Transcript of Chair Powell's Press Conference Opening Statement
December 14, 2022

CHAIR POWELL. Good afternoon. Before I go into the details of today's meeting, I would like to underscore for the American people that we understand the hardship that high inflation is causing and that we are strongly committed to bringing inflation back down to our 2 percent goal. Over the course of the year, we have taken forceful actions to tighten the stance of monetary policy. We have covered a lot of ground, and the full effects of our rapid tightening so far are yet to be felt. Even so, we have more work to do. Price stability is the responsibility of the Federal Reserve and serves as the bedrock of our economy. Without price stability, the economy doesn't work for anyone. In particular, without price stability, we will not achieve a sustained period of strong labor market conditions that benefit all.

Today, the FOMC raised our policy interest rate by 1/2 percentage point. We continue to anticipate that ongoing increases will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. In addition, we are continuing the process of significantly reducing the size of our balance sheet. Restoring price stability will likely require maintaining a restrictive policy stance for some time. I will have more to say about today's monetary policy actions after briefly reviewing economic developments.

The U.S. economy has slowed significantly from last year's rapid pace. Although real GDP rose at a pace of 2.9 percent last quarter, it is roughly unchanged through the first three quarters of this year. Recent indicators point to modest growth of spending and production this quarter. Growth in consumer spending has slowed from last year's rapid pace, in part reflecting lower real disposable income and tighter financial conditions. Activity in the housing sector has weakened significantly, largely reflecting higher mortgage rates. Higher interest rates and slower output growth also appear to be weighing on business fixed investment. As shown in our

Summary of Economic Projections, the median projection for real GDP growth stands at just 0.5 percent this year and next, well below the median estimate of the longer-run normal growth rate.

Despite the slowdown in growth, the labor market remains extremely tight, with the unemployment rate near a 50-year low, job vacancies still very high, and wage growth elevated. Job gains have been robust, with employment rising by an average of 272,000 jobs per month over the last three months. Although job vacancies have moved below their highs and the pace of job gains has slowed from earlier in the year, the labor market continues to be out of balance, with demand substantially exceeding the supply of available workers. The labor force participation rate is little changed since the beginning of the year. FOMC participants expect supply and demand conditions in the labor market to come into better balance over time, easing upward pressures on wages and prices. The median projection in the SEP for the unemployment rate rises to 4.6 percent at the end of next year.

Inflation remains well above our longer-run goal of 2 percent. Over the 12 months ending in October, total PCE prices rose 6 percent; excluding the volatile food and energy categories, core PCE prices rose 5 percent. In November, the 12-month change in the CPI was 7.1 percent, and the change in the core CPI was 6 percent. The inflation data received so far for October and November show a welcome reduction in the monthly pace of price increases. But it will take substantially more evidence to give confidence that inflation is on a sustained downward path. Price pressures remain evident across a broad range of goods and services. Russia's war against Ukraine has boosted prices for energy and food and has contributed to upward pressure on inflation. The median projection in the SEP for total PCE inflation is 5.6 percent this year and falls to 3.1 percent next year, 2.5 percent in 2024, and 2.1 percent in 2025; participants continue to see risks to inflation as weighted to the upside.

Despite elevated inflation, longer-term inflation expectations appear to remain well anchored, as reflected in a broad range of surveys of households, businesses, and forecasters, as well as measures from financial markets. But that is not grounds for complacency; the longer the current bout of high inflation continues, the greater the chance that expectations of higher inflation will become entrenched.

The Fed's monetary policy actions are guided by our mandate to promote maximum employment and stable prices for the American people. My colleagues and I are acutely aware that high inflation imposes significant hardship as it erodes purchasing power, especially for those least able to meet the higher costs of essentials like food, housing, and transportation. We are highly attentive to the risks that high inflation poses to both sides of our mandate, and we are strongly committed to returning inflation to our 2 percent objective.

At today's meeting the Committee raised the target range for the federal funds rate by 1/2 percentage point, bringing the target range to 4-1/4 to 4-1/2 percent. And we are continuing the process of significantly reducing the size of our balance sheet.

With today's action, we have raised interest rates by 4-1/4 percentage points this year. We continue to anticipate that ongoing increases in the target range for the federal funds rate will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. Over the course of the year, financial conditions have tightened significantly in response to our policy actions. Financial conditions fluctuate in the short term in response to many factors, but it is important that over time they reflect the policy restraint we are putting in place to return inflation to 2 percent. We are seeing the effects on demand in the most interest-sensitive sectors of the economy, such as housing. It will take time, however, for the full effects of monetary restraint to be realized, especially on inflation. In light of the cumulative tightening of monetary policy and the lags with which monetary policy affects economic activity and inflation, the Committee decided to raise interest rates by 50 basis points today, a step down from the 75-basis point pace seen over the previous four meetings. Of course, 50 basis points is still a historically large increase, and we still have some ways to go.

As shown in the SEP, the median projection for the appropriate level of the federal funds rate is 5.1 percent at the end of next year, 1/2 percentage point higher than projected in September. The median projection is 4.1 percent at the end of 2024 and 3.1 percent at the end of 2025, still above the median estimate of its longer-run value. Of course, these projections do not represent a Committee decision or plan, and no one knows with any certainty where the economy will be a year or more from now. Our decisions will depend on the totality of incoming data and their implications for the outlook for economic activity and inflation. And we will continue to make our decisions meeting by meeting and communicate our thinking as clearly as possible.

We are taking forceful steps to moderate demand so that it comes into better alignment with supply. Our overarching focus is using our tools to bring inflation back down to our 2 percent goal and to keep longer-term inflation expectations well anchored. Reducing inflation is likely to require a sustained period of below-trend growth and some softening of labor market conditions. Restoring price stability is essential to set the stage for achieving maximum employment and stable prices over the longer run. The historical record cautions strongly against prematurely loosening policy. We will stay the course, until the job is done.

To conclude, we understand that our actions affect communities, families, and businesses across the country. Everything we do is in service to our public mission. We at the Fed will do everything we can to achieve our maximum employment and price stability goals. Thank you. I look forward to your questions.