Transcript of Chair Powell's Press Conference
June 16, 2021

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

Today the Federal Open Market Committee kept interest rates near zero and maintained our asset purchases. These measures, along with our strong guidance on interest rates and on our balance sheet, will ensure that monetary policy will continue to deliver powerful support to the economy until the recovery is complete.

Widespread vaccinations, along with unprecedented fiscal policy actions, are also providing strong support to the recovery. Indicators of economic activity and employment have continued to strengthen, and real GDP this year appears to be on track to post its fastest rate of increase in decades. Much of this rapid growth reflects the continued bounceback in activity from depressed levels. The sectors most adversely affected by the pandemic remain weak but have shown improvement. Household spending is rising at a rapid pace, boosted by the ongoing reopening of the economy, fiscal support, and accommodative financial conditions. The housing sector is strong, and business investment is increasing at a solid pace. In some industries, near-term supply constraints are restraining activity. Forecasts from FOMC participants for economic growth this year have been revised up since our March Summary of Economic Projections. Even so, the recovery is incomplete, and risks to the economic outlook remain.

As with overall economic activity, conditions in the labor market have continued to improve, although the pace of improvement has been uneven. Employment rose 419,000 per month, on average, in April and May, with the leisure and hospitality sector continuing to post notable gains. Employment in this sector and the economy as a whole remains well below pre-

pandemic levels. The unemployment rate remained elevated in May at 5.8 percent, and this figure understates the shortfall in employment, particularly as participation in the labor market has not moved up from the low rates that have prevailed for most of the past year. Factors related to the pandemic, such as caregiving needs, ongoing fears of the virus, and unemployment insurance payments, appear to be weighing on employment growth. These factors should wane in coming months against a backdrop of rising vaccinations, leading to more rapid gains in employment. Looking ahead, FOMC participants project the labor market to continue to improve, with the median projection for the unemployment rate standing at 4.5 percent at the end of this year and declining to 3.5 percent by the end of 2023.

The economic downturn has not fallen equally on all Americans, and those least able to shoulder the burden have been hardest hit. In particular, despite progress, joblessness continues to fall disproportionately on lower-wage workers in the service sector and on African Americans and Hispanics.

Inflation has increased notably in recent months. The 12-month change in PCE prices was 3.6 percent in April and will likely remain elevated in coming months before moderating. Part of the increase reflects the very low readings from early in the pandemic falling out of the calculation as well as the pass-through of past increases in oil prices to, to consumer energy prices. Beyond these effects, we are also seeing upward pressure on prices from the rebound in spending as the economy continues to reopen, particularly as supply bottlenecks have limited how quickly production in some sectors can respond in the near term. These bottleneck effects have been larger than anticipated, and FOMC participants have revised up their projections for, for inflation notably for this year. As these transitory supply effects abate, inflation is expected

to drop back toward our longer-run goal, and the median inflation projection falls from 3.4 percent this year to 2.1 percent next year and 2.2 percent in 2023.

The process of reopening the economy is unprecedented, as was the shutdown at the onset of the pandemic. As the reopening continues, shifts in demand can be large and rapid, and bottlenecks, hiring difficulties, and other constraints could continue to limit how quickly supply can adjust, raising the possibility that inflation could turn out to be higher and more persistent than we expect. Our new framework for monetary policy emphasizes the importance of having well-anchored inflation expectations, both to foster price stability and to enhance our ability to promote our broad-based and inclusive maximum-employment goal. Indicators of longer-term inflation expectations have generally reversed the declines seen earlier in the pandemic and have moved into a range that appears broadly consistent with our longer-run inflation goal of 2 percent. If we saw signs that the path of inflation or longer-term inflation expectations were moving materially and persistently beyond levels consistent with our goal, we'd be prepared to adjust the stance of monetary policy.

The pandemic continues to pose risks to the economic outlook. Progress on vaccinations has limited the spread of COVID-19 and will likely continue to reduce the effects of the public health crisis on the economy. However, the pace of vaccinations has slowed, and new strains of the virus remain a risk. Continued progress on vaccinations will support a return to more normal economic conditions.

The Fed's policy actions have been guided by our mandate to promote maximum employment and stable prices for the American people, along with our responsibilities to promote the stability of the financial system. As the Committee reiterated in today's policy statement, with inflation having run persistently below 2 percent, we will aim to achieve inflation

moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. We expect to maintain an accommodative stance of monetary policy until these employment and inflation outcomes are achieved. With regard to interest rates, we continue to expect that it will be appropriate to maintain the current 0 to ¼ percent target range for the federal funds rate until labor market conditions have reached levels consistent with the Committee's assessment of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.

As is evident in the SEP, many participants forecast that these favorable economic conditions will be met somewhat sooner than previously projected; the median projection for the appropriate level of the federal funds rate now lies above the effective lower bound in 2023. Of course, these projections do not represent a Committee decision or plan, and no one knows with any certainty where the economy will be a couple of years from now. More important than any forecast is the fact that, whenever liftoff comes, policy will remain highly accommodative. Reaching the conditions for liftoff will mainly signal that the recovery is strong and no longer requires holding rates near zero.

In addition, we are continuing to increase—continuing to increase our holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward our maximum-employment and price-stability goals. The increase in our balance sheet since March 2020 has materially eased financial conditions and is providing substantial support to the economy.

At our meeting that concluded earlier today, the Committee had a discussion on the progress made toward our goals since the Committee adopted its asset purchase guidance last December. While reaching the standard of "substantial further progress" is still a ways off, participants expect that progress will continue. In coming meetings, the Committee will continue to assess the economy's progress toward our goals. As we have said, we will provide advance notice before announcing any decision to make changes to our purchases.

On a final note, we made a technical adjustment today to the Federal Reserve's administered rates. The IOER and overnight RRP rates were adjusted upward by 5 basis points in order to keep the federal funds rate well within the target range and to support smooth functioning in money markets. This technical adjustment has no bearing on the appropriate path for the federal funds rate or stance of monetary policy.

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 support the economy for as long as it takes to complete the recovery. Thank you. I look forward to your questions.

MICHELLE SMITH. Rachel Siegel, the *Washington Post.*

RACHEL SIEGEL. Thank you, Michelle, and thank you, Chair Powell, for taking our questions. I'm wondering if you can walk us through expectations you have, specifically when it comes to the labor market going into 2023. And I'm curious about people who may have left the labor market, who have yet to come back, or who may face issues with childcare. Perhaps they've retired early. Any barriers that you see in keeping people from the labor market as you consider full employment going into 2023? Thank you.

CHAIR POWELL. Thank you. So I would say, if you look at the labor market and you look at the demand for workers and the level of job creation and think ahead, I think it's clear, and I am confident, that we are on a path to a very strong labor market—a labor market that, that shows low unemployment, high participation, rising wages for people across the spectrum. I mean, I think that's, that's shown in our projections, it's shown in outside projections. And if you look through the current time frame and think one and two years out, we're going to be looking at a very, very strong labor market.

In terms of exactly what that means, we'll, we'll have to see how things evolve. I think we learned during the course of the last very long expansion, the longest in our history, that labor supply during a long expansion can exceed expectations, can move above its estimated trend. And, and I have no reason to think that that won't happen again. At the same time, we have seen—in terms of participation, we've seen a significant number of, of people retire. And so we, we don't actually know exactly what labor force participation will be as we go forward, but I, I would tend to, to look at it and think that it—that it can return to high levels, although it may take some time to do that. But overall, this is—this is going to be, you know, a very strong labor market.

In terms of the near term, you ask as well—so we see a couple of things, a few things that seem likely to be holding back labor supply. There are very large amounts of job openings, and there are a very large number of people who, who are unemployed. And the pace of, of filling those jobs is—somehow feels slower than it might be. So I'd point to a number of things, the first of which is just that most of the, the act of sort of going back to one's old job—that's kind of already happened. So this is a question of people finding a new job. And that's just a process that takes longer. There may be something of a speed limit on it. You've got to find a job

where, where your skills match what, you know, what, what the employer wants. It's got to be in the right area. There's just a lot that goes into the function of finding a job. So that's, that's sort of a natural thing.

In addition, I would say that we, we look at, for example, a, a significant number of people still say that they're concerned about going back to work in jobs where there's a lot of public facing because of—because of COVID. So that's clearly holding back some people, and that should diminish as vaccinations move ahead.

There's also the question of childcare. Many are engaged in, in caretaking. And as schools reopen and, and, and childcare/daycare centers open in the fall—in the fall, then we should see—we should see that supporting labor force participation by caretakers.

Finally, unemployment insurance for something like 15 million people will either end or be diminished as we move through the summer and into, into, into the fall by the end of September, and I'd like some—that may also encourage some to go back in and take jobs. So you would think that that would add to an increase in job creation as well. So you put all those together, I would expect that we would see strong job creation building up over the summer and going into—going into the fall.

I will also say, though, the last thing I'll say is, this is an extraordinarily unusual time. And we, we really don't have a template or, or, you know, any experience of, of a situation like this. And so I think we have to be humble about our ability to understand the data. It's not a time to try to reach hard conclusions about the labor market, about inflation, about the path of policy. We need to see more data. We need to be a little bit patient. And I do think, though, that we'll, we'll, we'll be seeing some things coming up in coming months that will—that will inform our, our thinking.

MICHELLE SMITH. Thank you. Paul Kiernan.

PAUL KIERNAN. Hi, Chairman Powell. Thanks for the question. Your—the Committee's median forecast on inflation seems to assume a pretty, pretty tame outlook for the rest of the year. As you know, the three-month annualized rate for the past three months was, I think, 8.4 percent in the CPI. And I'm just wondering sort of how much longer we can sustain those, those kinds of rates before you get nervous. Thanks.

CHAIR POWELL. So inflation has come in above expectations over the last few months. But if you look behind the headline numbers, you'll see that the incoming data are, are consistent with the view that prices—that prices that are driving that higher inflation are from categories that are being directly affected by the recovery from the pandemic and the reopening of the economy.

So, for example, the experience with, with lumber prices is, is illustrative of this. The thought is that prices like that that have moved up really quickly because of the shortages and bottlenecks and the like, they should stop going up, and at some point, they, they, in some cases, should actually go down. And we did see that in the case of lumber.

Another example where we haven't seen that yet is prices for used cars, which accounted for more than a third of the total increase in core inflation. Used car prices are going up because of sort of a perfect storm of very strong demand and limited supply. It's going up at just an amazing annual rate. But we do think that it makes sense that that would stop, and that in fact it would reverse over time. So we think we'll be seeing some of that.

When will we be seeing it? We're not sure. That narrative seems, still seems quite likely to prove correct, although, you know, as I pointed out at the last press conference, the, the timing of that is, is pretty uncertain, and so are the, the effects in the near term. But over time, it seems

likely that these very specific things that are driving up inflation will be—will be temporary. And we'll be, you know, we're going to be looking. We'll be looking at the monthly pricing data. I'll, I'll also say that the labor market is going to be important, both for the maximum-employment goal, but also for inflation. And we'll be looking at that. And, and as I—as I mentioned, we expect and I expect that we'll see increases in supply over coming months as the factors that we believe have been suppressing supply abate, wane, move down. So I, I can't give you an exact number or an exact time, but I would say that we do expect inflation to move down. If you look at the—if you look at the forecast for 2021 and—sorry, 2022 and 2023 among my colleagues on the, on the Federal Open Market Committee, you will see that people do expect inflation to move down meaningfully toward our goal. And I think the full range of, of, of inflation projections for 2023 falls between 2 and 2.3 percent, which is consistent with our—with our goals.

MICHELLE SMITH. Thank you. Now we'll go to Ylan Mui at CNBC.

YLAN MUI. Hi. Thank you, Chair Powell, for doing this. My question for you is that you mentioned that your colleagues did have a discussion about the progress that you're making toward your, your goals in order to consider tapering your asset purchases. In that discussion, you said that you didn't—haven't made substantial progress yet, but that you expect to continue to make progress. In that discussion, did you guys talk about a timeline for when you expect to see that progress be made and when you might consider starting to reduce those purchases?

CHAIR POWELL. Right. So I, I expect that we'll be able to say more about timing as we see more data. Basically, there's not a lot of more light I can—I can shed on that. But you can think of this meeting that we had as the "talking about talking about" meeting, if you like. And I now suggest that we retire that term, which has—which has served its purpose well, I

think. So Committee participants were of the view that since we adopted that guidance in December, the economy has clearly made progress, although we are still a ways from our goal of substantial further progress. Participants expect continued progress ahead toward that objective. And assuming that is the case, it will be appropriate to consider announcing a plan for reducing our asset purchases at a future meeting. So at coming meetings, the Committee will continue to assess the economy's progress toward our goals, and we'll give advance notice before announcing any decision. The timing, of course, Ylan, will depend on the pace of that progress and not on any calendar.

MICHELLE SMITH. Thank you. Now we'll go to Chris Rugaber, AP.

CHRIS RUGABER. Right. Thank you. Well, you mentioned—let me ask about inflation expectations. You said they were—I think you mentioned in your opening statement that you saw them as within target. Does that mean that some of the shorter-term measures we've seen out there such as the New York Federal Reserve's three-year outlook, which jumped a bit—should those sort of be dismissed? And are we only looking at longer-term inflation expectations? And would you describe those as still well anchored at this point? And on a related note, would the Fed consider publishing its index of common inflation expectations on a monthly basis? Thank you.

CHAIR POWELL. So we, we do tend to look at the longer-term inflation expectations, because that's really, we think, what matters for, for inflation. So and, and, you know, the shorter-term ones do tend to move around based on, for example, gasoline prices. So you'll see if gasoline prices were to spike, you'll see the shorter-term inflation expectation measures, particularly the surveys, move up. And, and that's, that's maybe not a good signal for future inflation if, if gas happens to spike and then go back down again.

So we—yes, I think if, if you look at the broad range of longer-term inflation expectations, they've moved up. They moved down during the beginning of the pandemic, you know, sort of further exacerbating concerns that we might find ourselves where, for example, the ECB and the Bank of Japan have been, where you have expectations and inflation itself sliding down and you have a really hard time stopping that process once it begins. So that was a concern. So it's, it's good, actually, to see inflation—longer-term inflation expectations move back up to a range—it's a range that's consistent with what our objectives are.

These are not precise measures, and that's—and they, they contain risk premiums of various kinds. And that's why we look at a broad range of them and tend to look at the movement of that broad range of, of, of indicators, which are from, you know, surveys of economists, surveys of the public, and also market based. It's, it's, it's a wide index, as I'm sure you know. We look at that, and we see them back in the range where they were. And, by the way, they've been broadly higher than that, somewhat modestly higher than that, not so many years ago, at a time when inflation was, was, was still anchored at around 2 percent or maybe even a little bit below. So the answer is, yes, I think they are anchored and they're at a good place right now. It's gratifying to see them having moved up off of their pandemic lows. And, you know, as you know, it's, it's fundamental in our framework, our new framework, to, to assure that inflation—longer-term inflation expectations are anchored at a place that is consistent with our goal. We, we think that's an important reason. If, if inflation expectations are not anchored at a place that's consistent with your goal, it's not clear why you would expect to hit your goal over the longer term. So it's important.

MICHELLE SMTH. Okay, now we'll go to James Politi with the FT.

JAMES POLITI. Chair Powell—thanks, Chair Powell. Your economic projections today forecast 7 percent growth in 2022, unemployment at 4½ percent, and core inflation of 3 percent. If those conditions are achieved by the end of the year, would that constitute substantial further progress, in your mind? And kind of more broadly, when you look at the sort of median forecast for interest rates in 2023 showing not one but two interest rate increases at the time, I mean, is this kind of—can you describe the sort of tone of the—of the discussion in the Committee? And are we really moving towards sort of a post-pandemic stance? Is there greater confidence that, you know, the recovery will be, you know, a full recovery sooner than expected?

CHAIR POWELL. On your first question, the judgment of when we have arrived at substantial further progress is one that the Committee will make. And it would not be appropriate for me to lay out particular numbers that do or do not—that do or do not qualify. That is—that is, you know, the process that we're beginning now at the next meeting. We will begin, meeting by meeting, to, to assess that progress and talk about what we—what we think we're seeing and, and just do all of the things that you do to sort of clarify your thinking around the process of deciding whether and how to adjust the pace and composition of asset purchases.

In terms of the, the, the two hikes—so let me say a couple things first of all, not for the first time, about the—about the dot plot. These are, of course, individual projections. They're not a Committee forecast, they're not a plan. And we did not actually have a discussion of whether liftoff is appropriate at any particular year, because discussing liftoff now would be—would be highly premature, wouldn't make any sense. If you look at the transcripts from five years ago, you'll see that sometimes people mention their rate path in their interventions. Often they don't. And the last thing to say is, the dots are not a great forecaster of, of future rate

moves. And that's not because—it's just because it's so highly uncertain. There is no great forecaster of, of future dots. So, so dots to be taken with a—with a big, big grain of salt.

However, so let me talk about this, this, this meeting. The Committee spelled out, as you know, in our FOMC statements the conditions that it expects to see before an adjustment in the target range is made. And it's outcome based, it's not time based. And, as I mentioned, it's labor market conditions consistent with maximum employment, inflation at 2 percent and on track to exceed 2 percent. In the projections, it gives some sense of how participants see the economy evolving in their most likely case. And, honestly, the main message I would take away from the SEP is that participants—many, many participants are more comfortable that the economic conditions in the Committee's forward guidance will be met somewhat sooner than previously anticipated. And that would be a welcome development. If such outcomes materialize, it means the economy will have made faster progress toward our goals.

So the other thing I'll say is, rate increases are really not at all the focus of the Committee. The focus of the Committee is the current state of the economy. But in terms of our tools, it's about asset purchases. That's what we're thinking about. Liftoff is, is well into the future. The conditions for liftoff—we're very far from maximum employment, for example. It's, it's a consideration for the future. So the near-term thing is really—the real near-term discussion, discussion that will begin is really about the, the path of asset purchases. And, as I mentioned, we had a discussion about that today and expect to, in future meetings, continue to think about our progress.

MICHELLE SMITH. Thank you. We'll go to Nancy Marshall-Genzer from Marketplace.

NANCY MARSHALL-GENZER. Continuing—Chair Powell, continuing in that vein, when you're ready, how will you go about signaling the start of tapering when you do decide to do that?

CHAIR POWELL. So our intention for this process is that it will be orderly, methodical, and transparent. And I can just tell you, we, we, we see real value in communicating well in advance what our thinking is. And we'll try to be clear. And, as I mentioned, we'll, we'll give advance notice before announcing a decision to taper. And so all I can say is that we, we think it's important—we think where the balance sheet's concerned, a lot of notice, as much transparency as we can give, and as far—as far in advance as we can to give people a chance to adjust their expectations. And, you know, we expect to be in that business until we reach substantial further progress and then have a—have a decision. Again, I have nothing further on time. It wouldn't be appropriate to say. We're going to have to see more data. We're a ways away from substantial further progress, we think. But we're making progress.

NANCY MARSHALL-GENZER. So you can't say generally how far in advance you would signal?

CHAIR POWELL. Again, as we—as we approach that goal, we'll provide, you know, as much clarity as we can.

MICHELLE SMITH. Great, thank you. Going to Craig Torres at Bloomberg.

CRAIG TORRES. Craig Torres at Bloomberg. If I were a businessman looking at the forecast today, I would ask how and when the Fed seeks to achieve an average of 2 percent inflation. In other words, does the FOMC have a look-back period? Or does it plan to suppress inflation in outer years because, over the next three years, you're going to be above inflation? So what is your look-back period? Does the Committee have one? And if not, why not? And if

they don't, why isn't this just flexible inflation targeting without an average in a range of 2 to 2¼ percent? Thanks.

CHAIR POWELL. You know, so as part of our year-and-a-half-long process, the review that we did and came out with at the end of that with the—with the new Statement on Longer-Run Goals and Monetary Policy Strategy, we looked carefully at the idea. We've all read all the literature around different formulas for makeup and things like that. And we concluded—and, you know, I strongly agree—that it's not wise to, to wed yourself to a particular formulation of that. So we did adopt a discretionary—there's an element of discretion in it. You know, it says that we will seek to—seek inflation that runs moderately above 2 percent for some time. And it's, it's meant to create a broad sense that we want inflation to average 2 percent over time. And that under the old—under the old formula, under the old framework, what was happening was, 2 percent was a ceiling because all of the errors were below. You were always getting back to 2 percent. So you were bouncing back and forth between 1½ and 2, and we wanted them to be centered around 2. So, so that's, that's the approach that we're taking. And you're right, it's not—it's not a formulaic approach. We were clear on that when we announced the framework. Was there another part of your question, Craig?

CRAIG TORRES. That pretty much answers it, Chair Powell. Thank you.

MICHELLE SMITH. Thank you. Now we'll go to Michael Derby.

MICHAEL DERBY. Thanks for taking my question. So I wanted to ask you about the reverse repo usage that we've seen lately. I was curious if you are at all concerned about the level of money flowing into the reverse repo facility. And do you believe that the changes in the Fed's rate control toolkit today will have any impact on that? And then, in a related question, do

you think that Fed asset purchases are taking too many safe assets out of the market right now and creating maybe some dislocations in the money markets?

CHAIR POWELL. So on the—on the facility, we think it's doing its job. We think it's doing—the reverse repo facility is, is doing what it's supposed to do, which is to provide a floor under money market rates and keep the federal funds rate well within its—well within its range. So we're not concerned with it. It's doing—you have an unusual situation where the Treasury General Account is, is shrinking and bill supply is shrinking. And so there's, there's downward pressure—we're buying assets—there's downward pressure on short-term rates, and that facility is, is doing what we think it's supposed to do. Sorry, your second question was again?

MICHAEL DERBY. Yeah, I mean, the change in the rate control toolkit, will that have any impact on—do you think that will reduce the, the amount of money coming into reverse repos? Will that have any impact on money market conditions that, you know, beyond the fed funds rate setting?

CHAIR POWELL. It could have some impact. I think we'll have to see empirically. But it's designed to keep the federal funds rate, you know, within the range. And I do think it could have some effect on, on broader money market conditions below as it relates to, you know, the very low rates and the downward pressures.

MICHAEL DERBY. And will it—do think it will lower uptake on the reverse repo facility, or that's just not even really a focus of what the change was?

CHAIR POWELL. It's not, honestly. And, you know, the funny thing, you would think that it would, but we'll have to see. It's, it's possible that that would not be the case. That's going to be an empirical question.

MICHAEL DERBY. Okay, cool. Thank you.

MICHELLE SMITH. We'll go to Jeanna Smialek, the *New York Times.*

JEANNA SMIALEK. Hey, Chair Powell. Thank you for taking our questions. I was wondering if you could follow up a little bit on your response to Rachel at the very beginning and talk a little bit about how we should understand what full employment means in a world that, as you mentioned, is pretty roiled. All the data is pretty—has been pretty roiled by the pandemic, and we're not really sure where EPOP is going to settle in, we're not sure where participation is going to settle in. And wages are already looking, you know, decent. So I guess I wonder what full employment means in this context and, and sort of how you're thinking about those wage data.

CHAIR POWELL. Yeah. As, as you well know, there isn't one indicator we can look to, and there's no one number that we can therefore point to. We look at a range of indicators, and it's a very broad range, you can count to a high number just quickly—but, but, certainly, it will include things like unemployment and participation and wages and many different flavors of that. So how do we think about it? A couple of things. We're all going to be informed by what we saw in the last cycle, which was labor supply outperforming expectations over a long period of time. Now, that hadn't happened in many other cycles, but this was a very long cycle. So we're going to have to be alert to see whether that can happen again. It is a different—it's a different economy. We, we have had a slew of retirements, and that may weigh on participation. That, that effect, though, should wear off in a few years and, and, you know, as you move through that window, because they would have—people would have retired anyway, and you'll be back where you, you would have been. So I think we're—I think that lesson number one is, is just to be careful about assessing maximum employment. And I think if you—during the last cycle, there were—there were waves of concern that we were reaching full employment as early,

you know, as, as 2012, when I arrived at the Fed. And, you know—you know, nine years later—eight years later, we were still creating jobs. And, you know, it was quite remarkable. So we're all going to be informed by that. At the same time, we understand this is a different economy. You know, the, the demographics are, people are getting older, and that should have a secular effect of, of reducing participation over time. So we have to be sensible about what, what can be done. But I think we're going to be—we're going to lean into that and be optimistic.

You asked about wages. You know, we're seeing wage increases. That's, that's sort of a natural thing to be seeing in a strong economy. And what we're seeing is—we don't see anything that's troubling in the sense of—what would be troubling would be, you know, very wide across the economy, wages at unsustainable levels without high inflation. In other words, wages in excess of productivity and inflation, you know, by a meaningful amount broadly across the economy, sort of forcing companies to keep raising prices and getting into a wage–price cycle. That's, that's the old formula for—one of the old formulas for having high inflation. We don't see anything like that now. We do see high wages. We see them for, for people who are mostly new, you know, entering into new jobs, many of them in low-skilled jobs. And, but we, we do think—you've got to—you've got to think in the labor market right now, where, where supply and demand are just not matched up well. And, you know, we think it's a flexible economy and, and it will clear. There will—there will be a level at which supply and demand meet. And that'll—we think that'll, that'll be happening in coming months.

So—but the last thing I'll say is, again, if you look at, at the forecasts, we are going to be in a very strong labor market pretty quickly here. There are still a big group of unemployed people. And, you know, we're not going to forget about them. We're going—we're going to do everything we can to get people back into work and give them the chance to work. But there's

every reason to think that we'll be in a—in a labor market with very attractive numbers, with low unemployment, high participation, and rising wages across the spectrum. So that's, that's a little bit how we're looking at the—at the labor market.

MICHELLE SMITH. Thank you. Now we'll go to Hannah Lang at the *American Banker.*

HANNAH LANG. Hi, I wanted to ask about the status of your thinking around the supplementary leverage ratio right now. Is the Fed still thinking about ways to permanently adjust this to account for the high growth in deposits? And do you ultimately believe a permanent fix is needed? And any information on the timing around that would be—would be helpful.

CHAIR POWELL. What I can say is, we're working on it. I don't have anything to share with you in terms of the particulars or the timing right now, unfortunately. But we've, we've always—our position has been for a long time and, and it is now that we'd, we'd like the leverage ratio to be a backstop to risk-based capital requirements. When leverage requirements are, are, are binding, it does skew incentives for firms to substitute lower-risk assets for high-risk ones. It's a straightforward thing. And because of the substantial increase in reserves, Treasuries, and other safe assets in the banking system, the SLR is rapidly ceasing to become—ceasing to be the intended backstop for big firms that we want it to be. So we do think it's appropriate to consider ways to adapt it to this new high-reserves environment, and, and we're looking hard at the issue. We would also, just to be really clear, we will take whatever actions are necessary to assure that any changes we do make or recommend do not erode the overall strength of bank capital requirements. Sorry, I can't give you any more. That's just something we're working on.

MICHELLE SMITH. Thank you. Now we'll go to Anneken Tappe at CNN Business.

ANNEKEN TAPPE. Hi there. Thanks for taking my question. Chairman Powell, the price jumps we've seen in some raw materials—lumber, for example, you mentioned that earlier—seem to be easing. And it looks like we're at the beginning of suppliers catching up with demand. But I wonder if you're worried at all, if we're going to end up with excess supply immediately after those shortages wear off and if we just continue this mismatch, as we're recovering and getting out of the pandemic economy. And I wonder how that would affect the Fed's outlook at all.

CHAIR POWELL. Well, that is really not the problem we're having right now. But—and, actually, people who work in commodity industries are very focused on that, because they know that, you know, they don't want to build, build capacity and then find out that it's not necessary. So, really, the problem now is, is that demand is very, very strong. Incomes are high, people have money in their bank accounts. Demand for goods is extremely high, and it hasn't—it hasn't come down. We're seeing the service sector reopening. And so you're seeing prices are moving back up off their lows there.

But in terms of, of overcorrecting, I mean, I think there, there is a possibility on the other side of this that, that inflation could be—could actually be quite low going forward. But that's not—that's not really where our focus is right now. Our focus right now is, we need to—our, our expectation is that these, these high inflation readings that we're seeing now will start to abate. And that's, that's what we think. And it'll be like the lumber experience, and like we expect the used car experience to be. With things like airplane tickets and hotels, which are the other two factors in the most recent CPI report that went up a lot, we expect that those prices will get back up to where they were, but there's no reason to think that they're going to keep going up

a lot. Because if they are, people will build new hotels. There's no reason for supply and demand to be out of whack in the hotel business over any period of time. So we think that'll happen.

I think in terms of the timing and the effects on inflation in the near term, there's a lot of uncertainty. The overall story is one that, that we think is right, and we think the incoming data support it and, you know, so do many, many forecasters. And if you look at the forecasts on the FOMC, you will—you will see that as well. But we don't—we don't in any way dismiss the chance that it can work out that, that this goes on longer than expected. And the risk would be that over time, it does begin to affect inflation expectations. And if we see inflation expectations and inflation—or inflation moving up in a way that is really materially above what we—what we would see as consistent with our goals, and persistently so, we wouldn't hesitate to use our tools to address that. Price stability is half of our mandate, and we would certainly do that. We do not expect that, though. That is not our base case.

And, and in that we're joined by many other forecasters, but there's a lot to be humble about among forecasters. Forecasters have a lot to be humble about. It's a—it's a highly uncertain business. And we're, we're very much attuned to the risks and, and watching the data carefully. In the meantime, I would say, you know, we should—as I mentioned earlier, there's so much uncertainty around this. It's, it's just a unique situation that we need to see how things evolve in coming months and, and see how that story holds up and act accordingly.

MICHELLE SMITH. Thank you. We'll go to Howard Schneider at Reuters.

HOWARD SCHNEIDER. Howard Schneider, Reuters. Thanks, Chair Powell, for taking this. I don't want to miss the moment here. And I just—I noticed that in the statement you dropped the language saying that the pandemic is weighing on the economy. So is this the

effective end, in your view, of the pandemic as a constraint on economic activity, even though it's still cited as a risk?

CHAIR POWELL. You know, it's a—it's a continuum, right? What you've seen with the pandemic is sharply declining cases, hospitalizations, and deaths. And that's great. And, and, you know, that should continue. But, you know, you, you also saw in the United Kingdom, which has, I think, at least as high if not higher vaccination rates, they've had an outbreak of the Delta variety. And it's—and it's causing them to have to—to have to react to that. So you're not—you're not out of the woods at this point. And it would be premature to—in my thinking, it would be premature to declare victory. Vaccination still has a ways to go to get to levels—it would be good to see it get to a substantially higher level. And, you know, that can only help.

So, look, I—but you're right, the statement language is evolving. I would expect it to continue to evolve. There's a lot of judgment in that. But you can expect us to drag our feet a little bit on that, because that's what you do with statement language. It's, it's great to see the progress. But, again, I would not declare victory yet. I would say it is so great to see the reopening of the economy, though, and to see people out living their lives again. You know, who doesn't want to see that? And it appears to be safe, and I just would encourage people to continue to get vaccinated.

HOWARD SCHNEIDER. If I could follow up on that, if you—if you view this statement in, in toto and the—and the dots and the substance as well, do you think this is more a mark-to-market exercise around the improvement in health or around the inflation risks you see developing out there?

CHAIR POWELL. I think it's both. You know, I think, clearly, since March what's happened is, people have grown more confident in these very strong outcomes, that they'll be

achieved. Very strong outcomes in the economy will be achieved. There's, there's more grounds for comfort. We've seen growth coming higher than we expected. We've seen very strong labor demand. We've also seen—we have seen inflation above target, though, and I think even though, you know, in, in our forecasters' case, they do see inflation coming back down over '22 and '23 into, into areas that are very consistent with our—with our mandate. Nonetheless, the risk is, is something that can factor into people's thinking about appropriate monetary policy. The thing is, you know, these are 18 different forecasts, and I can't stand here and say exactly what was in all 18 people's minds. But that, that is something that I think can factor into things as well—factor into our forecast as well.

HOWARD SCHNEIDER. Thank you.

MICHELLE SMITH. Thank you. We'll go to Victoria Guida with Politico.

VICTORIA GUIDA. Hi, Chair Powell. I, I wanted to ask a little bit more about inflation to make sure I understand how you're thinking about this. So in the projections, inflation is expected to, to be high this year and then come back down next year and then maybe start to rise a little bit again, enough for a liftoff in 2023. You know, I know that's obviously—you know, take that with a grain of salt. But that would suggest that you all could theoretically see inflation sustainably staying above 2 percent. And so, I guess my question is, what would be causing that inflation? What, what would be—because it seems like you all now see a situation in which inflation would be rising in a way that isn't caused by transitory factors in the—in the next couple of years. So would that be the result of a tight labor market? Would that be because this whole situation has raised people's inflation expectations? How are you thinking about that?

CHAIR POWELL. So what we're seeing in the near term—again, our base case is that what we're seeing in the near term is, is principally associated with, with the reopening of the

economy and not with a tight labor market or tight resource constraints, really. So—but you're right. When, when you get to—in, in the forecast, all of that, you know, supply and demand sides of the economy adapt. We have a very highly adaptive, you know, flexible economy, more so than most. And by 2023, those increases are really about, about, you know, rising resource utilization or, to put it a different way, you know, low unemployment, or high employment is a way to think about it. So that's what that's about. That's about the kind of broad inflationary pressure that results from, you know, a really strong expansion tightening up resource utilization across the whole economy and lifting, lifting up inflation. And that's why—that's why you would see it then, because by then, you know, in the forecast—and it's just a forecast, they're just individual forecasts. In people's forecasts, that's what's happening.

VICTORIA GUIDA. So the, the, the change in the projections reflect the fact that you all are more optimistic about the economic outlook, and not necessarily that you think that this will change the way people think about inflation?

CHAIR POWELL. Yeah, I think—there may be an element of the latter as well, because inflation expectations have continued to move up. You know, it's all in people's individual thinking, and you can't—it's hard to say. It's not something the Committee debates in terms of, you know, what, what the outlook is for 2023. So I'm, I'm a little bit speculating, which I shouldn't do. But it wouldn't surprise me if there's an element for some people in, you know, seeing the inflation performance that we've had and thinking that I have more confidence that we could see inflation above 2 percent, that it may not be as hard to do that as we thought, and that inflation expectations may move up to a—to a level—they were—they were really at a level that was kind of a little below 2 percent. They might move up as a consequence of this or, or, or as a consequence of, of, of the new framework. You know, we did see inflation expectations moving

up in the—in the wake of the announcement of the framework. But, you know, we don't really know that. So, ultimately, I think it's consistent with both those things.

MICHELLE SMITH. Thank you. Now we'll go to Greg Robb at MarketWatch.

GREG ROBB. Hi. Hi, thank you for taking my question. Chair Powell, I'm just looking at the forecast, and one thing I just don't think has been talked about all that much is how much you guys—the Fed thinks that the economy is going to slow next year. I mean, are we looking at a scenario of a slowing economy next year with higher inflation? And, and what do you think about that?

CHAIR POWELL. We're looking at an economy that will not have the degree of, of fiscal support. The fiscal support in the forecast is much less than it was this year. So—but you've, you've still got a very strong growth, well above the longer-run potential output of the—of the economy. You've got—you've got growth meaningfully above that, and inflation is lower next year in all of our—in all of our forecasts. I think the range of, of core PCE forecast for next year is 1.7 to 2.5 in 2022 and, and 2 to 2.3 in 2023. So you're right, you're seeing—I, I can't remember the number, but it might be in the 3s—3, 3½ percent growth for next year. That's, that's a really good year—coming on the back of a 7 percent growth year, that's a really good year. That's, that's a year with a lot of momentum. That'll see—you know, that'll cause significant job creation and, and it will—I mean, we would take 3½ percent. We didn't have a 3½ percent growth year—we didn't have a 3 percent growth year between the Global Financial Crisis and the end of the expansion. So that would be a good year.

GREGG ROBB. Doesn't it seem like there's a risk of, of, you know, like stagflation—where that—you're going to go from 7 percent and down, that means the economy's really, you know, dropping in some way. We haven't seen that, right?

CHAIR POWELL. Well, the economy's not, not decel—the economy is still growing, and growing at a, at a very healthy rate. Our estimate—I mean, different people have different estimates—but, broadly speaking, economists think the economy has the potential to grow at around 2 percent per year. If you're growing above that, then the unemployment rate should be declining, people should be being pulled into the labor force, wages should be going up, lots of things should be happening, businesses should be investing.

So, you know, I guess to answer your question a different way, is there a risk that inflation will be higher than we think? Yes. As I said earlier, you know, we, we don't have any certainty about the timing or the extent of these effects from reopening. And therefore we don't—we don't think that—we think it's unlikely that they would materially affect the underlying inflation dynamics that the economy has had for a quarter of a century. The underlying forces around the globe that have created those dynamics are intact, and those are aging population, low productivity, globalization, all of those things that, that we think have, have, you know, really held down inflation. All that's out there still. You know, when we get through this, we may well—we'll be facing those same forces. Nonetheless, is there a risk that inflation will remain higher than we—than we thought? Yes. And if, if we see inflation moving above our goals in, in a time—sorry, to an extent, to a level or, or persistently—or persistently enough, you know, we would be prepared to use our tools to address that.

MICHELLE SMITH. Thank you. Going to Brian Cheung with Yahoo.

BRIAN CHEUNG. Chair Powell, Brian Cheung, Yahoo Finance. On that point, you talked about maybe some of the more structural changes in that last answer with regards to productivity. I noted that the median projection for r*, the longer-term interest rate, is still the same at 2.5 percent. But there's been some literature out there that maybe the COVID crisis

could have actually changed some of the underlying fundamentals of the economy and maybe changed productivity, in addition to combined with demographic changes that have already been in effect to suggest that that longer-term neutral rate or r* might be higher. What would the implications of that be for monetary policy? Do you think that maybe the Fed could have the possibility of underestimating the long-run neutral rate? And what might be the impact of that?

CHAIR POWELL. A higher neutral rate would mean that interest rates would run higher by that amount. And, and that would be a good thing from the standpoint of the economy, because it would give the Fed more room to cut rates. The problem with, with interest rates being close to the lower bound, of course, is that it really cuts into our ability to react to a downturn—for example, a pandemic. And if you look, for example, at the European Central Bank, their, their policy rate was well below zero when, when the pandemic hit. So we don't want to be in a place where we can't react. A higher neutral rate would, would be—from that narrow standpoint, would be a good thing for us. It would give us more room and, therefore, then, that would tend to result in better outcomes for the economy over time. You know, we, it's—you can't estimate it with great—with great precision. I think we would be alert to—I mean, studying r* is a—is a whole industry unto itself. And I, I think we would be alert to factors that might raise r*, the neutral rate of interest. And, you know, we, we try to keep up with that. And I think we're, we're, we're all thinking about that and the possibility of that. You know, there are many—there are a lot of stories right now that could—that essentially could lead to higher productivity growth and higher r*. We don't know which of those stories will come true. But, I mean, I'll give you an example. It's just there are—there are a lot of start-ups, a lot of early-stage companies. And is that going to have that effect? We don't know. But we'll be watching those things carefully.

MICHELLE SMITH. Great, thank you. For the last question, we'll go to Michael McKee at Bloomberg TV.

MICHAEL MCKEE. Mr. Chairman, of course you'll be shocked to learn that you have some critics on Wall Street. And I would like to paraphrase a couple of their criticisms and get your reaction to them. One is that the new policy framework is that you react to actual data and do not react to forecasts, yet the actual inflation data is coming in hot and you're relying on the forecast that it will cool down in order to make policy. I wanted to get your view on how you square that. Another is that you have a long runway, you've said, for tapering with announcements. But if the data keep coming in faster than expected, are you trapped by fear of a taper tantrum from advancing the time period in which you announce a taper? And, finally, you've said the Fed knows how to combat inflation, but raising rates also slows the economy. And there's a concern that you might be sacrificing the economy if you wait too long and have to raise rates too quickly.

CHAIR POWELL. So that's a—that's a few questions there. So let me say, first, I think people misinterpret the framework. I think the—there's nothing wrong with the framework, and there's nothing in the framework that would in any way, you know, interfere with our ability to pursue our, our goals. That's for starters. All of our discussions and all of our thinking and planning are taking place in the context of our new framework. We're strongly committed to it, we think it's well suited to our goals, including in this—in this unique time. And I think if you look at the—look at the forecasts that we've written down, you know, our Committee is solidly behind them. The forecasts are all consistent with that.

You know, your specific question, I guess, was, will we be behind the curve? And, you know, that's, that's not the situation we're facing at all. The situation that we, we addressed in

our—in our Statement on Longer-Run Goals and Monetary Policy Strategy was a situation in which employment was at very high levels, but inflation was low. And what we said was, we wouldn't raise interest rates just because unemployment was low and employment was high if there was no evidence of inflation or other troubling imbalances. So that's what we said.

That is not at all the current situation. In the current situation, we have many millions of people who are unemployed, and we have inflation running well above our target. The question we face with this inflation has nothing to do with our framework. It's a very different, very difficult version of a standard investment—sorry, a central banking question. And that is, how do you separate in inflation—how do you separate things that, that follow from broad upward price pressures from things that really are a function of, of sort of idiosyncratic factors in a particular—due to particular things? I mean, a classic example was, to pick a narrow example, was the cellphone price war back in 2017. If you remember, there was—prices were incredibly low, and it held down core PCE by three-tenths or something for a year, and then it fell out. So this is much bigger than that. And, of course, it's not—it's not easy to tell in real time which is which, but that's, that's the question you would face under, really, any framework. And, you know, we're trying to sort that out. I've tried to, to explain that today about how we think about that. And, you know, we do think that these are temporary factors, and that they'll wane. We can't be absolutely certain about the timing of that, and we're prepared to use our tools as appropriate.

Your second one was? Oh, you know, we will—we will taper when we feel that the economy has achieved substantial further progress. And we will communicate very carefully in advance on that. And that's what we're doing. That's what we're going to do, and, and we will follow through on that. There's no—I mean, we will do what we can to avoid a market reaction.

But, ultimately, when we achieve our macroeconomic goal, we will—we will taper as appropriate.

The third thing was—what was the third thing?

MICHAEL MCKEE. If you raise rates to control inflation, you also slow the economy. And the history of the Fed is that sometimes you go too far.

CHAIR POWELL. That's right. And we—look, we have to balance the two—the two goals: maximum employment and price stability. Often they are—they do pull in the same direction, of course. But when we—when we raise interest rates to control inflation, there's no question that has an effect on activity. And that's the channel—one of the channels through which we get to inflation. We don't think that we're in a situation like that right now. We think that the economy is recovering from a deep hole—an unusual hole, actually, because it's to do with, with shutting down the economy. It turns out it's a heck of a lot easier to create demand than it is to, you know, to bring supply back up to snuff. That's happening all over the world. There's no reason to think that that process will last indefinitely. But we're going, you know, we're going to watch carefully to make sure that, that evolving inflation and our understanding of what's happening is, is, is right. And in the meantime, we'll conduct policy appropriately.

MICHELLE SMITH. Thank you, Mr. Chair.