

**Transcript of Chairman Powell's Press Conference  
September 26, 2018**

CHAIRMAN POWELL: Good afternoon, everyone. Thanks for being here. I am going to start with an overview of how my colleagues and I see the economy, what we decided today, and then a bit about our expectations for the months ahead.

Our economy is strong. Growth is running at a healthy clip. Unemployment is low, the number of people working is rising steadily, and wages are up. Inflation is low and stable. All of these are very good signs. Of course, that's not to say that everything is perfect. The benefits of this strong economy have not reached all Americans. Many of our country's economic challenges are beyond the scope of the Fed, but my colleagues and I are doing all we can to keep the economy strong, healthy, and moving forward. That is the best way we can promote an environment in which every American has the opportunity to succeed.

Each time my colleagues and I meet, we face the same question: How can we set policy to best support job growth and low, steady inflation? For many years, this question called for very low interest rates to help an economy that had been damaged by the deep financial crisis that gripped the world 10 years ago. As the economy has steadily gained strength, the Fed has been gradually returning interest rates closer to levels that are normal in a healthy economy. We took another step on that path today with a quarter-point increase in short-term interest rates. These rates remain low, and my colleagues and I believe that this gradual return to normal is helping to sustain this strong economy for the longer-run benefit of all Americans.

As I mentioned, 10 years have now passed since the depths of the financial crisis—a painful part of our history that cost many Americans their jobs, their homes, and, for some, their hopes and dreams. In addition to holding interest rates low to support the recovery, we have also taken many steps to make the financial system safer. In particular, we're holding the largest

banks to much higher standards in the amount of capital and liquidity they hold and in the ways they assess and manage the risks they take. I am confident that the system today is stronger and in a far better position to support the financial needs of households and businesses through good times and bad. We continue to work to sustain these fundamental improvements while also ensuring that regulation is both effective and efficient.

Now, let me go into more detail about the developments that motivated today's policy decision. Both household spending and business investment are expanding briskly, and the overall growth outlook remains favorable. And several factors support this assessment: Fiscal policy is boosting the economy, ongoing job gains are raising incomes and confidence, and overall financial conditions remain accommodative. These conditions are consistent with our Summary of Economic Projections for this meeting. The median of Committee participants' projections for the growth of real GDP is 3.1 percent this year and 2.5 percent next year.

Job gains averaged 185,000 per month over the last three months, well above the pace needed in the longer run to provide jobs for new entrants to the labor force. The unemployment rate stood at 3.9 percent in August and has been near that level since April. Smoothing through month-to-month variations, the labor force participation rate remains about where it was in late 2013—a positive sign, given that the aging of our population is putting downward pressure on participation. We expect the job market to remain strong. And the median of Committee participants' projections for the unemployment rate later this year is 3.7 percent and a bit lower than that in 2019.

Overall consumer prices, as measured by the price index for personal consumption expenditures (PCE inflation), increased 2.3 percent over the 12 months ending in July. The core price index, which excludes the prices of energy and food and tends to be a better indicator of

future inflation, rose 2 percent over the same period. The FOMC seeks, and expects to see, inflation remaining near our 2 percent longer-run objective on a sustained basis. At any given time, inflation may be somewhat above or below 2 percent. For example, the recent rise in oil prices has pushed inflation a little above 2 percent, but we expect this to be transitory, as is reflected in our projections. The median projections for both the overall and core inflation measures remain very close to 2 percent across the whole projection horizon.

Today the Committee raised the target range for the federal funds rate by  $\frac{1}{4}$  percentage point, bringing it to 2 to  $2\frac{1}{4}$  percent. This action reflects the strength we see in the economy and is one more step in the process that we began almost three years ago of gradually returning interest rates to more normal levels. Looking ahead, today's projections show gradual interest rate increases continuing roughly as foreseen in June. The median of participants' views on appropriate policy through 2020 are unchanged since the June meeting.

These projections play an important role in our work. My colleagues and I believe that it's useful to communicate our views on likely prospects for the economy and for policy. We are well aware, however, that the economy regularly surprises, and that even the most carefully constructed projections are highly uncertain. The projections about the appropriate path of policy assume that the economy evolves broadly in line with the projections for growth, employment, unemployment, and inflation. If the economy were instead to falter, lower interest rates would be appropriate. Conversely, if inflationary pressures were to rise more than expected, higher interest rates would be appropriate. Right now, as our statement indicates, risks to the economic outlook appear roughly balanced.

Readers of the FOMC statement likely noted that the Committee dropped a sentence that indicated that "the stance of monetary policy remains accommodative." This change does not

signal any change in the likely path of policy; instead, it is a sign that policy is proceeding in line with our expectations. We still expect, as our statement says, "further gradual increases in the target range for the federal funds rate," and this expectation is reflected in the projections that I just discussed. Thanks very much. I'm happy to take your questions.

NICK TIMIRAOS. Thank you. Nick Timiraos, the *Wall Street Journal*. Chair Powell, given the lags of monetary policy, I want to know how you think about ending the tightening cycle? How will you know when to stop? And do you need to keep going until something in the economy breaks?

CHAIRMAN POWELL. So the tightening cycle, as you know, is a reflection of the strength of the economy. And it's almost three years now that we've been gradually raising rates. And I think the fact that we have moved quite gradually, in a way, allows us to carefully watch incoming data in the real economy and in the financial markets to see how the economy is processing higher interest rates. And the fact that we're moving so gradually—I think it—I think it limits the long and variable lags problem because, you know, we're being able to raise rates and then wait and see how the economy absorbs these rate increases. And so far, the economy has performed very well and very much in keeping with our expectations.

JIM PUZZANGHERA. Hi, Jim Puzzanghera from the *L.A. Times*. President Trump has stated publicly he's not thrilled with the interest rate hikes. His comments didn't appear to have any impact on you or your colleagues. Were his comments discussed at your meeting? And do you have any concerns about the effect of these types of comments on the perception of the Fed's independence and your monetary policy?

CHAIRMAN POWELL. So we've been given a really important job to do on behalf of the American people by Congress, and we've been given the tools to do it, and my colleagues

and I are focused exclusively on carrying out that mission. We consider the best thinking, the best theory, and the best evidence. We have disparate points of view, which we debate extensively and come to a perspective and try to set monetary policy to achieve maximum employment in a context of price stability. That's what we do. We don't consider political factors or things like that. And so that's who we are, that's what we do, and that's just the way it's always going to be for us.

STEVE LIESMAN. Steve Liesman, CNBC. Thank you, Mr. Chairman. Can you explain how—the stock market being at a near all-time high, corporate spreads being very tight—how does the level of the market factor into your decisions to raise interest rates? Is there a concern on your part? And then, as sort of a second and related part, can you tell us what happens in 2020 and 2021 that—I know you can't tell us when you're shaking your head [laughter]—that prompts—that prompts you—the Fed to think that the rates need to still be above neutral in that time period? Thank you.

CHAIRMAN POWELL. Sure. So in terms of financial markets and monetary policy, we—as we say in our statement every cycle, we do take financial conditions into consideration because financial—broader financial conditions do affect the broader economy, and they're one of the many things that we take into account. The part of it that we control, though, is what we do with the federal funds rate and that has—that has effects out through, you know, out through the full interest rate curve and into financial asset prices generally. So the answer is, we take everything into account, but, you know, broader financial conditions are just one of the things that we take into account.

In terms of '20 and '21, why—your question was why the funds rate needs to be above neutral? So you're right. Some of—some of the participants have mostly very modest

overshoots of their personal estimates of neutral a couple—three years out. You know, it's far out into the future. I think it's hard to be confident that that's—that that's the way things are going to be. What we're going to be doing as we—as we go through time is asking at every meeting whether monetary policy is set to achieve our goals. And I think that that's an assessment of where policy will need to be some years down the road, and I'll leave it at that.

HOWARD SCHNEIDER. Thanks. Howard Schneider with Reuters. Chair Powell, I think—is this too good to be true? Because you've got four years here of unemployment below 4 percent—very low, substantially below NAIRU, what appears to be NAIRU—but no reaction of inflation there. And so I don't think that's ever happened since the 1960s. Why do you think it's going to happen now? Or in the alternative, is this forecast for unemployment just being driven by your confidence intervals to the extent that, well, we don't know what else to do, so just extend the line out—line out until something happens?

CHAIRMAN POWELL. No, you're right. The Committee forecasts what they—what they show, in general, is an economy where unemployment remains in the high and middle 3s throughout the entire forecast period and inflation remains very close to 2 percent. That is what the forecast shows. And that is based on our understanding of the way the inflation process works now and on the fact that the inflation seems to be fairly nonreactive to changes in slack—that is to say, a flat Phillips curve. And it's just—it's a—it's a world of strongly anchored inflation expectations. And that's not just our forecast, that's many forecasts. So that is—that is—that is the forecast. So you may ask—I mean, the sense is, what does the longer-run natural rate of unemployment mean? And so that really is a longer-run concept that we think the economy will return to over the longer run. But, obviously, that longer run, you know, isn't—it's not creating problems in the short run for that forecast.

Now let's just admit that the inflation process has changed dramatically from where it was in the 1960s to where it is now. It's in a good place now. We can't take for granted that it will remain the way it is, and, you know, we will be, of course, watching carefully. If inflation reacts more strongly or more weakly to the strong economy, then we'll adjust policy appropriately.

HOWARD SCHNEIDER. If I could follow up on that, what are you buying with interest rates?

CHAIRMAN POWELL. Well, interest rates, of course, have effects on growth, have effects—I mean if—I guess the—your question was, what are you buying with by raising interest rates? The question is, what would the economy look like if you didn't raise rates? It would look very different, I think, if we didn't raise rates.

We're always trying to, you know, work our way between the—sort of the two—the two problems we face. One is that if we move too quickly, we can, you know, snuff out a recovery unnecessarily, and inflation falls short of its 2 percent target. Or if we move too slowly, we have an economy that can overheat. So we're—that—that's happened through history. We don't see any signs of that now, but we're always trying to navigate between those two shoals. And we think that gradually, you know, raising interest rates is the way that we kind of take both of those risks seriously.

SAM FLEMING. Thanks very much. Sam Fleming from the *Financial Times*. The Fed has recently been saying that financial stability risks are moderate. What kind of developments could prompt a change in that assessment to elevated risks? And is there an argument for moving the countercyclical capital buffer, even when risks are moderate, rather than waiting until the risks are seen as elevated, which, arguably, could be too late? Thanks.

CHAIRMAN POWELL. So I think one of the most important lessons from the financial crisis is really the importance of the stability of the financial system. And so we—since the financial crisis, as you're aware, we've had a major focus on building up our monitoring of financial conditions and financial stability issues. We've also put in place many, many initiatives to strengthen the financial system through higher capital and better regulation, more transparency, central clearing, margins on uncleared derivatives, all kinds of things like that, which are meant to strengthen the financial system. We've done many of those things, and we feel that the financial system is in a much better place.

As we look at—as we look at conditions most recently—and this was at our last meeting, and it was in our minutes for the last meeting—quarterly, we have a briefing at the FOMC, and also at the Board, of the staffs' views on financial stability, and the staff judged the overall vulnerabilities to be moderate. If you dig into the different aspects of that question, households or balance sheets are in good shape. You know, employment is high, wages are rising, that sort of thing. The banking system, as I mentioned, is—you know, much higher capital, much higher liquidity—is much stronger. If you look at asset prices, it is true that some asset prices are in the upper range of their historical—upper reach of their historical ranges. And then if you look at nonfinancial corporates, you get—there is the story of leverage there. So it's not that there aren't any vulnerabilities, but we see them as moderate.

Now, you ask about the countercyclical capital buffer. The countercyclical capital buffer is a tool that we added to our toolkit, I think, finally, back in 2016. We said that we would deploy it when vulnerabilities were meaningfully above normal. We revisit that on a regular schedule, and the last time we revisited it was, I think, last year—sometime last year—and concluded that the test was not met. As I mentioned at the last briefing, the—you know, the



assessment was that vulnerabilities were moderate, but it remains a kit—a tool for our toolkit that we can deploy, you know, when and as we feel appropriate.

SAM FLEMING. Has the chance of needing to deploy it increased?

CHAIRMAN POWELL. As I said, I think I'm in the camp of seeing vulnerabilities as relatively moderate. I think the financial system—I think another thing that we learned in the crisis is that we need to be alert to the buildup of vulnerabilities as a long expansion continues. I don't see that in troubling—troubling amounts at this point, but, you know, I think it's appropriate for us to monitor that very carefully.

MARTY CRUTSINGER. Marty Crutsinger, Associated Press. The researchers at the European Central Bank this week put out a paper saying that the impact of a trade war on the U.S. could be dire, that the U.S. economy could drop by 2 percent in the first year after a widespread trade war. Could you talk about the discussion you've had—your policy statement, does it mention the trade tensions? You did not mention them. What do you—what kind of outlook do you have right now for the trade war?

CHAIRMAN POWELL. Sure. So I guess I need to start by saying that we're not responsible for trade policy, and we don't comment on particular, you know, trade actions and that sort of thing. But you will have seen that we have this very extensive network of business contacts around the country through the Reserve Banks largely, and we've been hearing a rising chorus of concerns from businesses all over the country about disruption of supply chains, materials costs and increases, and loss of markets, and things like that. So we've been hearing quite a lot of that, and we—the Reserve Bank presidents talk about it in the meeting, and it goes in the minutes. So we, you know, that's—we're very transparent about hearing all that. I think if you look at the aggregate perform—the performance of the U.S. economy at an aggregate—at

a national level, it's hard to see much happening at this point. And—or you can look at it the other way: You can ask, if all of the tariffs that have been announced are applied, what would be the effect at the aggregate level? And they're still relatively small.

You know, we worry about a couple of things. One is loss of business confidence, which could reduce investment. Again, we don't really see effects that we could measure yet. Also, the possibility of a financial market reaction over time to unexpected trade developments. More than anything, though, I would worry, in the longer run, where this is going, you know. If the—if the end place we get to is lower tariffs, that would be good, you know. Trade generally supports productivity, supports higher incomes. And, you know, fair trade—fair trade under internationally accepted rules can be a good thing. I think if this, perhaps inadvertently, goes to a place where we have widespread tariffs that remain in place for a long time—a more protectionist world—that's going to be bad for the United States' economy and for American workers, and families, and also for other economies.

HEATHER LONG. Hi, Heather Long from the *Washington Post*. This is the third time this year that the FOMC has raised its growth forecasts. I'm wondering if you could share a little bit about what's causing that rise and whether you see supply-side effects coming through from the fiscal policy—fiscal stimulus yet. Thanks.

CHAIRMAN POWELL. So it's true. This year has—we've kept raising our forecast for this year. This—as the year's gone on, the economy has come in stronger than we expected, and that's a really good thing. And the economy, as I mentioned at the beginning, is strong, and there's good reason to expect that to continue. You ask why. You know, some of it is, no doubt, the effect of the fiscal policy changes, the tax cuts, and the spending increases—that's got to be part of the story. Part of it may be higher oil prices, which are calling for more investment in the

oil patch. But, you know, the growth picture is very much supported by very high readings of household confidence, business confidence, so it's a—it's a—it's a—it's a pretty particularly bright moment, I think. If you look back over the last decade, this is a pretty good moment for the U.S. economy.

HEATHER LONG. And the supply-side effects?

CHAIRMAN POWELL. Oh, supply-side effects, yeah. So, you know, we hope they're huge, frankly. You know, the idea is, you cut—you reduce taxation on corporations and particularly—and allow faster expensing for investment. The idea is to encourage more investment, and that is one of the things that drives productivity, which is one of the main things that drives rising incomes. So the effects are very uncertain, they're—you know, they're—the literature is—it's—there's no clear answer to exactly how these mechanisms work or how effective they are. And it would be soon to be seeing supply-side effects. The other—supply-side effects are probably both more uncertain and they're probably slower to come in. But, you know, as I said, we—I certainly hope—I hope that we'll be marking up our estimates of potential growth as well.

CRAIG TORRES. Craig Torres from Bloomberg News. Taking a page from your risk-management approach in Jackson Hole, Mr. Chairman, I'm wondering if you can talk about what risks would make the Committee—plausible risks—go faster in 2019. What risks would make them go slower? If you could talk about scenarios. And then I'd like to ask, do you see yourself, as this stimulus tails off, which it does in the forecast, possibly cutting rates to soft-land the economy? I know the forecast doesn't show that, but I'm curious how you soft-land without doing that.

CHAIRMAN POWELL. Okay, so I think I mentioned in the opening remarks maybe something that addressed your question about what would make us go faster and slower. You know, the main thing where we might need to move along a little bit quicker would be if inflation—inflation surprises to the upside. We don't see that. We really don't see that. It's not in our forecast, but any—so I would—I regard that as a risk. I think either a significant—significant—correction and lasting correction in financial markets or a slowing down in the economy that's inconsistent with our forecast—those are the kinds of things we'd react to.

In terms of what, you know, what we would do—you know, I think we're always going to be adjusting monetary policy to—in light of conditions on the ground. So if the economy is weakening, then it's very possible we'd be—we'd be cutting rates and, you know, vice versa. And so I can't rule that out. It—I think it's quite difficult, though, to know what the effects—what the sort of end effects of fiscal policy are going to be in 2020. It's difficult to know what the policy will be, let alone what their effects will be that far out. So we have to make estimates, but we know that they're highly uncertain.

EDWARD LAWRENCE. Edward Lawrence from Fox Business. Thank you, Chairman. The unemployment rate is now at 3.9 percent. The average hourly wages rose 2.9 percent for the past 12 months. Inflation, according to your numbers, holding steady. The amount of job vacancies that we have out there and the number of people coming back into the workforce this year—where is the point at which, then, we are actually above the natural rate of unemployment and the Federal Reserve should reexamine the consistency of the rate hikes going forward so not to cool an expanding economy?

CHAIRMAN POWELL. You mean—you mean, where's the point at which inflation—unemployment is too low? Yeah. Yeah. You know, so we've been—I think the perform—labor

force participation has surprised us on the upside. There is a long-run trend there, and we've now had basically five flat years. If you look—if you look at labor force participation, since the fourth quarter of '13 till now, you really have a—kind of an oscillation that basically is a sideways movement in the face of a significant downward trend, thanks to aging and other factors. That's a gain of well more than a percentage point in participation, so that's really—that's really a good thing. Those are people who are remaining in contact with the labor force and looking for jobs, finding jobs. So that's a great thing.

And, by the way, it's a signal. It's one of the things that has allowed the unemployment rate not to fall further. And it's a—it's a signal, too, that there may be more there on the supply side, that there may be more labor supply than the prior trend would indicate. So it's a very positive thing to see people staying in the labor force. And, you know, we don't know how long it can continue. We have models, and we look at this—we look at this question all the time. And, you know, admittedly, we've been surprised on the positive side here, so we're open to the idea that that may continue or not.

DONNA BORAK. Hi, Chair. Donna Borak with CNN. Just to follow up on the tariff question, you said earlier that it seems as the effects of the tariff so far haven't quite materialized—those weren't your words verbat[im]—but Wal-Mart, Gap, Coca-Cola, General Motors, Macy's have all said that they expect the tariffs to affect the prices of everyday consumer goods. So my question is, when—should there be an effect—when would you expect to see that? And at what point do you start to become worried that it's actually going to affect consumer spending and dampening economic growth?

CHAIRMAN POWELL. It's a concern. It's a risk. You know, so you could see prices moving up. You don't see it yet, but we—you could see retail prices moving up. The tariffs

might provide a basis for companies to raise prices in a world where they've been very reluctant to and unable to raise prices, where raising prices is really difficult, you know, with the ability to shop on the internet. This could provide, you know, a way for—again, we don't see it in the numbers. And, you know, until we see it in the numbers, it's hard to say how one would react. And the other question would be, if you're just talking about the effect on inflation is, is it just a one-time increase in the price level, or is it actually fueling higher inflation going forward? And that's a real—that's an important question in, in how we would think about the appropriate response.

DONNA BORAK. But is there a sense of timing, in terms of when you might see that kick in, the effect of?

CHAIRMAN POWELL. Don't see it yet. You know, don't see it yet, but we—you're hearing—I mean, broadly across the economy, it's not just tariffs. You're hearing—we're hearing a lot of talk of labor shortages, of material costs in particular industries. We're hearing a lot, you know, what amount to supply-side constraints and things like that, but we're not seeing it. We're seeing a sort of modest increase in wages, inflation right around 2 percent, no sense of it moving up really, so we're not seeing it yet. And, you know, we just aren't, and we're watching very carefully.

MICHAEL MCKEE. Mr. Chairman, Michael McKee, Bloomberg Radio and Television. Financial conditions are still extremely loose by all the measures that track that. The flow of funds shows the decline in short-term borrowing other than in Treasuries. So I'm wondering if that suggests a change in the way that tightening affects the economy. And along those lines, you mentioned that you dropped the word "accommodative" doesn't suggest a change in policy. But if you're dropping forward guidance in terms of "accommodative," does the dot plot really

serve any purpose anymore if, as you say, you can't be confident out to 2021 what's going to happen with the economy?

CHAIRMAN POWELL. A couple questions in there. So the dot plot—I mean, I—it's not new. I don't think it's a new point that forecasts two and three out—two or three years out are fairly uncertain. The dot plot is individual FOMC participants who are writing down their individual views on the evolution of the economy and of appropriate monetary policy. We don't vote on that. These are individual forecasts. I think market participants generally find that interesting information, and so it seems to me to be serving a purpose.

I think the point with “accommodative” was that its useful life was over. You know, we put that in the statement in 2015, just when we lifted off, and the idea was to provide assurance that we weren't trying to slow down the economy, but, in fact, we were still—interest rates were still going to be pushing to support economic activity. Well, that—you know, that purpose has been well served, and the language now doesn't really say anything that's important to the way the Committee is thinking about policy going forward. That's why that came out. Did I get—did I get all of your ques—?

MICHAEL MCKEE. The idea that financial conditions remain loose even though you raised rates 200 basis points?

CHAIRMAN POWELL. Yeah, you know, it's—if you look at a broad financial conditions index, that's pretty much the answer you'll get. We don't control that, and, as I mentioned earlier, we do take financial conditions into account in what we do. And financial conditions are affecting the broader economy, so, by definition, we're taking them into account. But if you look at—look at interest rates, you know, interest rates—look at long-term interest rates this year and short-term interest rates this year, there's very significant increases. And, you

know, with your long and variable lags, that should be—that should be having an effect over time.

VICTORIA GUIDA. Hi, Victoria Guida with Politico. So Nellie Liang was just put forward by President Donald Trump to the Fed Board, and I was just curious, you know, given that she's a longtime veteran of the Fed, whether you could speak to what role you played in, you know, recommending candidates to the President, giving input on who he should nominate. And then also, if I—if I may follow up on the financial stability discussion from earlier, you know, you've mentioned before that corporate debt is at high levels, and I was curious whether, you know, you have any qualms about loosening up restrictions on leveraged lending by making that guidance less of a—less of a cudgel, I guess, while—at a time when leveraged lending is gaining steam?

CHAIRMAN POWELL. Okay, so in terms of nominations to the Fed, those are entirely, completely under the control of the White House and, ultimately, the President. And traditionally, the Fed Chair has been consulted on those, and I'm happy to say that that has continued. But these are—these are really decisions for the White House, and, you know, we are—think of us as just being consulted. I will say that I'm very happy and excited about the team that we're putting together, and I'm very much looking forward to having those offices up and down our hall filled. It's been pretty quiet, more quieter than usual, which is saying something on the Board hall. So we're looking forward to getting some people confirmed.

In terms of corporate debt, so this is a—this is a—you know, I was an investor for a long time in areas that were very close to the leveraged lending markets. So, you know, I have had a lot of experience in that. That market has evolved really significantly since before the crisis. And, you know, the banks take much less risk than they used to. They're—the—they're



essentially in the business of distributing these loans and bonds rather than keeping them on their balance sheet, to a much greater degree. But it's also true—and there's significant research on this—that excessive risk-taking in the leveraged lending markets does have channels for affecting the real economy, if there's overheating and that kind of thing in those markets, so we monitor that carefully. You know, the guidance is—isn't binding, as you pointed out, that the leveraged lending isn't binding, and that's just—that's just the way that the law is interpreted. So it's something we're monitoring, and, as I mentioned, we think overall vulnerabilities are moderate.

BINYAMIN APPELBAUM. Binya Appelbaum, the *New York Times*. If I could come back to “accommodative,” do you think of policy as accommodative at present? How close are you to neutrality, and do you share the view of some of your colleagues that you'll eventually need to be restrictive?

CHAIRMAN POWELL. Okay, so are we accommodative now? So I think if you look at the—look at the dot plot in the SEP, you'll see that the federal funds rate, even after today's move, is below the longer-run neutral estimate of every single participant that—who submits a— an estimate of that. So that's why this is the perfect time to take the language out, because, you know, it's perfectly clear that there can't be a signal because, you know, by definition, that means an accommodative policy. So it wasn't because policy is not accommodative. It is still accommodative. The thinking was more, as I mentioned, it's more that the language has run its useful life.

There's another point, though, too, which is, you know, we don't want to suggest either that we have this precise understanding of where “accommodative” stops or suggest that that's a really important point in our thinking. You know, what we're going to be doing, assuming we

stay on this path, is, we're going to be carefully monitoring incoming data from the financial markets and from the economy and asking ourselves whether our policy is achieving the goals we want to achieve—you know, sustain the economy, maximum employment, stable prices. That's the way we're thinking about it, and that does kind of amount to thinking less about one's precise point estimate of the neutral rate. So that's how I think about that.

BINYAMIN APPELBAUM. The second question was, do you think you're going to end up in a restrictive posture? Governor Brainard, for example, has said that she expects that you will need to do that. Do you agree with that?

CHAIRMAN POWELL. It's possible. It's very possible. It happens often. And, as I mentioned, many of the participants have written that down, and they've written down really modest overshoots, you know, amounting to one rate hike kind of thing, which wouldn't have a big effect on the economy.

You know, it—I would just say, you know, it really depends on what happens. It depends on if we keep going—you can think of it different ways. Maybe we've underestimated the neutral rate. Maybe we'll be raising our estimate of the neutral rate and we'll just go to that, or maybe we'll keep our neutral rate here and then go one or two rate increases beyond it. I think it's very possible, but I mean, ultimately, isn't really the question we're answering. The question we're answering is, how do we provide the economy just the right amount of support—not too much, not too little—to sustain the recovery and achieve our statutory goals?

GREG ROBB. Thank you, Mr. Chairman. Greg Robb from MarketWatch. The 10-year anniversary of the bankruptcy of Lehman Brothers got a lot of attention over the last month. I was wondering if you thought there were any lessons from the crisis that you want to share—and two points on that. You go to Congress a lot and talk to members of Congress. Now, Secretary

Paulson and Mr. Geithner and Chair Bernanke have said that Congress made a mistake when it took away the Fed's emergency powers in Dodd-Frank. And then one other thing is that, are you confident that all these nonbanks didn't—you know, nonbanks never got put into the, you know, the FSOC, you know, system. So are you confident that the—you can see the risks in the financial system? Thank you.

CHAIRMAN POWELL. So, three things there. The first thing is the single biggest thing I think that we learned was the—as I mentioned, I think, earlier, the importance of maintaining the stability of the financial system. So I think if you look—if you look back at the way the models worked and the way people thought about risk in the economy, that's what was missing, and I think it's not missing anymore. So we—you know, we put a tremendous focus on that. We raised capital, liquidity. We have stress tests, which force banks to understand—the largest banks particularly—to understand and better manage their risk and have enough capital to survive a really substantial shock that's at least as bad as the financial crisis. And if all that doesn't work, we've got resolution plans, which we've, you know, through many cycles, have made really substantial progress, more than I had thought was likely. So we've done a lot. Nobody's—you know, nobody is, I think, overconfident that we've solved every problem. And, you know, now we're going back and kind of taking a hard look at everything and, you know, trying to make—trying to—trying to keep at it.

So I think those are the really important lessons, and, you know, we—we're determined not to, you know, not to forget them. And that's, I think, a risk now—is to—is to forget things that we—that we learned. That's just human nature over time.

I saw the article you're talking about; the question is, did Congress take things away, emergency powers from the Fed? So there was sort of a trade for taking away our power under

13, section 13(3), to provide support to individual nonbanks, which is really holding companies and other companies. In exchange for that, we got orderly liquidation authority and a resolution authority. Was it a mistake? I don't think there's any sense that Congress would seriously look at changing that. I have real doubts about whether it was wise to take away our crisis-fighting tools. I think you put them away, and you hope you never need them, but—and I certainly strongly oppose efforts to take away more of our tools.

You know, the third thing you mentioned is the designation power. So it's a really important power. In my mind, it should be used—my thinking, it should be used sparingly, and that means, you know, in situations where you have—I mean, in principle, you could have another Lehman Brothers come up out of the ground that's not a bank, and it could be very threatening—or it could be capable of creating systemic risk. And so I think it's a critical power to have. But, again, I would use it—I would tend to use it fairly sparingly.

NANCY MARSHALL-GENZER. Nancy Marshall-Genzer with Marketplace. Are you worried about the effect of rising interest rates on consumers? Credit card rates have jumped to more than 17 percent since the Fed started raising interest rates. Mortgage rates are up. What do you say to consumers?

CHAIRMAN POWELL. Yeah, we look—of course, we look at that very carefully, and interest rates are going up across a broad range of consumer borrowing, as they would when we raise short-term interest rates. They're still quite low by historical levels. And the other thing I'll say is, take—if you take housing, if you look at the NAR Affordability Index, housing is still more affordable now than it was before the financial crisis. So you're right that the cost of borrowing is going up, but it's going up from what were extraordinarily low levels, and it is

something that we watch carefully. You know, the effect on consumer spending is a very important channel through which interest rates work, and so we do monitor the effects.

HANNAH LANG. Hi, Hannah Lang, *American Banker*. OCC's decision to go at CRA alone suggests that there's some sort of disagreement among how to proceed with a joint plan. What are the issues that are preventing a joint plan from developing, and how close are you to a possible joint plan?

CHAIRMAN POWELL. Well, at the Fed, we are, you know, deeply committed to the mission of CRA, which is for banks to provide credit and other banking services in the communities they serve. And we have also been of the view for some time that with the evolution of technology particularly and changes—changes in the nature of banking, that it's an appropriate time—it's past an appropriate time, but now it's certainly an appropriate time to revisit the way we think about CRA. But we don't want to lose that focus on community, and, you know, we definitely want to see that fundamental purpose of the law sustained. Many of the issues that we had were reflected in the OCC's ANPR, and we're—we're hopeful that, over time, there will be a joint proposed rulemaking with the OCC, the FDIC, and the Fed. It's a process, and, you know, we're very much interested in continuing to push it forward.

STEVE BECKNER. Steve Beckner, freelance journalist filing for NPR. Mr. Chairman, following up on the neutral rate issue—and you touched on this—but, you know, you and your colleagues slightly lifted the longer-run estimate, the neutral funds rate estimate to 3 percent, but that's still, I believe, like 125 basis points below where it was six years ago. What are the odds that productivity, you know, investment, productivity, labor market, other developments could further push up the longer-run estimate and possibly make the projected funds rate levels less restrictive than they now seem?

CHAIRMAN POWELL. So, in principle, the—these starred variables—the long-run growth rate of the economy, the neutral rate of interest, the natural rate of unemployment—don't move quickly. They move very gradually. They're pinned down by longer-run forces, like demographics. In the case of the funds rate, it's more—it's productivity—it's appetite for safe assets and demographics and other things, too. So they move quite slowly through time.

I think we all look at them—those of us who file SEPs every quarter will look at that every quarter and not make a change every quarter but, every now and again, make a change. And you're right—we actually—the median ticked up a tenth. It's a tenth we're talking about here, so—but still, I think it's a positive thing that people could be raising their estimates of the longer-run neutral rate and potentially the longer-run growth rate. Who knows? And maybe reducing their level of the natural rate of unemployment, which has been the trend. It's just that you change those estimates over time. They're informed by incoming data. They don't change a lot, though, although they did—it's interesting that the neutral rate changed quite sharply after the financial crisis in many different models, and it's been slow to recover. I don't expect a dramatic recovery there, but, you know, we—we're so bad at forecasting productivity. It's just very hard to know when productivity is going to arrive and in what quantity. So I think we have to be humble about how little we really know about where these starred value variables either are or are going.

PAUL KIERNAN. Hi, Chairman. Paul Kiernan from Dow Jones Newswires. Thank you for taking the question. I'd like to just kind of ask again—you mentioned earlier that gradual—a gradual pace of rate increases will make it easier to react. But, specifically, what are you going to be looking to see, because you've also mentioned, you know, that monetary policy operates with a lag, so any kind of specific signposts that maybe we've reached the end of the

tightening cycle or where we should stop? Secondly, if you worry about the divergence between interest rates in the U.S. and internationally, especially at a time when emerging markets are under pressure. Thanks.

CHAIRMAN POWELL. Sure. So, you know, some of the things that we'd be looking at to tell us whether we're getting close to supply-side limits would be, first, does job growth slow down? A slowing down in job growth would be an indicator, you know. An unexpectedly sharp increase in wages or inflation could tell you that you're reaching those points. You know, if headline growth slowed down, that's another one. So all of those things would be worth taking into consideration.

I think also, though, we've seen sometimes sharp tightening in financial conditions, as we saw at the beginning of 2016, can have a substantial effect pretty quickly on our economy if it's a broad and significant tightening. So we would be looking for those kinds of things and many other things.

So, in terms of divergence, yes. So the U.S. economy is, as I mentioned, is strong and is at a pretty positive moment, you know, with strong growth, healthy labor market, inflation right on target, as I mentioned. So—and we've seen growth abroad, but growth, I think, both in advanced economies and in some emerging economies has slowed down a little bit. And in that world, you know, if the U.S. is stronger, then that's just part of the context, part of the environment that could mean a higher dollar. It could be—it could therefore mean that some of our demand will wind up being shared with other economies. That's the way the integrated international economy works. So you could see that, and, you know, it's just—it's just all of the—all things that go into thinking about, you know, the path of the economy.

I would say, you know, we're not responsible for the dollar. Of course, the Treasury is responsible for managing the dollar, but the dollar has only partly recovered the decline that it had in 2017. It's moved up off its lows, but it's not as high as it was at the beginning of last year yet by a significant margin.

JEAN YUNG. Hi. Jean Yung with Market News International. Can you give us an update on the technical adjustment in implementing monetary policy that the Fed made earlier this year when it decoupled the interest on excess reserves rate from the upper bound of the target range? And have you been happy with that adjustment? And do you see the need to make another such adjustment in the near future?

CHAIRMAN POWELL. So we've said that we would use our tools to assure that the federal funds rate trades—trades within the target range. And the principal tools we use have been interest on excess reserves and then, at the bottom end, a reverse repo facility. So we—in June, when we raised rates, we only raised the interest on excess reserves by 20 basis points and raised the range by 25, and that moved federal funds sort of back into the range. It worked, and it was successful. The federal funds rate traded in the low 190s, well within the range. We may—we may do that again. You know, we—again, we have our tools, and we will use them. We think it's principally a function just of a number of things, but particularly high Treasury supply, and—which is showing up in repo rates and then showing up in fed funds as well. So we don't see it as a—as a big problem. We see it as a problem we can address with our tools, and we'll use them if we have to.

COURTENAY BROWN. Hi, Chairman. Courtenay Brown from Axios. Last month, the CEA outlined a different way to calculate wage growth. Has the Fed looked at that at all, and what are you seeing in terms of nonwage-based compensation?



CHAIRMAN POWELL. So I wouldn't comment on a CEA paper, and I would imagine they probably wouldn't comment on our stuff, either, but I would just say this. So I am familiar with the question and the work. You know, we look—we look at a range of indicators of wages, and I think the broader, the better. You really—in a perfect—a perfect wage measure would also include benefits, because a lot of compensation these days shows up in the form of benefits rather than wages, so I think it's right to choose those broader ones.

But they're kind of all telling the same story right now. If you look at the principal four that we look at—we look at a whole range of wage and benefit cost indicators—they are all now showing wages and benefits around 3 percent growth, right? Clustered around 3 percent. That's a full percentage point higher than it was five years ago. That's a good thing. Then the question—the other question is, what about inflation? You know, if you're—if you're looking for real wage increases, you've got to ask inflation, and there, you have to pick an inflation measure. Some people pick CPI. We, of course, pick personal consumption expenditures because we think it's a little better measure. It's a little broader, and it tends to run a little bit lower as well, but that's not why we pick it. We just think it's more accurate. And that—the trend there is running around 2 percent, so if wages are running at rough—wages and benefits running at roughly 3 percent and inflation running at around 2 percent. PCE headline inflation is at 2.3 percent. PCE core is at about 2, and I think we see that, you know, the temporary increase in headline inflation as being a function of oil prices probably, and we expect inflation to go back down to 2 percent. So we think of that as 2 percent. That's how we think about it. Is that—I hope that helps.

MYLES UDLAND. Myles Udland, Yahoo Finance. Chair Powell, I want to follow up on something you said, actually, at Jackson Hole. You were talking about longer-term structural

challenges for the economy, and you mentioned that addressing the federal budget deficit, which has long been on an unsustainable path, becomes increasingly important as a larger share of the population retires. I'm just wondering if you could, you know, maybe expand on your thoughts there and if this is an issue that comes up among members of the FOMC at all.

CHAIRMAN POWELL. So it doesn't really come up. It's not really our job. And we do—we do monetary policy. We regulate financial institutions, financial stability, that sort of thing. We don't have responsibility for fiscal policy. But in the longer-run, fiscal policy will have a significant effect on the economy, so for that reason, I think my predecessors have commented on fiscal policy. But they've commented on—at a high level rather than trying to get involved in particular, you know, particular measures. And so—and I—my plan is to kind of stick to the same approach and stay in our lane.

And, you know—so I would just say, it's—it's no secret, it's been true for a long time that with our uniquely expensive health-care delivery system and the aging of our population, we've been on an unsustainable fiscal path for a long time, and there's no hiding from it. In the end, we will have to face that, and I think, you know, the sooner, the better. And also, these are good times. These are, you know, this is—this is the economy at nearly full employment or in the range—in the neighborhood of full employment. Interest rates are low. It's a—it's a good time to be addressing these things. So I just—I put that out there and leave it at that.

TAKESHI KAWANAMI. I'm Takeshi Kawanami from *Nikkei* newspaper. Thank you for taking my question. I'd like to ask about emerging markets. What do you think about impact of U.S. monetary policy on emerging markets—interest rate, currency depreciation, or capital outflow from emerging countries? And do you think there is a possibility to stop the interest rate hike due to emerging markets turmoil—due to turmoil in emerging markets?

CHAIRMAN POWELL. Sorry, the second question was?

TAKESHI KAWANAMI. There is a possibility to stop the . . .

CHAIRMAN POWELL. Oh, to stop.

TAKESHI KAWANAMI. . . . hike.

CHAIRMAN POWELL. Well, we serve a domestic mandate, which is assigned to us by Congress, and that is to have maximum employment and stable prices. About half of global GDP is outside the United States, and way more than half of the growth is outside the United States and in emerging markets, I should say. And so the performance in the emerging market economies really, really matters to us in carrying out our domestic mandate. I'd also say that, you know, a strong U.S. economy, where Americans are buying things and the economy is growing and our—you know, that's going to support demand all around the globe, so that's a good thing.

Now, we do understand, though, that when we—when our economy is strong and we're raising rates, that puts upward pressure on interest rates around the world and can affect countries, particularly countries that have significant external dollar borrowing. And what we try to do is be very transparent about what we're doing and why. And we have been, I believe, and we've also moved quite gradually. So I—you know, I think we've been performing well on that front.

There are some countries that are—that are undergoing severe stress, a handful of them, and—but not most emerging market countries. It's a relatively small number, and those particular countries have, you know, have particular vulnerabilities, which are well known in the form of budget deficits, and significant external dollar borrowings, and high inflation, and things like that. So, again, we'll continue to conduct U.S. monetary policy as transparently as we

possibly can, and that's really the best thing we can do, along with supporting U.S. growth. I'll just—I think that answers both your questions, actually.

VIRGINIE MONTET. Virginie Montet with Agence France-Presse. You mentioned earlier a possible, not probable, correction, and I want to come back to the high level of the stock market. Are there any participants to the FOMC to think that we are witnessing an episode of irrational exuberance or rational exuberance? And if there was a steep correction, would it provoke financial stability concerns?

CHAIRMAN POWELL. So I don't comment on the appropriateness of the level of stock prices. I can say that by some valuation measures, they're in the upper range of their historical value ranges. But, you know, I wouldn't want to—I wouldn't want to speculate about what the consequences of a market correction should be. You know, we would—we would look very carefully at the nature of it, and I mean, it—really—really what hurts is if consumers are borrowing heavily and doing so against, for example, an asset that can fall in value. So that's a really serious matter when you have a housing bubble and highly levered consumers and housing values fall. And we know that that's a really bad situation. A simple drop in equity prices is—all by itself, doesn't really have those features. It could certainly feature—it could certainly affect consumption and have a negative effect on the economy, though.

MARK HAMRICK. Thank you, Mr. Chairman. Mark Hamrick with Bankrate.com. One thing that's changed since the crisis is, the majority of mortgages issued last year came from so-called nonbank lenders, as traditional banks scaled back. What confidence do you have about supervision and, I suppose, also regulation in this space given the role of housing finance in the crisis? Thank you.

CHAIRMAN POWELL. It's a good question. So you're right that a lot of mortgages are now originated outside the system. Many of those, though, have to meet certain basic standards to be bought by the GSEs. I think we—if we look at mortgage credit more broadly, though, what we see is that credit is pretty widely available to people with high scores and with good credit—good credit records, and much, much less available than it was before the crisis to people with low scores and perhaps troubled credit history. You know, it's—have we—have we set—have we got that exactly right? I don't know. I mean, I—but that's clearly—that's the reality. In terms of those institutions, they do have supervision by the CFPB and other state regulators. But you're right. They're much—much of the origination process has moved outside the banking system, and it's something we monitor.