Transcript of Secretary of the Treasury Janet L. Yellen’s Press Conference

July 28, 2022

Good afternoon and thank you for joining us.

Right now, we're in an important moment for our economy, and it presents an opportunity for us all to take stock. Coming in with the dips of the pandemic, the United States experienced an historic economic recovery. A rebound that’s unmatched in our nation's modern history in its speed and scale. Right now, even in the face of global headwinds, including a war in Europe and successive variants of the pandemic, our economy remains resilient. Our unemployment rate stands at 3.6%, household finances are strong, and industrial output continues to grow.

This outcome was not preordained in January 2021, when President Biden and this administration took office, the unemployment rate was 6.4 percent, 834,000 new jobless claims were being filed each week on average, and 20 million Americans were receiving unemployment benefits. Only 1 percent of Americans had been fully vaccinated against COVID-19, and over 3000 people were dying from the virus each day. In many respects, by the time President Biden took office, our economy had been brought to a standstill.

At its core, our remarkable progress since then has been driven by this Administration's policies, particularly through timely and targeted fiscal support in the Rescue Plan combined with the vaccination efforts that allowed businesses to reopen and Americans to get back to work. Over the course of the Administration, our economy has created over 9 million jobs, and the labor market is now at full employment. In 2021, we saw the biggest single year decline in unemployment on record, and the biggest year of economic growth in almost four decades. Fixed investment has recovered to pre-pandemic trend in just two years. By comparison, in the last two recessions, this never happened. And during this time, we also reduce the deficit by $1.5 trillion.

These statistics are not abstractions. They represent American workers back at work, families with more financial security, and businesses, small and large, that have been able to hire and grow. As President Biden has said, we've entered a new phase in our recovery, focused on achieving steady stable growth without sacrificing the gains of the last 18 months.

We know there are challenges ahead of us. Growth is slowing globally, inflation remains unacceptably high, and it's this Administration's top priority to bring it down. We know how difficult higher prices can be for families, how they can squeeze a household budget, and how challenging the past two years of disruption caused by COVID-19 have been. And that's why this Administration mounted an historic vaccination campaign to get the pandemic under control, and why we're laser focused on bringing down prices.

The same factors that have driven inflation to record levels internationally -- in peers like Canada, the United Kingdom in the eurozone -- those factors are hurting Americans as well. These challenges also include Vladimir Putin's illegal and shameful war in Ukraine. More than half the inflation experienced in 2022 reflects rising food and energy costs -- global fallout from Russia's invasion -- and it also reflects the lingering impacts of the pandemic, particularly in China where repeated lockdowns have brought their economy to a halt.

While the Federal Reserve has a primary role in bringing down inflation, the President and I are committed to taking action to drive down costs and protect Americans from the global pressures we face. That includes the President's historical release of 1 million barrels a day from the Strategic Petroleum Reserve, which helped reduce the price of gas by between 17 and 42 cents per gallon, according to a Treasury analysis this week. Americans have seen additional relief on this front, and in the last few weeks, prices have declined by over 60 cents a gallon in total. Our efforts also include the work we have done to develop a cap on the price of Russian oil, a way to ensure a steady flow of oil onto the global market, while denying pool revenue for his military. At a time of global anxiety over high prices, our price cap on Russian oil is one of the most powerful tools we have to address inflation by preventing future spikes in energy costs.

The reconciliation package announced yesterday will also help ease inflationary pressures by lowering some of the biggest costs families face, including energy, health care, and prescription drugs, all while making historic investments in fighting climate change, and reducing the deficit. Importantly, this bill will also make sure we finally have the resources we need to ensure that wealthy Americans are not able to avoid paying the taxes they owe.

These efforts are long overdue, and Congress should pass it immediately.

This context, including the successes of last year and the global challenges we face, is critical in understanding today's GDP data. Most economists and most Americans have a similar definition of recession: substantial job losses and mass layoffs, businesses shutting down, private sector activity slowing considerably, family budgets under immense strain. In sum: a broad-based weakening of our economy.

That is not what we're seeing right now when you look at the economy. Job creation is continuing, household finances remain strong, consumers are spending, and businesses are growing.

As one example, in the last three months, our economy has created over 1.1 million jobs. In the three months beginning each modern recession outside of the pandemic, our economy lost 240,000 jobs on average. Spending by businesses and consumers, the core of our economic activity, rose by 3% in the first quarter of this year and continue to expand in the second. Industrial output -- the measure of our manufacturing mining and utilities sectors -- has shown strong average growth over the first half of the year compared to sharp average declines during past recessions.

In the context of today's report, it's important to look beyond the headline number to understand what's happening. The contraction in GDP was driven primarily by the change in private inventories, a volatile component of GDP which subtracted over two percentage points off quarterly growth. Today's report shows continued expansion in consumer spending overall and in services in particular, in addition to notable strength and net exports.

Overall, with a slowdown in private demand, this report indicates an economy that is transitioning to more steady, sustainable growth. This path is consistent with one that eases inflationary pressures, while maintaining the labor market progress of the past 18 months.

While our economy has been resilient in the face of numerous shocks over the past two years, I should also stress that there are numerous risks on the horizon, many of them global, that we remain highly attuned to. They include the outcome of the war in Ukraine, COVID lock downs in China, and pandemic-related supply chain snarls. These factors make predicting the future difficult, and we must be clear eyed and vigilant about the threats they pose. But we cannot lose sight of the remarkable progress we have made from the depths of the pandemic and the tremendous resilience our economy has shown thanks to the hard work and perseverance of American workers, families and businesses, as well as effective policy. This progress gives us a solid foundation to confront the challenges ahead of us. And I believe that in the months to come, with skill and luck, it's possible to maintain that strength, particularly in the labor market, while easing the tightness that has driven inflation.

And with that I'd be happy to take your questions.

Q&A

Q: Thank you, Secretary. Regardless of whether or not we're in a recession, and you seem to be indicating not, many Americans are feeling some pain right now. And the last time we had to tame inflation at this level was the early 1980s, and it took two years to do that. Do you anticipate that this fight against inflation will be a long and grinding one like the early 80s, or will it be faster, and do we need to see some job losses in order to bring that inflation rate down? Thank you.

Secretary Yellen: So, with respect to how Americans are feeling about the economy, they're experiencing great stress from high inflation. We simply haven't seen anything like this since the 1970s, and seeing what's happening to food prices and energy prices and rent and other prices in the economy is making families very concerned about their household budgets. They want to see it end, and this is pressure that's real, that we recognize, and it's the President's top priority to bring inflation down. I think the key job here is the Federal Reserve's, they're clearly moving to address that and have indicated their commitment to bring it down. You know, through it, this is a very unusual situation, in that coming out of the pandemic, we have this set of supply chains challenges that continue to affect the economy, an example being the ongoing shortage of semiconductors that's holding back production of vehicles, and it's hard to know just what the timeframe is for those supply chain pressures to resolve and to ease. I think there are some positive signs that we're seeing that suggest that inflation is likely to come down in the days ahead, but the proof of the pudding will be in the eating, but the Fed is taking the right measures. The administration and Congress are taking very important supplementary measures. As I mentioned, the releases from the Strategic Petroleum Reserve that have been one factor working to bring down gas prices, and the legislation that will make an enormous difference to prescription drug prices and serve to hold healthcare costs down, the investments in energy and to address climate change will, over time, improve greatly our sense of security about energy and make us much less vulnerable to global shocks. And as you know, we're working with our allies on the price cap to avoid further upward pressure on oil and gas prices.

Q: Thank you very much. Chris Condon from Bloomberg News. I'd like to follow up on David's question by asking you specifically: Do you think it will be necessary for unemployment to rise above 5% in order for inflation to reach the Fed’s longer-run target of 2%? Thank you.

Secretary Yellen: Well, I believe as I've said that there is a path to bring down inflation while maintaining a strong labor market, and most estimates of the natural rate of unemployment are lower than 5%. Now, it's not a certainty that that can be done, but I believe there is a path to accomplishing that, and as Chair Powell was said repeatedly, that would be his objective to try to accomplish that, and I would consider that a good outcome as well. Clearly, we are seeing a slowing in the economy and in demand that's appropriate and necessary to transition from rapid growth and recovery from a serious job shortfall to now a very strong labor market. We need to see a slowdown in growth. We are seeing that. I do believe there's a path by which we maintain a strong labor market like that.

Q: Amara Omeokwe with the Wall Street Journal. Madam Secretary, could you say a little bit more about how you believe the inflation Reduction Act would impact inflation? How much do you believe that package would subtract from inflation and over what timeframe?

Secretary Yellen: So, I don't have numerical estimates for you, but I see that as making a very important contribution to lowering the cost of prescription drugs, which is, for many households, a very severe burden on their household budgets. This is something that policymakers and members of Congress have sought to accomplish for many, many years, and it's a great achievement if it can become law and will certainly help, and with respect to health care premiums, the funding that's provided there is going to be important in holding down health insurance costs for many Americans. So, these are two important contributions that we should see come into play as soon as the legislation is passed and put into effect. Beyond that, there is deficit reduction in the bill, and over time, I see deficit reduction as an appropriate accompaniment to the policy changes the Fed is putting into effect.

Q: Secretary Yellen, in today's GDP report, we saw very high nominal GDP growth. How does that high level of growth jive with the idea that the economy is slowing? And does it suggest that the economy is going to have to slow down at an even more aggressive pace in order to get back to 2% inflation?

Secretary Yellen: Well, I mean, we had high nominal GDP growth because inflation is high and that shows up in the GDP deflator. Real growth was reported in this advanced report as a negative number, and that's a better metric to look at in assessing the overall performance of the economy. So, I see the last several quarters as exhibiting a significant slowdown in the pace of spending in the economy, and when you look at the details, in terms of spending components, we're in a period where there's very significant fiscal drag. Government spending made a negative contribution to GDP. We saw a negative contribution this quarter, huge from inventories, but importantly, consumer spending remains positive, but definitely the real data, to my mind, show that there is a slowdown in progress. And, you know, that the labor market right now is extremely tight and may be the source of some of the inflationary pressures, certainly not all of it by any means.

Food and energy are a very important contributor, supply chain problems relating to the pandemic and what's happening in China, those are important, but we've got two job vacancies for every unemployed person, which is a level of tightness in the labor market that we really, I don't think we've ever seen, historically, and the slowdown in the economy coupled hopefully with a restoration of somewhat higher level, a rebound in labor force participation. We're not sure if that will occur, but beginning to take some of the tightness out of the labor market while maintaining overall a strong labor market, I think that's a plan to bring down inflation.

Q: Thank you so much, Madam Secretary, Kayla Tausche from CNBC. Is there such a thing as a mild or a partial recession as some have suggested? And if so, what would that look like? And second, are you committed to staying in this role until growth and inflation stabilize?

Secretary Yellen: I will stay in this role as long as President Biden finds my contributions to be useful. I serve at his pleasure.

And, I'm sorry, what was the first part of the question was? Mild recession, well sure, recessions are different, and we had an extremely severe recession following the global financial crisis when unemployment rose to around 10%, and it took really a decade for the economy to get back to full employment. We've had milder recessions, certainly, than that, there's usually been a significant increase in the unemployment rate, but they do differ. And, you know, this is a very unusual situation where we have a slowdown, the labor market remains very tight. You know, we could see some mild easing of pressures in the labor market and yet continue to feel we've got a good strong labor market that's operating in full employment.

Q: Secretary Yellen, Mueller from Axios, there's been a big run up in the dollar in the last few months in currency markets. That's especially hard on emerging markets. Do you believe the degree of dollar appreciation we've seen so far is appropriate? Do you fear it's gone too far, and should we be worried about kind of feedback loops and negative effects on the global economy?

Secretary Yellen: Well, thanks for that question. I mean, there certainly has been a significant appreciation of the dollar. I think part of it is driven by interest rate differentials between the United States and other countries. As we've moved to tighten monetary policy more quickly, it's attracted capital inflows into the United States that have pushed up the dollar, and that's typically something that occurs in cycles of monetary policy: tightening. I think we've also seen some risk off safe haven-type flows into the dollar that have exacerbated that.

You know, I am worried about the global outlook. The IMF and World Bank have, on several occasions now, downgraded the outlook. A strong dollar creates for some of those countries, pressures, pressures on their economies, especially when there's dollar denominated debt becomes harder to pay off. So, a rising interest rate, strong dollar environment, can create pressures in other parts of the world, especially at a time when all of us are suffering from the impacts of pollutants war that are driving up energy and food prices and creating real burdens on most countries around the world and particularly the lowest income countries. We are seeing more countries that are likely to experience debt distress. So, this is a stressful environment for many countries around the world. You know, some countries are benefiting from higher commodity prices, though, so it's an offset and it differs, but I don't you asked about self-reinforcing cycles, and I don't see that occurring at this point. I don't see that kind of distress developing anywhere that I'm aware of.

Q: Thank you, Jeff Stein, with the Washington Post. You know, the polling shows that most Americans feel like we're in a recession. Why have this drawn-out semantic battle? You know, the administration has been on the offensive to define a recession a certain way. Why have this semantic battle especially when so many Americans feel like they were misled last year, especially given the chance that things could again change, and we could actually have a recession by the definitions that you're outlining. Why has this become this battle?

Secretary Yellen: So, I agree with you, and I think we should avoid a semantic battle. I've tried to do that in my remarks today. When you say that Americans are very concerned about the economy, I think their biggest concern is with inflation and high prices that they feel they can't afford to put gas in their gas tank, and people are worried about their retirement savings and whether or not they'll have enough to retire. Now, sometimes people use the word recession to refer to that, that's really about inflation, but I think that the discomfort that households feel, it's not because of the job market-- jobs are readily available, and most Americans feel good about their employment prospects, layoffs have been low. They may, some may worry that the economy, that the labor market will weaken, but I think the biggest burden that’s weighing negatively on household sentiment is inflation, and that's why that is our top priority in terms of addressing that.

I, you know, I see, when you look at the economy, the official arbiter of what is a recession is going to be the National Bureau of Economic Research – they'll decide it sometime in the future. So, I think what we can constructively do is talk about what is the state of the economy. And as I've tried to describe, the labor market remains exceptionally strong. That is not what we see in past episodes that the NBER has labeled to be recession. On the other hand, we do see significant slowdown in growth. That's to be expected given how rapidly the economy grew when it was recovering from the pandemic and all of those job losses, and policy was designed to do that. We should expect to see a slowdown. This economy is at full employment. So, we have a slowing economy. We have a whole variety of risks to the outlook that I've tried to enumerate, but we have great strengths in the economy, too-- a strong labor market being one strength. You know, consumer household balance sheets remain generally quite strong. Credit quality is strong. You do not see some increase, significant increase in business bankruptcies. The typical kinds of distress we associate with the word recession. But I agree, we shouldn't just get involved in the semantics. Let's talk about what's going on.

Thank you.

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