Transcript of Chairman Bernanke's Press Conference
December 12, 2012

CHAIRMAN BERNANKE. Good afternoon.

It has been about three and a half years since the economic recovery began. The economy continues to expand at a moderate pace. Unfortunately, however, unemployment remains high. About 5 million people—more than 40 percent of the unemployed—have been without a job for six months or more, and millions more who say they would like full-time work have been able to find only part-time employment or have stopped looking entirely. The conditions now prevailing in the job market represent an enormous waste of human and economic potential. A return to broad-based prosperity will require sustained improvement in the job market, which in turn requires stronger economic growth. Meanwhile, apart from some temporary fluctuations that largely reflected swings in energy prices, inflation has remained tame and appears likely to run at or below the Federal Open Market Committee's (FOMC's) 2 percent objective in coming quarters and over the longer term.

Against a macroeconomic backdrop that includes both high unemployment and subdued inflation, the FOMC will maintain its highly accommodative policy. Today the Committee took several steps. First, it decided to continue its purchases of agency mortgage-backed securities (MBS), initiated at the September meeting, at a pace of $40 billion per month. Second, the Committee decided to purchase longer-term Treasury securities, initially at a pace of $45 billion per month, after its current program to extend the average maturity of its holdings is completed at the end of the year. In continuing its asset purchases, the Committee seeks to maintain downward pressure on longer-term interest rates and to keep financial conditions accommodative, thereby promoting hiring and economic growth while ensuring that inflation over time is close to our 2 percent objective. Finally, the Committee today also modified its guidance about future rate policy to provide more information to the public about how it anticipates it will react to evolving economic conditions. I will return to this change in our communication after discussing our decision to continue asset purchases.

Although the Committee's announcement today specified the initial monthly pace and composition of asset purchases, it did not give specific dates at which the program may be modified or ended. Instead, the pattern of future asset purchases will depend on the Committee's evaluation of incoming information, in two respects.

First, we expect to continue asset purchases until we see a substantial improvement in the outlook for the labor market, in a context of price stability. In assessing the extent of progress, the Committee will be evaluating a range of labor market indicators, including the unemployment rate, payroll employment, hours worked, and labor force participation, among others. Because increases in demand and production are normally precursors to improvements in labor market conditions, we will also be looking carefully at the pace of economic activity more broadly.

Second, the Committee will be monitoring economic and financial developments to assess both the efficacy and possible drawbacks of its asset purchase program. The Federal Reserve's asset purchases over the past few years have provided important support to the economy, for example, by helping to keep mortgage rates historically low. The Committee expects this policy tool to continue to be effective and the costs and risks to remain manageable, but as the program continues, we will be regularly updating those assessments. If future evidence suggests that the program's effectiveness has declined, or if potential unintended side effects or risks become apparent as the balance sheet grows, we will modify the program as appropriate. More generally, the Committee intends to be flexible in varying the pace of securities purchases in response to information bearing on the outlook or on the perceived benefits and costs of the program.

Unlike the explicitly quantitative criteria associated with the Committee's forward guidance about the federal funds rate, which I will discuss in a moment, the criteria the Committee will use to make decisions about the pace and extent of its asset purchase program are qualitative; in particular, continuation of asset purchases is tied to our seeing "substantial improvement in the outlook for the labor market." Because we expect to learn more over time about the efficacy and potential costs of asset purchases in the current economic context, we believe that qualitative guidance is more appropriate at this time.

In today's statement, the Committee also recast its forward guidance to clarify how it expects its target for the federal funds rate to depend on future economic developments. Specifically, the Committee anticipates that exceptionally low levels for the federal funds rate are likely to be warranted "at least as long as the unemployment rate remains above 6½ percent, inflation over the period between one and two years ahead is projected to be no more than half a percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored." This formulation is a change from earlier statements in which forward guidance about the federal funds rate was expressed in terms of a date; for example, in the statements following its September and October meetings, the Committee indicated that it anticipated that exceptionally low levels for the federal funds rate are likely to be warranted "at least through mid-2015." The modified formulation makes more explicit the FOMC's intention to maintain accommodation as long as needed to promote a stronger economic recovery in the context of price stability, a strategy that we believe will help support household and business confidence and spending. By tying future monetary policy more explicitly to economic conditions, this formulation of our policy guidance should also make monetary policy more transparent and predictable to the public.

The change in the form of the Committee's forward guidance does not in itself imply any change in the Committee's expectations about the likely future path of the federal funds rate since the October meeting. In particular, the Committee expects that the stated threshold for unemployment will not be reached before mid-2015 and projects that inflation will remain close to 2 percent over that period. Thus, given the Committee's current outlook, the guidance introduced today is consistent with the Committee's earlier statements that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015.

Let me emphasize that the 6½ percent threshold for the unemployment rate should not be interpreted as the Committee's longer-term objective for unemployment. Indeed, in the economic projections submitted in conjunction with today's meeting, the central tendency of participants' estimates of the longer-run normal rate of unemployment is 5.2 to 6.0 percent. However, because changes in monetary policy affect the economy with a lag, the Committee believes that it likely will need to begin moving away from a highly accommodative policy stance before the economy reaches maximum employment. Waiting until maximum employment is achieved before beginning the process of removing policy accommodation could lead to an undesirable overshooting of potential output and compromise the FOMC's longer-term inflation objective of 2 percent. As the FOMC statement makes clear, the Committee anticipates that policy under the new guidance will be fully consistent with continued progress against unemployment and with inflation remaining close to the Committee's 2 percent objective over the longer term.

Although the modified guidance should provide greater clarity about how the Committee expects to respond to incoming data, it by no means puts monetary policy on autopilot. In this regard, let me make several points.

First, as the statement notes, the Committee views its current low-rate policy as likely to be appropriate *at least* until the specified thresholds are met. Reaching one of those thresholds, however, will not automatically trigger immediate reduction in policy accommodation. For example, if unemployment were to decline to slightly below 6½ percent at a time when inflation and inflation expectations were subdued and were projected to remain so, the Committee might judge an immediate increase in its target for the federal funds rate to be inappropriate. Ultimately, in deciding when and how quickly to reduce policy accommodation, the Committee will follow a balanced approach in seeking to mitigate deviations of inflation from its longer-run 2 percent goal and deviations of employment from its estimated maximum level.

Second, the Committee recognizes that no single indicator provides a complete assessment of the state of the labor market and therefore will consider changes in the unemployment rate within the broader context of labor market conditions. For example, in evaluating a given decline in the unemployment rate, the Committee will also take into account the extent to which that decline was associated with increases in employment and hours worked, as opposed to (say) increases in the number of discouraged workers and falling labor participation. The Committee will also consider whether the improvement in the unemployment rate appears sustainable.

Third, the Committee chose to express the inflation threshold in terms of projected inflation between one and two years ahead, rather than in terms of current inflation. The Committee took this approach to make clear that it intends to look through purely transitory fluctuations in inflation, such as those induced by short-term variations in the prices of internationally traded commodities, and to focus instead on the underlying inflation trend. In making its collective judgment about the underlying inflation trend, the Committee will consider a variety of indicators, including measures such as median, trimmed mean, and core inflation; the views of outside forecasters; and the predictions of econometric and statistical models of inflation. Also, the Committee will pay close attention to measures of inflation expectations to ensure that those expectations remain well anchored.

Finally, the Committee will continue to monitor a wide range of information on economic and financial developments to ensure that policy is conducted in a manner consistent with our dual mandate.

It is worth noting that the goals of the FOMC's asset purchases and of its federal funds rate guidance are somewhat different. The goal of the asset purchase program is to increase the near-term momentum of the economy by fostering more accommodative financial conditions, while the purpose of the rate guidance is to provide information about the future circumstances under which the Committee would contemplate reducing accommodation. I would emphasize that a decision by the Committee to end asset purchases, whenever that point is reached, would not be a turn to tighter policy. While in that circumstance the Committee would no longer be increasing policy accommodation, its policy stance would remain highly supportive of growth. Only at some later point would the Committee begin actually removing accommodation through rate increases. Moreover, as I have discussed today, the decisions to modify the asset purchase program and to undertake rate increases are tied to different criteria.

In conclusion, the FOMC's actions today are part of our ongoing efforts to support economic recovery and job creation while maintaining price stability. As I have often stressed, however, monetary policy has its limits; only the private and public sectors working together can get the U.S. economy fully back on track. In particular, it will be critical that fiscal policymakers come together soon to achieve longer-term fiscal sustainability without adopting policies that could derail the ongoing recovery.

Thank you. I would be happy to answer your questions.