demand as well as improving supply conditions. After picking somewhat over the—up somewhat over the summer, activity in the housing sector has flattened out and remains well below the levels of a year ago, largely reflecting higher mortgage rates. Higher interest rates also appear to be weighing on business fixed investment. In our Summary of Economic Projections (SEP), Committee participants revised up their assessments of GDP growth this year but expect growth to cool, with the median projection falling to 1.4 percent next year.

The labor market remains tight, but supply and demand conditions continue to come into better balance. Over the past three months, payroll job gains averaged 204,000 jobs per month, a strong pace that is nevertheless below that seen earlier in the year. The unemployment rate remains low at 3.7 percent. Strong job creation has been accompanied by an increase in the supply of workers. The labor force participation rate has moved up since last year, particularly for individuals aged 25 to 54 years, and immigration has returned to pre-pandemic levels.

Nominal wage growth appears to be easing, and job vacancies have declined. Although the jobs-to-workers gap has narrowed, labor demand still exceeds the supply of available workers. FOMC participants expect the rebalancing in the labor market to continue, easing upward pressures on inflation. The median unemployment rate projection in the SEP rises somewhat from 3.8 percent at the end of this year to 4.1 percent at the end of next year.

Inflation has eased over the past year but remains above our longer-run goal of 2 percent. Based on the consumer price index and other data, we estimate that total PCE prices rose 2.6 percent over the 12 months ending in November and that, excluding the volatile food and energy categories, core PCE prices rose 3.1 percent.

The lower inflation readings over the past several months are welcome, but we will need to see further evidence to build confidence that inflation is moving down sustainably toward our goal.

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. As is evident from the SEP, we anticipate that the process of getting inflation all the way to 2 percent will take some time. The median projection in the SEP is 2.8 percent this year, falls to 2.4 percent next year, and reaches 2 percent in 2026.

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, 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.

As I noted earlier, since early last year, we have raised our policy rate by 5¼ percentage points, and we have decreased our securities holdings by more than $1 trillion. Our restrictive stance of monetary policy is putting downward pressure on economic activity and inflation. The Committee decided at today's meeting to maintain the target range for the federal funds rate at 5¼ to 5½ percent and to continue the process of significantly reducing our securities holdings.

While we believe that our policy rate is likely at or near its peak for this tightening cycle, the economy has surprised forecasters in many ways since the pandemic, and ongoing progress—sorry—ongoing progress toward our 2 percent inflation objective is not assured. We are prepared to tighten policy further if appropriate. We're committed to achieving a stance of monetary policy that is sufficiently restrictive to bring inflation sustainably down to 2 percent over time and to keeping policy restrictive until we're confident that inflation is on a path to that objective.

In our SEP, FOMC participants wrote down their individual assessments of an appropriate path for the federal funds rate based on what each participant judges to be the most likely scenario going forward. While participants do not view it as likely to be appropriate to raise interest rates further, neither do they want to take the possibility off the table. If the economy evolves as projected, the median participant projects that the appropriate level of the federal funds rate will be 4.6 percent at the end of 2024, 3.6 percent at the end of 2025, and 2.9 percent at the end of 2026, still above the median longer-term rate.

These projections are not a Committee decision or plan; if the economy does not evolve as projected, the path of policy will adjust as appropriate to foster our maximum-employment and price-stability goals.

In light of the uncertainties and risks, and how far we have come, the Committee is proceeding carefully. We will continue to make our decisions meeting by meeting, based on the totality of the incoming data and their implications for the outlook for economic activity and inflation, as well as the balance of risks. In determining the extent of any additional policy firming that 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 remain committed to bringing inflation back down to our 2 percent goal and to keeping longer-term inflation expectations well anchored. 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.

MICHELLE SMITH. Let's go to Chris Rugaber.

CHRISTOPHER RUGABER. Thank you. Chris Rugaber at Associated Press. I wanted to ask, how should we interpret the addition of the word "any" before "additional . . . firming" in the statement? I mean, does that mean that you're pretty much done with rate hikes and the Committee has shifted away from a tightening bias and toward a more neutral stance?
Thank you.

CHAIR POWELL. So—specifically on "any": We do say that "in determining the extent of any additional policy firming that may be appropriate," so "any additional policy firming"—that sentence. So we added the word "any" as an acknowledgement that we believe that we are likely at or near the, the peak rate for this cycle. Participants didn't write down additional hikes that we believe are likely, so that's what we wrote down. But participants also didn't want to take the possibility of further hikes off the table. So that's really what we were thinking.

MICHELLE SMITH. Steve.

STEVE LIESMAN. Steve Liesman, CNBC. Happy holidays, Mr. Chairman. Fed Governor Chris Waller said that if inflation continues to fall, then the Fed in the next several months could be cutting interest rates. I wonder if you could comment on whether you agree with Fed Governor Waller on that, that the Fed would become more restrictive if it didn't cut rates if inflation fell. Thank you, sir.

CHAIR POWELL. So, of course, I don't comment on, on any other officials, even those who work at the Fed. But I'll—but I'll try to answer your question more broadly. So the way—the way we're looking at it is, is really this. When we started out, right, we said the first question is, how fast to move, and we moved very fast. The second question is, you know, really, how high to raise the policy rate? And that's really the question that we're still on here. We're, we're very focused on that, as I—as I mentioned. People generally think that we're at or near that and, and think it's not likely that we will hike, although they don't take that possibility off the table. So that's—when you get to that question, and that's your answer, there's a natural—naturally, it begins to be the next question, which is when it will become appropriate to begin dialing back the amount of policy restraint that's in place.

So that's really the next question, and that's what people are thinking about and, and talking about. And I would just say this. We are seeing, you know, strong growth that is—that appears to be moderating; we're seeing a labor market that is coming back into balance by so many measures; and we're seeing inflation making real progress. These are the things we've been wanting to see. We can't know. We still have a ways to go. No one is declaring victory. That would be premature. And we can't be guaranteed of this progress [continuing]. So we're, we're moving carefully in making that assessment of whether we need to do more or not. And that's, that's really the question that we're on. But, of course, the other question, the question of when will it become appropriate to begin dialing back the amount of policy restraint in place, that, that begins to come into view and is clearly a discussion—topic of discussion out in the world and also a discussion for us at our meeting today.

STEVE LIESMAN. Can you give some color as to the nature of that discussion today? Thank you.

CHAIR POWELL. Sure. So it, it comes up in this way today. Everybody wrote down an SEP forecast. So many people mentioned what their—what their rate forecast was. And there was no back-and-forth, no attempt to sort of reach agreement like, "This is what I wrote down; this is what I think," that kind of thing, and a preliminary kind of a discussion like that. Not everybody did that, but many people did. And then, and I would say, there's a general expectation that this will be—this will be a topic for us, looking ahead. That, that's really what happened in today's meeting. I can't do the head count for you in real time. But that's generally what happened today.

STEVE LIESMAN. Thank you.

MICHELLE SMITH. Let's go to Rachel.

RACHEL SIEGEL. Hi, Chair Powell. Rachel Siegel from the *Washington Post.* Thanks for taking our questions. At this point, can you confidently say that the economy has avoided a recession and isn't heading for one now? And if the answer is "no," I'm curious about what you'd still be looking for. Thanks.

CHAIR POWELL. I think you can say that there's little basis for thinking that the economy is in a recession now. I would say that.

I think there's, there's always a probability that, that there will be a recession in the next year, and it's a meaningful probability no matter what the economy is doing. So it's always a real possibility. The question is, is it—so it's a possibility here. I have always felt, since the beginning, that there was a possibility, because of the unusual situation, that the economy could cool off in a way that enabled inflation to come down without the kind of large job losses that have often been associated with high inflation and tightening cycles. So far, that's what we're seeing. That's what many forecasters, on and off the Committee, are seeing. This result is not guaranteed. It is—it is far too early to declare victory. And there are certainly risks. It's certainly possible that, that the economy will behave in an unexpected way. It has done that repeatedly through the post—in the post-pandemic period. Nonetheless, where we are is, is we see the things that I—that I mentioned.

RACHEL SIEGEL. I'm curious, if you're looking back on the past year, you talked about "navigating by the stars under cloudy skies." Can you talk about some of the ways in which the economy surprised you most this year, where you thought it would behave in one way and had to pivot to respond? Thanks.

CHAIR POWELL. So I think forecasters generally, if you go back a year, were very broadly forecasting a recession for this year, for 2023. And not only did that not happen—that includes Fed forecasters and really, essentially, all forecasters; a very high proportion of forecasters predicted very weak growth or a recession—not only did that not happen, we actually had a very strong year, and that was a combination of, of strong demand but also of real gains on the supply side.

So this was the year when labor force participation picked up, where immigration picked up, where the distortions to supply and demand from the pandemic—you know, the shortages and the bottlenecks—really began to unwind. So we had significant supply-side gains with strong demand, and we got what looks like a 2½ percent-plus, or a little more than that, growth year at a time when potential growth this year might even have been higher than that, just because of the healing on the supply side. So that was a surprise to just about everybody.

I think the inflation forecast is roughly, roughly what people wrote down a year ago, but in a very different setting. And I would say the labor market, because of the stronger growth, has also been significantly better. If you look back at the SEP from a year ago, there was a significant increase in, in unemployment. It didn't really happen. We're still at 3.7 percent. So we've seen, you know, strong growth, still a tight labor market but one that's coming back into balance with the—with support from the supply side, a greater supply of labor. It's a—you know, that's, that's what we see, and I think that combination was, was not anticipated broadly.

MICHELLE SMITH. Howard.

HOWARD SCHNEIDER. Thanks. Howard Schneider with Reuters, and thanks for taking the questions. I, I wonder if you could give a little more color or detail on what—on what motivates the lower rates next year, whether it's a coincidence, for example, that the spread between PCE inflation, core inflation, and the federal funds rate stays constant over the year. Are you simply calibrating against the fall in prices, in the price level that you're expecting, in the rate of inflation that you're expecting as opposed to supporting the economy?

CHAIR POWELL. Nothing quite that mechanical is happening. The SEP really is, is a bottoms-up—built from the bottom up, right? So I think people are looking at what's happening in the economy. And I think if you look at the big difference from September in the SEP, [it is that] the expectations for inflation this year, both headline and core, have come down, you know, really significantly in three months. That's a big piece of, of this. At the same time, [real GDP] growth has turned out to be very strong in the third quarter. [Now it] is slowing, we believe, as, as appropriate. And we've got—we've had several labor market reports, which suggest, again, significant progress toward greater balance across a very—a broad range of indicators. You're seeing so many of the indicators coming back to normal, not all of them. But so I think that people look at that, and they write down their—basically, each individual writes down a forecast and a rate forecast that goes with that forecast. We tabulate them and, and publish it. And so it's not—it isn't—you ask about real rates, I take it?

HOWARD SCHNEIDER. Yes.

CHAIR POWELL. You know, that's—that is—that is something that we're very conscious of, and aware of, and monitor, and it's certainly a big part of—it's a part of how we think about things. But, really, it's broader financial conditions that matter. And, as you well know, it's so hard to know exactly, you know, what the—what the real rate is or exactly how tight policy is at any given time. So you couldn't follow that like it was a rule and think that you would get the right answer all the time, but it's certainly something that we're focused on. And, indeed, if you look at the projections, I think the expectation would be that the real rate is declining as we—as we move forward.

HOWARD SCHNEIDER. It sounds like the discussion—if I could follow up—has, has already kind of begun. I'm wondering, just related to, to Steve's question, how the—how the tactics of this play out given the slowing of inflation and the fact that the deeper you get into 2024, the closer you get to a presidential election. Do you want to front-load this, in other words?

CHAIR POWELL. Yeah. No, we—we're—we don't think about political events. We don't think about politics. We think about what's the right thing to do for the economy. The minute we start thinking about those things—you know, we just can't do that. We have to think, what's the right thing? We'll do the things that we think are right for the economy at the time we—when we think is the right time. That's what we'll always do.

So I mentioned we're moving carefully. One of the things we're moving carefully about is that decision over—that assessment, really—over whether, whether we've done enough, really. And you see that people are not writing down rate hikes. That's, that's us thinking that we have done enough but not, not feeling that really strongly, confidently and not wanting to take the possibility of a rate hike off the table. Nonetheless, it's not the base case anymore, obviously, as it was, you know, 60, 90 days ago. So that's, that's how we're—that's how we're approaching things. And, and, you know, as I mentioned, we wrote down this SEP, and it talks about—people have individual assessments of when it will be appropriate to, you know, to start to dial back on, on the tight policy we have in place, and that's a discussion we'll be having going forward. But that's another assessment that we're going to make very carefully, so as time goes forward.

MICHELLE SMITH. Nick.

NICK TIMIRAOS. Nick Timiraos of the *Wall Street Journal.* Chair Powell, you've argued over the last year that policy tightening started before you actually lifted off because the market anticipated your moves and tightened on your behalf. The market is now easing policy on your behalf by anticipating a funds rate by next September that's a full point below the current level, with cuts beginning around March. Is this something that you are broadly comfortable with?

CHAIR POWELL. So this last year has been remarkable for the, the sort of seesaw thing, the back-and-forth we've had over the course of the year of markets moving away and moving back and that kind of thing. So, and what I would just say is that we, we focus on what we have to do and how we need to use our tools to achieve our goals, and that's what we really focus on. And people are going to have different forecasts about the economy, and they're going to—those are going to show up in market conditions, or they won't, you know. But in any case, we have to do what we think is right.

And, you know, in the long run, it's important that financial conditions become aligned or are aligned with what we're trying to accomplish, and, in the long run, they will be, of course, because we will do what it takes to get to our goals. And, ultimately, that will mean that financial conditions will, will come along. But in the meantime, there can be back-and-forth, and, you know, I'm just focused on what's the right thing for us to do. And my colleagues are focused on that, too.

NICK TIMIRAOS. The markets seem to think inflation is coming down credibly. Do you believe we're at the point where inflation is coming down credibly?

CHAIR POWELL. Listen, I welcome the progress. I think it's, it's really good to see the progress that we're making. I think if you look at the 12-month—look at the 6-month measures, you see very low numbers. If you look at 12-month measures, you're still well above 2 percent. You're actually above 3 percent on core, through November, PCE [inflation]. That isn't to say—I'm not, you know, calling into question the progress. It's great. We just need to see more. We need to see, you know, continued further, further progress toward getting back to 2 percent. That's, that's what we need to see.

So, you know, our—it's our job to restore price stability. And that—it's one of our two jobs, along with maximum employment, and they're equal. So we're very focused on, on, you know, doing that. As I mentioned, we're moving carefully at this point. We're pleased with the progress, but, but we see the need for further progress, and I think—I think it's fair to say there is a lot of uncertainty about going forward. We've seen the economy move in surprising directions, so we're just going to need to see more further progress.

MICHELLE SMITH. Jeanna.

JEANNA SMIALEK. Jeanna Smialek, *New York Times.* Thanks for taking our questions. In the SEP from today, [real GDP] growth is notably below potential in 2024. If growth were to surprise us again in the way that it has for years now by being stronger than expected next year, would it still be possible to cut rates? Or, put another way, is below-trend growth necessary to cut rates, or would continued progress on inflation alone be sufficient?

CHAIR POWELL. So we'll, we'll look at the totality of the data. Growth is one thing, so is inflation, so is labor market data. So we'd, we'd look at the totality. As we—as we make decisions about policy changes going forward, we're going to be looking at all those things and, particularly, about the—as they affect the outlook. So it's ultimately all about the outlook and the balance of risks as well. So that's what—that's what we'd be looking for.

If we have stronger growth, you know, that'll be good for people. That'll be good for the labor market. It might actually mean that it takes a little longer to get inflation down to 2 percent. We will get it down to 2 percent, but, you know, if we see stronger growth, we'll—we will set policy according to what we actually see. And, and so that's how I would answer.

JEANNA SMIALEK. I guess the—I guess the question I'm asking, if you don't mind a quick follow-up, I guess the question I'm asking is, is above-trend growth itself a problem?

CHAIR POWELL. It's only a problem inso—it's not itself a problem. It's only a problem insofar as it makes it more difficult for us to achieve our goals. And, you know, if you have—if you have growth that's robust, what that will mean is probably it will keep the labor market very strong. It probably will, will place some upward pressure on inflation. That could mean that it takes longer to get to 2 percent inflation. That could mean we need to keep rates higher for longer. It could even mean, ultimately, that we would need to hike again. It just is—it's the way, the way our policy works.

MICHELLE SMITH. Let's go to Neil.

NEIL IRWIN. Hi, Chair Powell. Neil Irwin with Axios. How do you interpret the state of the labor market right now? And, in particular, you've referred even today to evidence that it's coming into better balance. What would you need to see to conclude that it has reached that balance?

CHAIR POWELL. So on, on the better-balance side, there are just a lot of things. It's—you see—you see job growth still strong but moving back down to more sustainable levels, given population growth and labor force participation. The things that are not quite—but let me go on with that list. You know, claims are low. If you look at surveys of businesses, they're, they're—sort of the era of this frantic labor shortage, [those kinds of worker shortages] are behind us, and they're seeing a shortage of labor as being significantly alleviated. If you look at shortages of workers, whereas they thought job, job availability was the highest that it'd ever been or close to it, that's now down to more normal levels by so many measures—participation, unemployment—so many measures: the unemployment—job openings, quits, all of those things.

So wages are still running a bit above what would be consistent with 2 percent inflation over a long period of time. They've been gradually cooling off. But if wages are running around 4 percent, that's still a bit above, I would say. And I guess there, there are just a couple of other—the unemployment rate is very, very low. And these are—but, but I would just say, overall, the development of the labor market has been very positive. It's been a good time for workers to find jobs and get solid wage increases.

MICHELLE SMITH. Claire.

CLAIRE JONES. Claire Jones, *Financial Times.* You know, I'd say the mood among economists at the moment seems to be one of cautious optimism, which is somewhat corroborated by your forecast by the sense that we are going to have a soft landing. Yet when we—when we hear from the general public, there's a lot of discord about economic conditions. What do you think explains this disconnect, and does it matter for policymakers?

CHAIR POWELL. It may be. A common theme is that, while inflation is coming down, and that's very good news, the price level is not coming down. Prices of some, some goods and services are coming down. But overall, in the aggregate, the price level is not. So people are still living with high prices, and that's, that's not—that is something that people don't like. And, you know, so what will happen with that is, wages are now—[changes in] real wages are now positive. So [nominal] wages are now moving up more than inflation, as inflation comes down. And so that might help improve the mood of people.

But we do see those—we see those public opinion surveys. The thing that we can do is to do our jobs, which is to use our tools to foster price stability, which has such great benefits over such long periods of time, and which is the thing that really enables us to work for and achieve an extended period of high employment, which is so beneficial for, you know, families and, and companies around the country.

MICHELLE SMITH. Victoria.

VICTORIA GUIDA. Hi. Victoria Guida with Politico. I wanted to ask, you know, on, on the flip side of if things start to deteriorate rapidly, if we do fall into a recession, if we do start to see unemployment rise, at sort of the levels of inflation that we're seeing now, how would you all think about that in terms of rate cuts? Would that be a sign that you've, you've done your job demand-wise?

CHAIR POWELL. Sorry—if?

VICTORIA GUIDA. If, if the economy starts to—looks like it's starting to fall into a recession; if, if the jobless rate starts to rise.

CHAIR POWELL. That's not something we're hoping to see. Obviously, we're hoping to, to see something very different—which is a continuation of what we have seen, which is the labor market coming into better balance without a significant increase in unemployment, inflation coming down without a significant increase in unemployment, and growth moderating without a significant increase in unemployment. That's what we're, we're trying very much to achieve and not something that we're looking to see.

VICTORIA GUIDA. But, but would you take that as a signal that you should cut rates?

CHAIR POWELL. You know, obviously, what we'll do is we'll look at the totality of the data, as I've mentioned a couple times, and, certainly, the labor data would be important in that. And, you know, if you—if you can describe a situation like that where if, if there were the beginning of a recession or something like that, then, yes, that would certainly weigh heavily on that decision.

MICHELLE SMITH. Michael McKee.

MICHAEL MCKEE. Michael McKee from Bloomberg Television and Radio. Mr. Chairman, you were, by your own admission, behind the curve in starting to raise rates to fight inflation, and you said earlier, again, "the full effects of our tightening (cycle) have not yet been felt." How will you decide when to cut rates, and how will you ensure you're not behind the curve there?

CHAIR POWELL. So we're, we're aware of the risk that we would hang on too long. You know, we know that that's a risk, and we're very focused on not making that mistake. And we do regard the two—you know, we've come back into a better balance between the risk of overdoing it and the risk of underdoing it. Not only that, we were able to focus hard on the—on the price-stability mandate. And we're getting back to the point where—which is what you do when you're very far from, from one of them, one of the two mandates—you're getting now back to the point where both mandates are important, and they're, they're more in balance, too. So I think we'll be—we'll be very much keeping that in mind, as we make policy going forward.

And the things we'll be looking at, I've already described. You know, we're, we're obviously looking hard at what's happening with demand, and what we see? We see the same thing other people see, which is a strong economy, which really put up quite a performance in 2023. We see good evidence and good reason to believe that growth will come in lower next year. And you see what the forecasts are. I think the median growth—median participant wrote down 1.4 percent growth, but, you know, we'll have to see. It's very hard to predict. We'll also be looking to see progress on inflation and, you know, the labor market remaining strong but, but ideally, without seeing the kind of large increase in unemployment that happens sometimes.

MICHAEL MCKEE. If I could follow up: When you begin the cutting cycle, will it be essentially run the same way you do it now with raising rates, where you basically do trial and error, cut and see what happens, or will you tie it to some particular measure of progress?

CHAIR POWELL. We haven't typically tried to articulate, with one exception, really specific target levels, which was if you—some of you will remember the thresholds that we used in, I guess, 2013. I don't—the answer is, these are things that we haven't, you know, really worked out yet. We're sort of just at the beginning of, of that discussion.

MICHELLE SMITH. Edward.

EDWARD LAWRENCE. Thank you, Mr. Chairman. Edward Lawrence of Fox Business. So if the Fed cuts rates as the dot plot is, is showing, about 75 basis points, does that signal that there's a belief of weakness next year in the economy?

CHAIR POWELL. It wouldn't, if that were to—first of all, let me just say, that isn't a plan. That's, that's just cumulating what people wrote down. So that's not something—you know this, but allow me to say it again: We don't debate or discuss what the right, you know, whose SEP is right. We just say what they are, and we tabulate them and publish them. So and it's, you know, it's important for people to know that. But it wouldn't need to be a sign of—it could just be a sign that the economy is normalizing, and it doesn't need the tight policy. It depends on—the economy can evolve in many different ways, right? So but, but it could be more of what I just described.

EDWARD LAWRENCE. And you focused on core inflation, we've heard from—in other meetings. How sticky is core inflation right now?

CHAIR POWELL. Well, that's what we're finding out, and we've, you know, we've seen real progress in, in core inflation. It has been sticky, and famously, the service sector is thought to be stickier, but we've actually seen reasonable progress in nonhousing services, which was the area where, where you would expect to see less progress. We are seeing some progress there, though. And, in fact, all three of the categories of core [prices] are now contributing: goods, housing services, nonhousing services. They're all contributing in different—at different levels, you know, meeting by meeting—or, rather, report by report. So, yeah.

MICHELLE SMITH. Okay. Let's go to Catarina.

CATARINA SARAIVA. Catarina Saraiva of Bloomberg News. Thanks for taking our questions. I just wanted to ask a little bit about, you know, we had some pretty positive data this, you know, this morning and yesterday. I'm assuming those were not incorporated into the forecast we see today, but I just wanted to ask, you know, how that kind of adds to your thinking, you know, on the inflation outlook.

CHAIR POWELL. Right. So we got—we got CPI the morning of the first day, and we got PPI the next day, which informs the, you know, the translation into PCE [inflation]. So it's very late in the game, you know, to—but nonetheless, participants are allowed to, encouraged to update their SEP forecast until probably midmorning today. After that, so staff has to—has to cumulate all of that and create the documents that you see. So until about midmorning, a little, maybe late morning, it's okay to update, and I believe some people did update their forecast based on what we saw today.

CATARINA SARAIVA. Okay. And do you see—I mean, how are you, when you think about, you know, starting to think about the rate cuts next year or whenever they come, how do you, you know, how do you think about the economy we're in now kind of post-pandemic? Do you think that there's been significant structural shifts, and is that going to change how you look at a rate cut path?

CHAIR POWELL. The question of whether there have been fundamental structural shifts is, is really hard to know the answer and a very interesting one right now. The one that would affect—the one that comes to mind, though, is just the question of where the neutral rate of interest is. And so, for example, if it's risen, and I'm not saying that it has, but if it were to have risen, that would mean that, that interest rates would need to be a little bit higher to convey the same level of restriction. The thing is, we're not really going to know that. You know, people will be writing papers about that 10 years from now and still fighting about it. So it's just that it's going to be uncertain.

So we're going to be making policy in this, you know, difficult, uncertain, really unprecedented environment. Some—someone once said that you know the—you know the natural rate of interest by its works, and that's really right, but that's very difficult because policy operates with a lag. So that's one of the reasons why we slowed down this year. We started slowing down at this meeting last year, reducing the pace at which we were adding restriction. And, over the course of this year, we really slowed down a lot to give those lags time to work.

In terms of demand, has demand shifted more away from services into goods? There's—you can make a case for that, that the shift back into services has not been complete, and it doesn't look like it's ongoing, but I don't know if that's right. Maybe people just bought so much stuff that they temporarily don't want any more stuff. They haven't got anyplace to put it. [Laughter]

MICHELLE SMITH. Let's go to Jennifer.

JENNIFER SCHONBERGER. Thank you, Chair Powell. Jennifer Schonberger with Yahoo Finance. You said back in July that you needed to start cutting rates before getting to 2 percent inflation. As you mentioned, PCE inflation is now running at 3½ on core. On a six-month annual basis, core PCE is running at 2½ percent, though when you look at supercore and shelter, they are, of course, stickier. So when looking in the different components of the data, how much closer do you have to get to 2 percent before you consider cutting rates?

CHAIR POWELL. I mean, the reason you wouldn't wait to get to 2 percent to cut rates is that policy would be, it would be too late. I mean, you'd want to be reducing restriction on the economy well before 2 percent because—or before you get to 2 percent so you don't overshoot, if we think, think of restrictive policy as weighing on economic activity. You know, it takes—it takes a while for policy to get into the economy, affect economic activity, and affect inflation. So I can't give you a precise answer. But if you look at what's in the—in the SEP, and, you know, I think you'll see a reasonable estimate of the time lags and things like that that it would take.

JENNIFER SCHONBERGER. Do think below 3 percent would be reasonable?

CHAIR POWELL. I wouldn't want to—I wouldn't want to identify any one precise point, because I would be able to look back then and probably find out that it turned out not to be right. But we'll be looking at it and, and looking at the broad collection of factors.

MICHELLE SMITH. Let's go to Jean Yung.

JEAN YUNG. Hi, Chair Powell. Jean Yung with Market News. I wanted to go back to the stickiness-of-inflation question. Over the past couple of years, a lot of central bankers have talked about the more difficult last mile of getting inflation back down to 2 percent, yet it's also been surprising how fast inflation has come down this year. I'm curious, do you think something has changed in our understanding of inflation, or do you subscribe to this notion still? Or is it something different about the U.S. economy? Thank you.

CHAIR POWELL. I think—I think this. You know, we felt since the beginning that it would be a combination of two factors. The first factor is just the unwinding of, of what happened in the pandemic: the distortions of supply and demand. And the second thing would be our policy, which was weighing on aggregate demand and actually making it easier for the supply side to recover because of lower demand. We thought those two things were going to be necessary. Sorry, say your—say the last part of your question again.

JEAN YUNG. If there was something different about the U.S. economy.

CHAIR POWELL. Yeah. So it's not that—it may or may not be about "different," the U.S. economy being different. I think that this inflation was not the classic demand overload, pot-boiling-over, kind of inflation that we [typically] think about. It was a combination of very strong demand, without question, and unusual supply-side restrictions, both on the goods side but also on the labor side, because we had a—we had a participation shock. So this is just very unusual.

And, you know, we had the view—my colleagues and I broadly had the view—that we could get a lot of—you know, you had essentially a vertical supply curve, because you ran into the limits of, of capacity at very low levels, because there weren't workers and because people couldn't—the supply chains were all broken. So we, we had the view that you could come straight down that vertical supply curve to the extent demand [was] lowered, reduced. And, you know, something like that has happened. It happened so far. The question is, you know, once, once that part of it runs out—and we think it has a ways to run; we definitely think that the sort of supply chain and shortages side has some, some ways to run—does labor force participation have much more to run? It might. Immigration could help, but it may be that, at some point—at some point, you will run out of supply-side help, and then it gets down to demand, and it gets harder. That's, that's very possible. But to say with certainty that the last mile is going to be different, I'd be reluctant to, you know, to suggest that we have any certainty around that. We just don't know. I mean, inflation keeps coming down. The labor market keeps getting back into balance. And it's so far, so good—although we kind of assume that it will get harder from here. But so far, it hasn't.

MICHELLE SMITH. Okay. We'll go to Megan for the last question.

MEGAN CASSELLA. Hi, Chair Powell. Thanks for taking our questions. Megan Cassella with *Barron's*. I want to ask about the balance sheet given the Fed's focus now on proceeding carefully and considering rate cuts. And can you talk us through what the latest thinking is, and has there been any consideration of altering the pace of quantitative tightening at all?

CHAIR POWELL. We're, we're not talking about altering the pace of QT right now, just to get that out of the way.

So the balance sheet seems to be working pretty much as expected. What we've been seeing is, you know, that we're allowing runoff each month. That's adding up. I think we're down—we're close to 1.2 trillion [dollars]. That's showing up. The reverse repo facility [take-up] has been coming down quickly, and reserves have been either moving up or—as a result—or holding steady. At a certain point, you know, there won't be any more to come out of, or there'll be a level where [take-up at] the reverse repo facility levels out. And, at that point, reserves will start to come down.

You know, we still have—you know that we intend to reduce our securities holdings until we judge that the quantity of reserve balances has reached a level somewhat above that consistent with ample reserves, and we also intend to slow and then stop the decline in size of the balance sheet when reserve balances are somewhat above the level judged to be consistent with ample reserves. We're not at those levels, you know, with, with reserves close to 3.5 trillion [dollars]. We're not—we don't think we're at those [levels judged consistent with ample] reserves. There isn't a lot of evidence of that. We're watching it carefully. And, you know, so far—so far, it's working pretty much as expected, we think.

MEGAN CASSELLA. Do you anticipate adjusting that thinking at all by the time you're, you're considering or moving forward with rate cuts? Is that time to rethink, or are you still going to follow that thinking?

CHAIR POWELL. So I think they're, they're on independent tracks. You're asking, though, the question, I guess you're implying the question of can you continue with QT at such time—QT, which is a tightening action—at such time as policy is still tight? And the answer is, it depends on the reason. You know, if you're—if you're—if you're cutting rates because you're going back to normal, that's one thing, [and distinct from] if you're cutting them because the economy is really weak. So you can imagine, you'd have to know what the reason is to know whether it would be appropriate to do those two things at the same time.

MICHELLE SMITH. Thank you.

CHAIR POWELL. Thanks very much.