

**Transcript of Chairman Powell's Press Conference  
June 13, 2018**

CHAIRMAN POWELL. Good afternoon. Thanks very much for being here. I know that a number of you will want to talk about the details of our announcement today, and I am happy to do that in a few minutes. But because monetary policy affects everyone, I want to start with a plain-English summary of how the economy is doing, what my colleagues and I at the Federal Reserve are trying to do, and why.

The main takeaway is that the economy is doing very well. Most people who want to find jobs are finding them, and unemployment and inflation are low. Interest rates have been low for some years while the economy has been recovering from the financial crisis. For the past few years, we have been gradually raising interest rates, and along the way we've tried to explain the reasoning behind our decisions. In particular, we think that gradually returning interest rates to a more normal level as the economy strengthens is the best way the Fed can help sustain an environment in which American households and businesses can thrive. Today, we've taken another step in that process by raising our target range for the federal funds rate by  $\frac{1}{4}$  of a percentage point.

My colleagues and I meet eight times a year and take a fresh look each time at what is happening in the economy and consider whether our policy needs adjusting. We don't put our interest rate decisions on hold or on autopilot, because the economy can always evolve in unexpected ways. History has shown that moving interest rates either too quickly or too slowly can lead to bad economic outcomes. We think the outcomes are likely to be better overall if we are as clear as possible about what we are likely to do and why. To that end, we try to give a sense of our expectations for how the economy will evolve and how our policy stance may change.

As Chairman, I hope to foster a public conversation about what the Fed is doing to support a strong and resilient economy. And one practical step in doing so is to have a press conference like this after every one of our scheduled FOMC meetings. And we're going to do that beginning in January. That will give us more opportunities to explain our actions and to answer your questions. I want to point out that having twice as many press conferences does not signal anything about the timing or pace of future interest rate changes. This change is only about improving communications. My FOMC colleagues and I will also continue to issue our economic projections on the existing quarterly schedule.

Now, let me go into more detail over developments in the economy, our economic projections, and our policy decision. Economic growth appears to have picked up in the current quarter, largely reflecting a bounceback in household spending. Business investment continues to grow strongly, and the overall outlook for growth remains favorable. Several factors support this assessment: Fiscal policy is boosting the economy, ongoing job gains are raising incomes and confidence, foreign economies continue to expand, and overall financial conditions remain accommodative. These observations are consistent with the projections that Committee participants submitted for this meeting. The median projection for the growth of real GDP is 2.8 percent this year, 2.4 percent next year, and 2 percent in 2020. Compared with the projections made in March, this median growth path is little changed.

In the labor market, job gains averaged 180,000 per month over the past three months, well above the pace needed in the longer run to provide jobs for new entrants into the workforce. The unemployment rate declined over the past two months and stood at 3.8 percent in May, its lowest level in nearly two decades. Meanwhile, the labor force participation rate has been roughly unchanged since late 2013. That is a positive sign, given that the aging of our

population is putting downward pressure on the participation rate. And we expect the job market to remain strong. As you can see in our Summary of Economic Projections, the median of Committee participants' projections for the unemployment rate stands at 3.6 percent in the fourth quarter of this year and runs at 3.5 percent over the next two years, a percentage point below the median estimate of its longer-run normal rate. This median path is just a bit lower than that from March.

After many years of running below our 2 percent longer-run objective, inflation has recently moved close to that level. Indeed, overall consumer prices, as measured by the price index for personal consumption expenditures, increased 2 percent over the 12 months ending in April. The core PCE index, which excludes prices of energy and food and tends to be a better indicator of future inflation, rose 1.8 percent over the same period. As we had expected, inflation moved up as the unusually low readings from last March dropped out of the calculation. The recent inflation data have been encouraging, but after many years of inflation below our objective, we do not want to declare victory. We want to ensure that inflation remains near our symmetric 2 percent longer-run goal on a sustained basis. As we note in our Statement of Longer-Run Goals and Monetary Policy Strategy, the Committee would be concerned if inflation were running persistently above or below our 2 percent objective. Of course, many factors affect inflation—some temporary and others more lasting—and at any given time inflation may be above or below 2 percent. For example, the recent rise in oil prices will likely push inflation somewhat above 2 percent in coming months. But that transitory development should have little, if any, consequence for inflation over the next few years. The median of participants' projections for inflation runs at 2.1 percent through 2020. Relative to the March projections, the median inflation projection is a little higher this year and next.

As I mentioned, today we took another step in gradually scaling back monetary policy accommodation by raising the target range for the federal funds rate by  $\frac{1}{4}$  percentage point, bringing it to  $1\frac{3}{4}$  to 2 percent. We also made some changes to our policy statement, reflecting that policy normalization is proceeding broadly as we have expected. None of these changes signals a change in our policy views. For example, we removed the language stating that “the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.” Since we introduced that language a few years ago, the economy has strengthened, and the Committee has raised the federal funds rate from near 0 to  $1\frac{3}{4}$  to 2 percent. As we continue to note in our statement, we expect to make further gradual increases in that rate. As a result, if the economy evolves broadly as we anticipate, the federal funds rate will, over the next year or so, move well within the range of estimates of the normal long-run level. Therefore, we thought that now is an appropriate time to remove this forward guidance from our policy statement.

We continue to believe that a gradual approach for increasing the federal funds rate will best promote a sustained expansion of economic activity, strong labor market conditions, and inflation near our symmetric 2 percent goal. We are aware that raising rates too slowly might raise the risk that monetary policy would need to tighten abruptly down the road in response to an unexpectedly sharp increase in inflation or financial excesses, jeopardizing the economic expansion. Conversely, if we raise interest rates too rapidly, the economy could weaken, and inflation could continue to run persistently below our objective.

The Committee's gradual approach is reflected in participants' projections for the appropriate path for the federal funds rate. The median projection for the federal funds rate is 2.4 percent at the end of this year, 3.1 percent at the end of 2019, and 3.4 percent at the end of

2020. By 2020, the median federal funds rate is modestly above its estimated longer-run level. These projections are very similar to those made in March. Although the median federal funds rate edged up this year and next, most participants did not revise their projections.

I'll conclude by mentioning two additional matters. First, our program for reducing our balance sheet, which began in October, is proceeding smoothly. Barring a material and unexpected weakening in the outlook, this program will proceed on schedule, and our balance sheet will continue to shrink. As we have said, changing the target range for the federal funds rate is our primary means of adjusting the stance of monetary policy.

And, finally, as discussed in the minutes of our May meeting, we're making a small technical adjustment in one of our tools for implementing monetary policy. To keep the federal funds rate in the target range, we rely on the rate of interest on excess reserves, or the IOER rate. Up until now, we have set the IOER rate at the top of the target range for the federal funds rate. In recent months, the federal funds rate has moved up toward the IOER rate as short-term interest rates have risen more generally. So to move the federal funds rate closer to the middle of the target range, we are now setting the IOER rate 5 basis points below the upper end of the target range. This minor technical adjustment has no bearing on the appropriate path for the federal funds rate or financial conditions more generally. Thanks for listening, and I'll be happy to take your questions.

JIM TANKERSLEY. Hi, Mr. Chairman. Jim Tankersley, *New York Times*. I have a question about inflation and a question about growth. On inflation, I'm curious if there's anything that's happened since March that has changed your assessment of the risk of inflation increases beyond what you forecast in the year to come. And, on growth, you mentioned fiscal

policy is adding to growth, and I'm curious if you could break that down a little bit further for us and say—what effects do you think the recent tax cuts are having on growth?

CHAIRMAN POWELL. Sure. So since—I wouldn't say anything has happened since March to really change the way I'm thinking about inflation or the way the Committee's thinking about inflation. We've seen inflation move very gradually up toward our 2 percent objective. And part of that has been just idiosyncratic things dropping out from last March, which were holding inflation—measured inflation—down. Part of it is just that continued tightening in the labor market and the economy more broadly is pushing inflation up. So we continue to think, and the Committee continues to think, that we are just about at our 2 percent goal but, as I mentioned, not ready to declare victory until we sustain that over time, which we haven't done yet.

You also asked about fiscal policy, and there's a range of views on the Committee and, I think more broadly, a range of views among economists generally. But I can say that the Committee members—Committee participants—generally believe that the fiscal changes—and that includes both the tax cuts, individual and corporate, and the spending changes—will provide meaningful support to demand, significant support to demand over the course of the next three years. And the question—the other question is, what about the supply side? So it is—it makes sense that if you lower corporate tax rates and allow faster expensing of investment, you will encourage greater investment. That should drive productivity. That should increase potential output. So that really ought to happen as well. I think the amounts and the timing of that coming in are also quite uncertain. There's also the possibility that there would be more labor supply from lower individual tax rates, again, in amounts and in timing that might be more uncertain. So that's how the Committee generally is thinking about—about fiscal policy.

NICK TIMIRAOS. Thanks. Nick Timiraos, the *Wall Street Journal*. So the Fed is about four interest rate increases, using the projections released today, away from what might be considered a neutral fed funds rate. And I wanted to ask how you're thinking about what to do once you get to neutral. Under what conditions would you decide, once you get there, that it's okay to stop raising rates? And under what conditions would you want to keep going?

CHAIRMAN POWELL. So for many, many years, we've been far from maximum employment and stable prices, and so the need for accommodative policy has been—has been clear. As the economy has strengthened and as we've gradually raised interest rates, the question comes into view of, how much longer will you need to be accommodative? And how will you know? How will you know where—at what point policy will be neutral? Neutral meaning that interest rates are neither pushing the economy up nor trying to restrain it. So we know that we're getting closer to that neutral level. We don't have an exact sense of how that will be. So the Committee is discussing, very actively, the questions that you raise. And, really, it boils down to a question of, what is appropriate policy? And, you know, I—you asked, how will we know? So I think we'll be very carefully looking at incoming data on inflation, on financial readings, and on the labor market. We have to acknowledge that there are always wide uncertainty bands around the level of, for example, the natural rate of unemployment. But also, what is the neutral rate of interest? What is that rate of interest that pushes neither up nor down? So I think we—we'll be guided by incoming data on the economy and try to keep our minds open as we move forward.

HOWARD SCHNEIDER. Howard Schneider with Reuters. 2.1 percent above target for two and a half years starts to feel like some of the alternate frameworks that have been discussed

here, be it price-level targeting or trying to set expectations higher so that you hit your 2. In deciding how symmetric is too symmetric, what sort of parameters are you using on that front?

CHAIRMAN POWELL. You know, the—our target for—our medium-term objective for inflation is 2 percent PCE inflation. We feel that that target has served the economy well, and I'm strongly committed to it. The Committee is strongly committed to it. The sort of barriers to making a material change to that would be—would be very high because, again, we think it's fundamental, and we think it's worked.

You asked about price-level targeting and that sort of thing. You know, there are some ideas that sort of take cognizance of the fact that rates are lower, we're near the zero lower bound, and that could put downward pressure on inflation expectations if we're going to be down at the zero lower bound and, therefore, sort of undermine the credibility of the 2 percent inflation objective. So the idea is to have kind of a makeup. If you—if you're below target for a while, you have a—you have a time of being above target. And the idea is to enhance the credibility of that 2 percent—that 2 percent target. This is an idea that's been written about for many years. It's not something that the Committee has looked at seriously. I imagine we will be having discussions about it, but—not something that we have on the calendar right now.

SAM FLEMING. Well, thanks very much. Sam Fleming from the *Financial Times*. Over the weekend, we saw some significant tensions within the G-7. In Canada, there is the potential, obviously, for further action against China right now and retaliatory action from major U.S. trading partners. How big a risk do you currently see this as being to the United States economy? And what kind of feedback are you getting in terms of corporate investment intentions? Is there something that's beginning to feature more prominently in your own discussions with major U.S. companies? Thanks.



CHAIRMAN POWELL. I ought to start by saying that, you know, Congress has assigned us very important jobs and—you know, maximum employment, stable prices, we have a role in financial stability that we share with other agencies. Congress has very specifically given authority over trade to the executive branch, so I wouldn't comment on any particular specific trade actions. I will say that we, of course, have—we have broad contacts in—among business leaders around the country. And the Reserve Bank presidents, in particular, have that. And so they report in the Beige Book and then in person at the FOMC meeting. And they do come back and they say that concerns about changes in trade policy are arising, I think it's fair to say, and also that you're beginning to hear reports of companies holding off on making investments and hiring people. So right now we don't see that in the numbers at all. The economy is very strong. The labor market is strong. Growth is strong. We really don't see it in the numbers. It's just not there. But—so I would put it down as more of a risk.

STEVE LIESMAN. Steve Liesman, CNBC. Mr. Chairman, you said there's a difference of opinion among economists, but looking at the longer-run GDP growth rates for the members of the Committee, there's not a whole lot of difference. It's 1.8 to 2, or 1.7 to 2.1, depending upon how you count it. Is that showing us that not a single member of the Committee—including yourself, Mr. Chairman—agrees with economists over at the White House that they can achieve long-run sustained growth rates above or at 3 percent or higher? Do you believe in that?

CHAIRMAN POWELL. You know, first of all, that's a—that's a reasonable range, I think, of—it's not that we're all on the same number, but there are a range of views about potential growth. And there's so much uncertainty around this. You know, we don't—the thing about fiscal policy is, you don't have thousands of incidents to, you know, to—you don't have

big data, in a way. You have very small data. You've got only a few instances here, so you have a lot of uncertainty around what the effects will be. They could be large. We hope they're large. But I think our approach is going to be to watch and see and hope that, in fact, we do get significant effects to, you know, to potential growth out of the tax bill, and we're just going to have to see.

STEVE LIESMAN. How would you forecast it though?

CHAIRMAN POWELL. I think we're looking at a reasonable range of estimates and we're putting every—different participants are putting different estimates in and we're going to be waiting and seeing.

DONNA BORAK. Donna Borak with CNN. You said earlier that it's still a little too early to declare victory on inflation. I wanted to circle back on a question that was asked at the initial press conference about what—what does the Fed say in regards to the inflation target as symmetric? Like has the Committee given any further thought in terms of how comfortable it would be rising above—whether it goes higher than 2.1, if it reaches 2.2, 2.3, and for how long? And now that you're planning to hold these regular press conferences, starting next year, how do you explain—how do you plan to explain that to the American people that inflation is not overrunning?

CHAIRMAN POWELL. You know, what we've said in our Statement of Longer-Run Principles and Monetary Policy Strategy is that the Committee would be concerned if inflation were to run persistently above or below 2 percent, persistently above or below 2 percent. And that's what we mean by symmetric. We're looking at it equally on either side and it's a matter of persistent overruns. We know that inflation is going to bounce around. For example, as I mentioned, later this summer there's a good chance that headline inflation will move up above

2 percent because of oil prices. Things buffet inflation back and forth, but—so we acknowledge that, we understand that—and if inflation were to persistently run above or below 2 percent, then we would be using our tools to try to move inflation back in the direction of the target. We do understand, though, that we don't have the ability to precisely hit that target, so we expect that inflation will be above or below. And we just hope that that is—happens on a symmetric basis.

MARTIN CRUTSINGER. Marty Crutsinger, Associated Press. At this meeting, you hiked your—the funds rate, you changed the dot plot to move from 3 to 4 for this year, and you took out a sentence that you'd been using for years about how long rates might stay low. But you say that none of this signals a change in policy views. But shouldn't we see from this combination of things that the Fed is moving to tighter policy?

CHAIRMAN POWELL. I think what you should see is that the economy is continuing to make progress. The economy has strengthened so much since I joined the Fed, you know, in 2012 and even over the last couple of years. The economy is in a very different place. We—unemployment was 10 percent at the height of the crisis. It's 3.8 percent now and moving lower. So really what you—the decision you see today is another sign that the U.S. economy is in great shape. Growth is strong, labor markets are strong, inflation is close to target, and that's what you're seeing. For many years, as I mentioned—many years—we had interest rates held low to support economic activity. And it's been clear that as we've gotten closer to our statutory goals, we should normalize policy, and that's really what we've been consistently doing for some years now.

HEATHER LONG. Hi, Chair Powell. Heather Long from the *Washington Post*. Can you give us an update on what the FOMC thinks about wages? Are we finally going to see that

wage growth pickup this year? I know you're forecasting a little bit more inflation, but is that going to translate through to wage growth?

CHAIRMAN POWELL. You know, wages have been gradually moving up. Earlier in the recovery, they were—there are many different wage measures, of course, but—so just—but just to generalize, wages were running roughly around 2 percent and they've moved gradually up into between 2 to 3 percent as the labor market has become stronger and stronger. I think it's fair to say that some of us—and I certainly would have expected wages to react more to the very significant reduction in unemployment that we've had, as I mentioned, from 10 percent to 3.8 percent. Part of that can be explained by low productivity, which is something we've talked about at the Committee and elsewhere. But, nonetheless, I think we had anticipated, and many people have anticipated, that wages—that in a world where we're hearing lots and lots about labor shortages—everywhere we go now, we hear about labor shortages—but where is the wage reaction? So it's a bit of a puzzle. I wouldn't say it's a mystery, but it's a bit of a puzzle.

And, frankly, I do think there's a lot to like about low unemployment. And one of the things is—you will see—pretty much people who want to get jobs—not everybody—but people who want to get jobs, many of them will be able to get jobs. You will see wages go up. You'll see people at the, sort of, the margins of the labor force having an opportunity to get back in work. They benefit from that. Society benefits from that. So there are a lot of things to really like, including higher wages, as you asked. Our role, though, is also to, you know, to make sure that—that maximum employment happens in a context of price stability and financial stability, which is why we're gradually raising rates.

DON LEE. Just a follow-up on—Don Lee from the *L.A. Times*. On both inflation and unemployment, the new projections—for unemployment lower than before and inflation higher.

And how much is the Fed willing to accept that's an overshoot for both of those before it affects policy?

CHAIRMAN POWELL. You mentioned that unemployment moved down and inflation moved up by truly small amounts. If you look at the Summary of Economic Projections, things are moving by just a tick or even a semitick between now and March. And you asked, you know—I mean, I think we take a longer-run view that we're shooting for—we're aiming for—2 percent inflation—inflation around 2 percent. We know that it'll be above or below. We're not going to—we didn't overreact, I think, to inflation being under 2 percent. We won't overreact to it being over 2 percent. And I think we'll always be using our tools to move inflation in the direction of the target, if it—if it leaves—if it moves away from the target persistently, as I mentioned.

In terms of unemployment, you know, you have to acknowledge that we are—no one really knows with certainty what the level of the natural rate of unemployment is, the rate that is sustainable over a long period of time. And we know that probably that rate has declined as the U.S. population has become more educated, as it has become older. Older and more educated people have lower unemployment rates. We don't know this with precision. So we have to be learning as we go. We've got to be looking at data and informed by what's coming in. And as I mentioned, I think at the last press conference, estimates by the—by members of the Committee have moved down by a full percentage point since maybe 2012 as we've learned—as unemployment has dropped and inflation hasn't really reacted. So I can't give you a precise number, but I just—you know, we will be very much informed by incoming data. And this uncertainty is why—the fact that we live in that uncertainty is why we've been gradually raising rates. We're not waiting for inflation to show up. We're going ahead and moving gradually and

trying to navigate between two risks, really. One would be moving too quickly—inflation never gets back to target if we do that. And the other is moving too slowly, and then we have—we have too much inflation or financial instability, and we have to raise quickly. And that can also have bad outcomes.

CHRISTOPHER CONDON. Chris Condon, Bloomberg News. Mr. Chairman, I have a couple questions about the interest the Fed pays on excess reserves. And you mentioned, of course, that—that the IOER was raised by the Committee 20 basis points, and that's a result, as you said, of the upward drift of the effective fed funds rate in that target range. Do you think that that's going to resolve that issue or might there be further action required by the Committee in the future to continue lowering IOER relative to the midpoint of the range? And, further, was there discussion among the Committee today about what's causing that? Is it purely technical, perhaps related to bill issuance, or is it telling you something about the level of scarcity and truly excess bank reserves? Thank you.

CHAIRMAN POWELL. Thanks. So I would say that—remember the important thing is that we want the federal funds rate to trade in the target range. That's the whole, the whole idea. IOER is the principal tool by which we assure that that will happen. And we've said in our, you know, basic documents that we will adjust the use of our tools, as appropriate. We don't expect to have to do this often or again, but we're not sure about that. If we have to do it again, we'll do it again. Again, don't expect it to happen. You asked why. And yes, you know, we—of course, we're looking carefully at that and, you know, the truth is we don't—we don't know with any precision. Really, no one does. It's—you can't run experiments, you know, with one effect and not the other. You know, I think there's a lot of probability on the idea of just high bill supply leads to higher repo costs, higher money market rates generally, and the arbitrage pulls up

federal funds rate towards IOER. We don't know that that's the only effect and, you know, we're just going to have to be watching and learning. And, frankly, we don't have to know today. What we really need is to have the federal funds rate trade in the range, and that's what this minor technical adjustment accomplishes.

EDWARD LAWRENCE. Edward Lawrence from Fox Business. So with the numbers that we're looking at, you talked about more people getting jobs, the wages are increasing. Are we seeing a—with the fiscal policy—a fundamental shift in the economy, where we have lower natural unemployment, also possibly a lower rate of natural unemployment and lower inflation?

CHAIRMAN POWELL. Your question—your first question, really, is, do we think the natural rate of unemployment is lower? So I think we do believe it has moved down significantly over a long period of time. We don't think that the natural rate of unemployment—you know, it's not one of those variables that moves around a lot. It tends to be driven by slow-moving variables, like the education level, the population, like the functioning of the labor market, and things like that. So, you know, it may—it may have moved down too, on a cyclical basis, lower. As the economy gets hotter and hotter, there's some possibility of that. But, you know, the thing is, if you look back, there have been a lot of studies done and, you know, real-time estimates of the natural rate of unemployment have uncertainty bands, which are—which are quite wide, so we have to remember that and very much be guided by the—by the incoming data.

You asked about inflation. You know, inflation we look about—we look at the 2 percent inflation objective as something that central banks, the Fed, really control. And we have to be strongly committed to achieving that using our tools to do that. I think in—in recent years the dominant force has been, you know, disinflationary—have been pushing down on inflation. And

so we've been pushing back up. Of course, all those years when we were growing up, it was the opposite. Inflation was too high and central banks were constantly pushing down. It's really important that inflation not fall below 2 percent, that inflation expectations remain well anchored at 2 percent—very important—because the implications of inflation below 2 percent are that you're closer to the zero lower bound, meaning the Fed has less room to cut, meaning that we'll spend more time there and we won't be able to do the job that we're assigned to do for our citizens.

JEANNA SMIALEK. Jeanna Smialek with Bloomberg Television. You guys moved the median unemployment forecast for 2020 down to 3.5 percent but left the longer-run at 4.5 percent today. But you're only forecasting a moderate overshoot on the fed funds rate beyond your longer-run value. How are you going to get unemployment from 3.5 percent up to that 4.5 percent rate?

CHAIRMAN POWELL. I would just—would—I would just emphasize, emphasize that—a couple things. First, we're learning about the real location of the natural rate of unemployment as we go. So it's moved down by more than a full percentage point since 2012. So it's not so simple as thinking, oh boy, we've just got to go ahead and get that rate up. If you—if you look at the forecast, two years from now, end of 2020, you're still seeing inflation very close to target. So there's no sense that inflation will—no sense in our models, or in our projections, or forecasts—that inflation will take off or move unexpectedly quickly from these levels, even if unemployment does remain low. So that's—that's what—so it's important to know that the—the unemployment rate forecasts go with the inflation forecasts and go with the rate forecasts. And so each person who's submitting them is submitting accommodate—you know, appropriate monetary policy that fits with that person's assessment. And their



assessments generally are to support maximum employment and stable prices around 2 percent. So if we thought that inflation were going to take off, obviously, we'd be showing higher rates, but that's not what we think will happen.

JEANNA SMIALEK. If I could just follow up really quickly. Then why, I guess, would the longer-run unemployment rate not be a little bit lower and closer to that 2020 number?

CHAIRMAN POWELL. Yeah, it may be. It may be. We may find that out. You know, the best estimate that we have, over the longer run, is that. Although, you know, there's a range of views, you know. Some people are in the low 4s, and, again, I said the uncertainty bands are, you know, not quite a full percentage point on either side, but  $\frac{3}{4}$  of a percent, that kind of thing, so it's very possible. We have to be, you know—we can't do—we can't be too attached to these unobservable variables. You know, we—I think we have to be practical about the way we think about these things and we do that by being grounded in the data and what we see happening in the real economy.

VICTORIA GUIDA. I have a couple of regulatory questions. First of all, on the countercyclical capital buffer, I was wondering, what are the chances that the Fed is going to need to use that in the next year or two? And then my second question is, there's been a lot of talk lately in Congress about the ability for banks to serve marijuana businesses, and I was wondering if you think that banks should be able to serve those businesses in states where marijuana is legal.

CHAIRMAN POWELL. So the countercyclical capital buffer gives us the ability to raise capital requirements on the largest institutions when financial stability vulnerabilities are meaningfully above normal. That's the language that we've used. And that's certainly a possibility. I wouldn't say that—I wouldn't look at today's financial stability landscape and say

that risks are meaningfully above normal. I would say that they're roughly at normal. You have—you know, households are well—you know, are in good shape. They're—they've paid down their debt, incomes are rising, people have jobs. So households are not really a concern. And banks are highly capitalized, so that's not really a concern. We see—there's some concern with asset prices in a couple of pockets. But overall, if you—if you bake it all in, I think we see, generally, financial vulnerabilities as moderate. Could that change, you asked, over a couple of years? Yeah, it could.

You also asked about marijuana businesses. So this is a very difficult area because we have state law—many state laws permit the use of marijuana and federal law still doesn't. So it puts, you know, federally chartered banks in a very difficult situation. I think it would be great if that could be clarified. We don't have—you know, it puts the supervisor in a very, very difficult position. And, of course, this isn't our—our mandate has nothing to do with marijuana, so we don't really—we just would love to see it clarified, I think.

JOHN HELTMAN. Hi, John Heltman with *American Banker*. So since you—since even before you were Chairman of the Fed, when you were chair of the supervisory committee, you laid out a sort of regulatory revision agenda that's actually been pretty consistent. So there was the guidance on boards of governors, there was the—some changes to the stress tests, and—not changes to the stress test, but rather clarification on the modeling—and now, more recently, the changes to the enhanced supplemental leverage ratio. The Fed has also proposed some changes to the Volcker rule and, as I mentioned a minute ago, changes to the stress test with the stress capital buffer. Are these kind of the—are there any new frontiers of regulatory changes that you are envisioning or are you just—are you kind of done for the time being? Or what else can we expect from the Fed?

CHAIRMAN POWELL. It's actually a pretty full docket right now. You mentioned a number of the things, but I would—I would point out—we're having, I guess, a public Board meeting tomorrow on the single counterparty credit limit provision. We've also got quite a lot of work to promulgate rules to—after S. 2155 that Senator Crapo's bill passed—we've got a lot of work to do under that. We've got to think about how we would reach below that \$250 billion threshold to assess and supervise, regulate, you know, financial stability risks below that level.

So what am I missing? There's—there—oh, oh, net stable funding ratio is out there to be done. So there's a lot of work to do, I think. You know, and if I can just take this opportunity to say, you know, the financial system all but failed 10 years ago. We went to work for 10 years to strengthen it—stronger capital, stronger liquidity, stress testing, resolution planning. We want to keep all that stuff. We want to make it, you know, even more effective and certainly more efficient. We want to tailor those regulations for institutions. We want the strongest provisions to apply to the most systemically important institutions. And so we're committed to preserving and enhancing that structure. But we—we're finding a lot that we can do in the way of tailoring regulations for the smaller, less systemically important institutions, and that's a lot of what we're working on right now.

GREG ROBB. Thank you. You said at the beginning of your press conference that you plan to be more plainspoken. And so, okay, I wanted to know what you would say to workers who are worried that, you know, these paths of rate hikes that you've laid out will kind of undercut the wage growth they are just starting to see. Thank you.

CHAIRMAN POWELL. You know, I would say that the economy is in great shape. If you look at household surveys, confidence is high. Look at businesses, confidence is high. If you ask—if you survey workers about the job market, they'll say that it's a really good

environment to find jobs. If you survey businesses, they'll say that workers are scarce. So I think overall, we have—we have a really solid economy on our hands here. And so what we're doing is, we are trying to conduct monetary policy in a way that will sustain that expansion, keep the labor markets strong, and keep inflation above—right at—sorry, not above, but right at 2 percent. That's really what we're trying to do and, you know, I would say I like the results so far. We're—we've been very, very careful not to tighten too quickly. I think we've been patient. I think that patience has borne fruit and I think it continues to. We had a lot of encouragement to go much faster and I'm really glad we didn't. But, at this time, the—continuing on that gradual pace seems—continues to seem like the right thing. If we get a sense that the economy is reacting badly, then we'll certainly react to that.

DAVID HARRISON. Hi, David Harrison with Dow Jones Newswires. Where do you see the neutral interest rate is right now? Do you think it's—do you see it sort of inching up because of the recent fiscal stimulus measures? And how will you know when we're getting close to that neutral point? So if—you know, if inflation stays around 2, it doesn't go above 2 for a while, do you see a need to actually exceed that neutral point?

CHAIRMAN POWELL. So I would just point you to the range of estimates at the Committee, which I think is  $2\frac{1}{4}$  to  $3\frac{1}{2}$ , and the median is 2.9, right in there. So that's the range of estimates of the nominal neutral rate of interest. And we do understand that there's high uncertainty around the level, but that's kind of—so you can think of 2.9 as being—which is sort of a full percentage point away from where fed funds is going to trade after today's decision. You asked, is the—is the neutral rate moving up because of fiscal policy? Yes. I mean, there's—there should be an effect if you have increased deficits that should put upward pressure on, you know, a few tenths, let's say. Again, though, they were estimating these things. It's one

of these unobserved variables so it's very hard to—we shouldn't try to speak about it with a— with a lot of precision or confidence. But, yes, that should put upward pressure on it. How will we know? Well, I think you have to look at inflation. You've got to look at—you've got to look at all of the indicators in the economy and look at inflation, look at unemployment, look at what's happening in the job market. And inflation is really important. It's worth noting that the last two business cycles didn't end with high inflation—they ended with financial instability—so that's something we need to also keep our eye on.

VIRGINIE MONTET. Virginie Montet with Agence France-Presse. Have you talked during the meeting about when the Fed is going to remove or change the word “accommodative” that describe the monetary policy for almost 10 years? And could this change in the vocabulary make the market nervous? And have you thought already at some options so to know how you're going to call it down the road?

CHAIRMAN POWELL. Yes, that is—that is something that we discuss. We look at all the language. As you know, we made a—we made a significant number of changes at this meeting. So language gets in the statement and then, you know, the economy changes. That's what happens. We really—our approach to policy hasn't changed. And, you know, as I mentioned earlier, for a long time, the economy has needed accommodative monetary policy. As the economy has recovered, we've been gradually raising rates and we will—we will be at a place relatively soon when, again, assuming we stay on this path, when interest rates will be in the zone of what FOMC participants think is roughly neutral. And, at that point, it would no longer be accurate for us to say that the Committee thinks that policy is accommodative. We know that's coming. We kind of don't think it's here yet, but it's certainly coming. And I think that the market will understand that. I mean, the real message is that you're getting close to the

neutral rate. It's a characterization about where policy is. It's not a statement, really, that should upset the markets. But, you know, we'll obviously discuss it carefully in meetings and communicate about it. So.

NAOATSU AOYAMA. Thank you very much. Naoatsu Aoyama from the *Asahi Shimbun*, Japan's newspaper. Would you expand on the—on your views on the downside risks—downside risks, especially in regard to trade issues? Many people are—in the key allies of the United States—are concerned that the United States may destabilize the underpinnings of the international liberal order the United States has created and built up in the postwar environment. So—and that will, of course, have a very negative economic implications for the global economy as well as the U.S. economy. So would you—have you—can I have your views on that?

CHAIRMAN POWELL. Sure. So, you know, as I mentioned earlier, I'm really committed to staying in our lane on things. We have very important jobs assigned to us by Congress and that's maximum employment, stable prices, financial stability. Trade is explicitly assigned to the executive branch by Congress and not to us. So we don't really—we don't really seek to play a role in trade policy. We're not at that table. Those are—those powers and decisions are given to others and so we want to stick to what we do. And, you know, I—as I mentioned earlier, we do hear from our business contacts, which are extensive in the United States, and we do report on that in the minutes, and I've just mentioned what those are. There is—there is concern that trade changes could be disruptive. And I also—as I also mentioned, we don't see it in the numbers yet. We really don't. We see a very strong economy across a bunch of fronts. It hasn't reached everyone, let's be clear on that. But most people who want a job can

find one. We're well aware that there are pockets out there of people who have not felt the recession yet, but, broadly speaking, it's a good economy.<sup>1</sup>

STEVEN BECKNER. Steve Beckner, Mr. Chairman, freelance journalist reporting for NPR. About financial conditions, which worries you more—warnings that rising short-term rates are bringing the yield curve closer to inversion, or the fact that long rates have risen very slowly and, in fact, are nearly 20 basis points below their recent high? How do you account for the fact that long rates have been so slow to rise? And what does it say about the inflation outlook as well?

CHAIRMAN POWELL. So let me—let me briefly mention the yield curve. I mean, I—the yield curve is something that people are talking about a lot, including FOMC participants. And I—you have a range of views. It's something we're going to continue to be talking about. It's—but it's only one of many things, of course, that we talk about. I think that that discussion is really about what is appropriate policy, and how do we think about policy as we approach the neutral rate. How do we understand what the neutral rate is? How do we know where it is? And what are the consequences of being above or below it? That's really what—when people are talking about the slope of the yield curve, that's really what they're talking about. We know why—we know why the yield curve is flattening. It's because we're raising the federal funds rate. It makes all the sense in the world that the short end would come up.

I think you asked—the harder question is, what's happening with long rates? And there are many things that move long rates around. Of course, there's an embedded expectation of the path of short rates. There's the term premium, which has been very low by historical standards. And so arguments are made that a flatter yield curve has less of a signal embedded in it. In

---

<sup>1</sup> Chairman Powell intended to say that there are pockets of people in the United States who have not yet experienced the economic recovery.

addition, I think what you saw most recently that you referred to, Steve, was just risk-on, risk-off. In a risk-off environment, people want to own U.S. Treasuries, and you see—you know, Treasury prices go up, rates go down quite a lot. So—but I think ultimately, you know, what we're—what we really care about is what's the appropriate stance of policy. And there's a—there may be a signal in that long-term rate about what is the neutral rate, and I think that's why people are paying attention to the yield curve.

NANCY MARSHALL-GENZER. Nancy Marshall-Genzer with Marketplace.

Companies are buying back their shares at a record rate. Corporate debt is up. Consumer debt is rising. Are we in a credit bubble? Is that something that you're worried about?

CHAIRMAN POWELL. So if you look at households, you do not see excess credit growth, you don't see high levels of credit going out. So not so much households. And that really was where the problems were before the financial crisis, was particularly in—among household borrowing, particularly around mortgages. With—if you take banks, then, of course, their leverage is significantly lower. Or, to say it differently, their capital is significantly higher. If you ask about nonfinancial corporates, that's really where leverage is at levels that are high relative to history. But defaults are low, interest rates are low, you know, so it's something—that's something we're watching very carefully. But, again, I don't think we see it as—I think there are a range of views on that, but we are watching nonfinancial corporates. Households are in good shape, though, and that is—that is so important because that's where—you know, that's where we got into trouble before. And that's—it's often around property, and particularly housing, where you see real problems emerge. We don't really see that now, so we take some solace from that.



MYLES UDLAND. Myles Udland with Yahoo Finance. Chair Powell, you referenced a minute ago this idea of cushion, or the fact that the Fed doesn't have as much of when rates are low and inflation is low. And I'm wondering if you or the Committee has thought about your move to raise interest rates as partly responding to the economy, but partly giving yourselves room to navigate in the inevitable future recession, whenever that was to come. And do you think that that has played any part in, you know, your outlook for policy or recent policy decisions? Or is it, you know, just a purely based on what the economy is doing?

CHAIRMAN POWELL. So it doesn't play any part in my thinking and I'll tell you why. If you raise rates too quickly, you're just increasing the likelihood of a recession, and that's exactly what you don't want to do. So the best thing you can do, I think—I think the incentives actually run in the other direction. If you're—if you're worried about going back to the lower bound, then risk management would suggest that you go a little slower in raising rates and tolerate—that's likely to be a more sustainable strategy to get further away from the zero lower bound. I think we're far enough away now, though, that the risks are kind of balanced. And so I think it's more just—we're just looking at the economy, and what does it need, and how do we—how do we sustain the expansion, keep the labor market strong, and try to keep inflation near 2 percent?

MARK HAMRICK. Mark Hamrick with Bankrate. You talked earlier about wage growth and your basic message to workers. How confident are you that when we do see stock buybacks and the like, the workers will get whatever your view of that share is as well and the wage hikes in the near term and in the foreseeable future? Thank you.

CHAIRMAN POWELL. You know, we don't—we don't have the tools to control that. If companies choose to—companies in our system are free to do what they can—what they need

to do once they've—once they've made profits and have cash to distribute. They can distribute it to their shareholders, they can buy—either through dividends or through buybacks. They can pay their workers. You know, the part—and, you know, we don't play a role in those decisions. The part that we focus on is maximum employment. That's our mandate. So we view maximum employment as the maximum sustainable level of employment, meaning it's not so much that it will cause the economy to overheat. And so I think we've been committed to that. I think we take that obligation very seriously. And, you know, over time, when—when labor markets are strong and companies are hiring, we should see higher wages. But, again, we don't really have the tools that will address the distribution of profits and that kind of thing.