Transcript of Chairman Bernanke's Press Conference
April 25, 2012

CHAIRMAN BERNANKE. Good afternoon. Before we get to questions, I'll summarize today's policy action by the Federal Open Market Committee and then I'll place the Committee's policy decision in the context of our economic outlook and our collective judgment regarding the appropriate path of monetary policy.

As indicated in the statement released earlier this afternoon, the Committee is maintaining the highly accommodative policies that we initiated at previous meetings. We decided to keep the target range for the federal funds rate at 0 to ¼ percent, and we continue to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate at least through late 2014. Our program to extend the average maturity of the Federal Reserve's security holdings—announced in September—will continue as scheduled. Each of these policy actions is intended to foster accommodative financial conditions that support the economic recovery in a context of price stability.

In conjunction with today's meeting, FOMC participants—the 5 Board members and the 12 Reserve Bank presidents—submitted their individual economic projections and policy assessments for the years 2012 to 2014 and over the long run. These projections serve as important inputs into the Committee's deliberations.

Incoming information suggests that the economy has been expanding moderately. Most Committee participants expect economic growth to remain moderate over coming quarters and then to pick up gradually. Among other factors, and not withstanding some signs of improvement, the ongoing weakness of the housing sector still represents a headwind for recovery. Strains in global financial markets, though less pronounced, generally, than last fall, continue to pose significant risks to the outlook.

Labor market conditions have improved in recent months, with the unemployment rate having fallen nearly a percentage point since August. However, at 8.2 percent, the unemployment rate remains elevated. Looking ahead, the Committee anticipates that the unemployment rate will decline gradually over the next several years, reflecting the moderate pace of economic growth. Specifically, participants' projections for the unemployment rate in the fourth quarter of this year have a central tendency of 7.8 to 8.0 percent, declining to 6.7 to 7.4 percent in the fourth quarter of 2014. For comparison, participants' estimates of the longer-run normal rate of unemployment have a central tendency of 5.2 to 6.0 percent.

Inflation has picked up somewhat, mainly reflecting higher gasoline prices. However, as has been the case for other recent swings in oil prices, the Committee expects that effect to be only temporary. Moreover, survey measures and financial market indicators continue to show stability in longer-term inflation expectations. Consequently, we anticipate that inflation will subsequently run at or below the Committee's longer-run goal of 2 percent. In particular, participants' projections of inflation have a central tendency of 1.9 to 2.0 percent for 2012 and 1.7 to 2.0 percent for 2014.

The economic projections submitted by FOMC participants are conditioned on their individual assessments of the appropriate path of monetary policy. As you can see from the chart labeled "Appropriate Timing of Policy Firming," Committee participants have a range of views about when the initial increase in the federal funds rate is likely to be appropriate. Following a careful discussion of those views at today's meeting, the FOMC maintained its collective judgment that economic conditions will likely warrant exceptionally low levels for the federal funds rate at least through late 2014. In particular, a highly accommodative stance of monetary policy is warranted in light of the persistence of the factors restraining the pace of recovery and the ongoing risks to the economic outlook.

Finally, the Committee took no new decisions regarding the Federal Reserve's balance sheet today, but we remain prepared to adjust our securities holdings as appropriate to promote a stronger economic recovery in the context of price stability.

Thank you. I'd be glad to take your questions.

DARREN GERSH. Thank you, Mr. Chairman. Darren Gersh, *Nightly Business Report*. Some of your critics—I'm sure you're not going to be surprised—think that you're still being too cautious, that unemployment is still high, the economy may be slowing, inflation is subdued, and I know you just talked about the balance sheet. But given that, is the Committee now any closer to QE3 than it was at its last meeting?

CHAIRMAN BERNANKE. Well, first, the Committee has certainly been bold and aggressive in terms of easing monetary policy. We've maintained the federal funds rate close to zero since late 2008. We've had two rounds of so-called quantitative easing. We've had a maturity extension program, which is ongoing. We have offered guidance about the federal funds rate that goes into at least late 2014.

So we have been very accommodative, and we remain prepared to do more as needed to make sure that this recovery continues and that inflation stays close to target. So, in particular, we will continue to assess, you know, looking at the economic outlook, looking at the risks, whether or not unemployment is making sufficient progress towards its longer-run normal level, and whether inflation is remaining close to target. And, if appropriate, and depending also on assessment of the costs and risks of additional policy actions, we remain entirely prepared to take additional balance sheet actions if necessary to achieve our objectives. So those tools remain very much on the table, and we will not hesitate to use them should the economy require that additional support.

JON HILSENRATH. Mr. Chairman, Jon Hilsenrath from the *Wall Street Journal*. The Fed has been forecasting for some time that inflation would fall to 2 percent or below. The latest measures of inflation suggest that the core PCE is at the higher end of that range and many other measures are above 2 percent. I noticed that in your forecast today that the upper end of your forecasts all the way through 2014 have increased. Do you see a risk that the disinflationary forces in the economy might not be as strong as the Fed had been projecting for some time?

CHAIRMAN BERNANKE. Well, I would just say, first, that our projections still have inflation very close to our 2 percent target. As you point out, core inflation and some other measures of underlying inflation have been a little stronger than expected. But I would say first that some of the movement in the first quarter, for example, seems to have come from transitory sources like nonmarket components. And the fundamentals of inflation—in particular, inflation expectations; the amount of slack in the economy; the commodity price behavior, which has been relatively well-controlled in recent months—all of those things suggest that inflation is going to stay close to or perhaps a bit below our 2 percent target. Now, as I mentioned in the opening remarks and as we said in our briefing, the recent rise in gasoline prices has created a temporary bulge in headline inflation, in overall inflation, but we expect that to pass through the system and, assuming no new shocks in the oil sector, inflation ought to moderate to about 2 percent later this year.

JON HILSENRATH. Why did the lower bound in those forecasts rise?

CHAIRMAN BERNANKE. The lower bound rose—again, this represents 17 distinct views—but I would guess that the reason is that the data have come in a little bit firmer, core inflation has been a little stronger than was expected. But those differences are not particularly large.

PEDRO DA COSTA. Mr. Chairman, Pedro da Costa from Reuters. So we know that the Committee foresees rates staying very low until late 2014. What is your personal view on the timing of the first rate hike, on the likely timing? And second, do you see the Committee as having an easing bias at the moment or is it neutral? Could it go either way?

CHAIRMAN BERNANKE. Well, I'm very comfortable with the consensus view that we enunciated today, and I think that the Committee broadly is comfortable—a 9-to-1 vote in favor of this guidance. So again, that represents a very accommodative stance of policy. Our intention is to maintain a highly accommodative stance of policy for the foreseeable future, and we remain able and willing to take further action if necessary. At the same time, I think it is worth noting that the forward guidance on the federal funds rate is conditional on the data, and if the data were to come in much stronger than expected, we would adjust the guidance appropriately. So it's not unconditional; it does depend on how the outlook evolves. And again, should the outlook strengthen notably, then we would have to respond to that.

PEDRO DA COSTA. How much more weakness would you need to see for QE3 to be in place? Would you need to see an actual recession take place?

CHAIRMAN BERNANKE. The question is, you know, "How much more weakness do we need?" The Committee has to make those assessments, and we've been working to try to provide more-explicit guidance, quantitative guidance about our policy reaction function, but so far, you know, we haven't really done that. And I can only say qualitatively that the Committee will continue to look at the evolution of the outlook, try to assess whether unemployment is making sufficient progress towards our objectives, and, in particular, whether the recovery is still continuing. And we remain prepared to use balance sheet tools to support the recovery and to help make sure that unemployment continues its downward path towards longer-run normal levels.

STEVE LIESMAN. Mr. Chairman, according to the latest forecast, 10 members of the FOMC see a 1 percent or higher fed funds rate in 2014; 7 of them see a 2 percent or higher fed funds rate. Under that—those conditions, how can the guidance in the statement, that you remain exceptionally low through late 2014, be justified? And is there a point at which the dissonance between the individual forecasts and the guidance get to a point where one or the other is no longer tenable?

CHAIRMAN BERNANKE. Well, there's certainly a range of views, as you've noted, but these projections are inputs into a Committee process. And it's in the Committee meeting that we had yesterday and today where we debate not only the possible outcomes, but also the risks, the uncertainties, all the things that inform our collective judgment. And as I said, the Committee had no difficulty coming to a consensus that the guidance that we gave is still appropriate. Again, if there's a substantial change in the economic outlook in either direction, then the guidance would change appropriately. But for now, I think the Committee is comfortable with the consensus statement that we put out.

STEVE LIESMAN. Do you worry about creating confusion in the market between the guidance and the individual forecasts?

CHAIRMAN BERNANKE. Well, again, the individual projections are inputs to the Committee decision, so the Committee decision is the critical element in that respect. We are continuing to work to become more transparent, and we have a variety of things that we're looking at, so you'll have to stay tuned for that. But again, the Committee was quite comfortable with the consensus that we have reported today.

BINYAMIN APPELBAUM. Unemployment is too high, and you said you expect it to remain too high for years to come. Inflation is under control, and you say that you expect it to remain under control. You say that you have additional tools available for you to use, but you're not using them right now. Under these circumstances, it's really hard for a lot of people to understand why you are not using those tools right now. Could you address that? And specifically, could you address whether your current views are inconsistent with the views on that subject that you held as an academic?

CHAIRMAN BERNANKE. Yeah. Let me tackle that second part first. So there's this view circulating that the views I expressed about 15 years ago on the Bank of Japan are somehow inconsistent with our current policies. That is absolutely incorrect. Our—my views and our policies today are completely consistent with the views that I held at that time. I made two points at that time to the Bank of Japan. The first was that I believe that a determined central bank could and should work to eliminate deflation—that is, falling prices. The second point that I made was that when short-term interest rates hit zero, the tools of a central bank are no longer—are not exhausted, there are still other things that the central bank can do to create additional accommodation. Now, looking at the current situation in United States, we are not in deflation. When deflation became a significant risk in late 2010, or at least a modest risk in late 2010, we used additional balance sheet tools to help return inflation close to the 2 percent target. Likewise, we have been aggressive and creative in using non-federal-funds-rate-centered tools to achieve additional accommodation for the U.S. economy. So the very critical difference between the Japanese situation 15 years ago and the U.S. situation today is that Japan was in deflation, and, clearly, when you're in deflation and in recession, then both sides of your mandates, so to speak, are demanding additional accommodation. In this case, it's—we are not in deflation, we have an inflation rate that's close to our objective. Now, why don't we do more? Well, first I would again reiterate that we are doing a great deal; policy is extraordinarily accommodative. We—and I won't go through the list again, but you know all the things that we have done to try to provide support to the economy. I guess the question is, does it make sense to actively seek a higher inflation rate in order to achieve a slightly increased reduction—a slightly increased pace of reduction in the unemployment rate? The view of the Committee is that that would be very reckless. We have—we, the Federal Reserve, have spent 30 years building up credibility for low and stable inflation, which has proved extremely valuable in that we've been be able to take strong accommodative actions in the last four or five years to support the economy without leading to an unanchoring of inflation expectations or a destabilization of inflation. To risk that asset for what I think would be quite tentative and perhaps doubtful gains on the real side would be, I think, an unwise thing to do.

KRISTINA PETERSON. Thank you. Given your warnings to lawmakers about the looming fiscal cliff, do you think the Fed has to take into account when Congress chooses to take action? If they waited 'til January, say, would you feel obligated to take into the—the potential economic blow into account?

CHAIRMAN BERNANKE. Well, I think we'll have to take fiscal policy into account to some extent, but I think it's very important to say that if no action were to be taken by the fiscal authorities, the size of the fiscal cliff is such that there's, I think, absolutely no chance that the Federal Reserve could or would have any ability whatsoever to offset that effect on the economy. So I—as I have said many times before, it's imperative for Congress to give us a fiscal policy that achieves two principal objectives. The first is, of course, to achieve fiscal sustainability over the longer term; that is critical, and that's something that needs to be addressed. At the same time, I think that can be done in a way that doesn't endanger the short-term recovery of the economy. And I am concerned that if all the tax increases and spending cuts that are associated with the current law and which would take place—absent any congressional action—were to occur on January 1st, that that would be a significant risk to the recovery. So I'm looking and hoping that Congress will take actions that will address both sides of that—both requirements of a good fiscal policy.

JOSH ZUMBRUN. Mr. Chairman, Josh Zumbrun from Bloomberg News. In today's statement you said, after coming quarters, you expect the economy "to pick up gradually." Yet in the forecast that we got today, we see the forecast for 2013 and 2014, the growth forecast, is downgraded. What caused you to downgrade your forecast for 2013 and 2014 when you see a pickup after the coming quarters?

CHAIRMAN BERNANKE. Well, again, these are the views of the participants, the 17 participants. So the basic feature that is described in our statement, which is that growth seems likely to pick up over time, is still obviously in our projections. The 2013 numbers are stronger than the 2012 numbers, and the 2014 numbers are stronger than the 2013 numbers. And the reason for that expected pickup over time is, first, a very accommodative monetary policy, which continues to provide support for the recovery. But in addition, some of the headwinds that have been affecting our recovery—such as the housing market, financial stresses, credit tightness, and so on—some of those things we hope will be lifting over time and will allow the economy to grow more quickly and approach more quickly its longer-run full employment level.

The reason—I don't know precisely why there's been a slight downgrade in years further out, but I suspect that the fiscal issues may be part of that.

ZACH GOLDFARB. Mr. Chairman, you've made the inflation target sound a little bit more like an inflation ceiling, and you suggested that a breaching of that ceiling or target would hurt the Fed's credibility. Can you explain a little bit more about why you think going 50 basis points or a full percentage point above the 2 percent target would hurt the Fed's credibility, and what that would do on the unemployment side if you were to do that?

CHAIRMAN BERNANKE. So it's not a ceiling, it's a symmetric objective, and we attempt to bring inflation close to 2 percent. And in particular, if inflation were to jump for whatever reason—and we don't have, obviously don't have perfect control of inflation—we'll try to return inflation to 2 percent at a pace which takes into account the situation with respect to unemployment. The risk of higher inflation—you say 2½ percent; well, 2½ percent expected change might involve a distribution of outcomes, some of which might be much higher than 2½ percent. And the concern we have is that if inflation were to run well above 2 percent for a protracted period, that the credibility and the well-anchored inflation expectations, which are such a valuable asset of the Federal Reserve, might become eroded, in which case we would in fact have less rather than more flexibility to use accommodative monetary policy to achieve our employment goals. I would cite to you, just as an example, if you look at Vice Chair Yellen's paper, which she gave—or speech, which she gave a couple of weeks ago, where she described a number of ways of looking at the late 2014 guidance. She showed there some so-called optimal policy rules that come from trying to get the best possible outcomes from our quantitative econometric models, and what you see, if you look at that, is that the best possible outcomes, assuming perfect certainty, assuming perfect foresight—very unrealistic assumptions—still involve inflation staying quite close to 2 percent. So there is no presumption even in our econometric models that you need inflation well above target in order to make progress on unemployment.

PETER BARNES. Peter Barnes, Fox News, sir. For those of us who try to make a living out of parsing these statements noted that in the section on strains in global financial markets, the Committee said this time around, "Strains in global financial markets continue to pose significant downside risks to the economic outlook." But in January, the Committee said that the strains were easing. What are we to read into this apparent change? Are strains tightening now? And what is your assessment of the situation in Europe with the debt crisis—are authorities there adequately addressing the debt crisis? Thank you.

CHAIRMAN BERNANKE. Well, it's just supposed to be a factual description of what's happening in the environment. In January, the financial markets had calmed considerably, reflecting a number of steps taken in Europe, including, notably, the two large long-term refinancing operations by the European Central Bank, which helped finance Europe's banks for up to three years. In recent weeks, we've seen more market stress arising from concerns about the fiscal positions of Spain and Italy, and, you know, we've seen more volatility in our own markets related to that. So we're simply taking note of the fact that a portion of the improvement that we saw late last year and early this year in European financial markets and in our own financial markets has been reversed recently, nothing more intended than that. As you know, I had the opportunity over the weekend to speak with many of my European and other international colleagues because we had the G–20 and the IMF meetings here in Washington, and so we had plenty of opportunities to discuss the European situation. I think it's true that the Europeans have made substantial progress overall. I include not only the two LTRO operations, but also the Greek debt deal, the work on the fiscal compact, and recently the setting up of a larger financial firewall that could be used to avoid contagion should another country face serious financial distress. So progress has been made, but obviously, judging by market conditions, there's still more work to be done, and we are counting on our European colleagues to continue to follow through their commitments and to put very strong effort into addressing what remain significant problems and concerns in Europe.

ROBIN HARDING. Robin Harding from the *Financial Times*. Mr. Chairman, two questions. First, to follow up on Steve's point about the interest rate forecast earlier: There are now only four FOMC participants who forecast that rates will still be close to zero at the end of 2014. Given that you said the Committee is entirely happy with that language in the statement, what information can we then take from the forecasts when they change like that? The second point—sorry—if you were to decide you wanted to do more to support the economy at some point, could you run us through the set of feasible options to do that? Thank you.

CHAIRMAN BERNANKE. Sure. Well, if you compare this set of forecasts with January, you'll see that a few members have pulled in their expected date. But let me just reiterate that, once again, that these are just inputs into a decision process. They represent individual estimates, and, quite admittedly, as many of the participants said around the table, you know, these are uncertain from an individual point of view. And as we discussed the range of considerations, including the fact that we remain uncertain about how the economy is going to evolve, I've talked about, for example, the so-called Okun's law puzzle about whether or not unemployment will continue fall quickly or whether it will begin to level out. Given those uncertainties, given the risks like the European situation or the fiscal cliff that we've just discussed here, that there was a quite reasonable case for maintaining the guidance at late 2014.

And as I said, there was a great deal of comfort among the participants and the Committee members with maintaining this guidance.

GREG ROBB. Thank you. Greg Robb, MarketWatch.com. Judging from some of the speeches lately from Fed officials, it looks like too-big-to-fail is—they view this as the next step where attention should be paid and work should be done. There's even a proposal to have legislation to force bank divestitures. Could you talk about your views on these things? Thank you.

CHAIRMAN BERNANKE. Yes. I believe that too-big-to-fail was an important cause, or at least a propagating mechanism, of the financial crisis. And I believe it's absolutely incumbent upon us to do all we can to eliminate too-big-to-fail. And what I mean by that is, a situation where a failing firm is bailed out because its collapse would have such adverse circumstance—consequences for the rest of the financial system. So we are working to get rid of too-big-to-fail, and I think making some progress.

First of all, we are very substantially increasing the supervisory and regulatory oversight of large financial institutions; that includes, for example, the Basel III rules that require higher capital for all banks but particularly for systemically important banks, more liquidity requirements, stress tests, a range of tougher supervisory requirements that are—many of them are embedded in the rule we put out on 165–166, that section of the Dodd–Frank Act. So the first thing we're going to do is make sure that these large institutions are stronger, that it's much harder for them to fail, and that they are watched much more carefully and more actively by the supervisors.

The other part of eliminating too-big-to-fail, though, is that, in that circumstance where a large complex financial firm does come to the brink of failure, that it must be allowed to fail; it must be safe to fail. And in that respect, one of the principal tools that we've gotten from Dodd–Frank is a so-called orderly liquidation authority, which is the FDIC's tool, and the Federal Reserve is working closely with the FDIC there. The idea is to apply the same kind of bank resolution tools that the FDIC has used for many years on domestic banks to large complex financial firms.

Now, obviously, the complexity and the international aspects of these firms make that a much more challenging task, but I think we're making progress there. We have put out rules about so-called living wills, which will require large financial firms to essentially plan out how they would be disassembled. And we've continued to talk with international colleagues about how we would cooperate if a multinational firm had to be put into receivership. And, indeed, part of the reason that there's been some downgrade or potential downgrade for some U.S. financial institutions is the judgment of the ratings agencies that the so-called implicit government support that these institutions have is less than in the past. And so, I think, ultimately, what we'll need to have is a situation where large firms are both making judgments about their size and complexity based only on the economic benefits and costs and not on too-big-to-fail considerations, and that if there is failure, that it can be done and achieved without highly adverse consequences for the financial system and the economy. And that's our objective, and that's the way, I think, to end too-big-to-fail.

CATHERINE HOLLANDER. You've been working hard to improve communications with both markets and the general public. What's your assessment of how both is done?

CHAIRMAN BERNANKE. Well, I think that's part of your job to say. I think we're making progress. I think it was an important step to make clear what our inflation objective is—I thought that was important. And we put out a statement that described the overall policy approach of the Federal Reserve. We've taken a number of steps to improve communication, including these press conferences, of course. But also, by expanding our projections and by continued, you know, work doing press—doing,sorry, doing testimonies and speeches, and most recently as you know, I did some classes—I taught some classes at a local university.

So we're doing our best both—to achieve, really, two objectives. One is to help make the Fed a little bit more understandable to the average person, because many people don't understand all the arcane aspects of the Federal Reserve and of monetary policy. And to be good voters and good citizens, they need to understand, you know, something about what the Fed does. And also, to communicate with markets so that markets can better appreciate, you know, what our monetary policy plans are in order so that interest rates and other asset prices can appropriately reflect those plans. I think the evidence on the latter point is that there is a better understanding of the Fed's policies. And, you know, we've seen, for example, less volatility in interest rates related to greater certainty about what the Fed is likely to do.

But I want to emphasize that this is an ongoing task, it's a work in progress, and we're going to continue to look for ways to make ourselves better understand—more understandable and more transparent to the public.

GREG IP. Greg Ip of the *Economist*. First, assume that you are not constrained by the zero nominal bound right now. What would the federal funds rate be, even if it were a negative number? And do you believe that you are at an equivalent degree of monetary accommodation today using your unconventional tools? And also, a quick supplemental—could you put some numbers on what—on the meaning of "exceptionally low" federal funds rate? For example, would a 1 percent federal funds rate qualify as "exceptionally low" at the end of 2014?

CHAIRMAN BERNANKE. Well, the exact reading for the federal funds rate today, in the absence of the zero lower bound, would depend a lot on which particular rule, what particular model that you use. I don't want to cite a particular number, but it probably would be negative. And in that respect, we are trying to compensate for that by the use of nonstandard tools, including, as you know, almost a $3 trillion balance sheet.

We see monetary policy as being approximately in the right place at this point, based on the analysis that we've been doing in—of the economy and the outlook. That doesn't mean we might not take further action; we are certainly prepared to take further action. But for the time being, it appears that we are more or less in the right place.

GREG IP. "Exceptionally low"?

CHAIRMAN BERNANKE. "Exceptionally low"; you know, one of the reasons that language in the statement is sometimes a little vaguer than you would like is because we are trying to get a consensus among 17 or at least 10 people, and different members or participants in the FOMC might have somewhat different views of what "exceptionally low" means. Personally, I think it means something close to where we are—where we are now.

DONNA BORAK. Chairman, Donna Borak with *American Banker*. To follow up on the too-big-to-fail question, there has been acute discussion in recent months about calling for breaking up the banks even louder than before, even including some Fed officials. And you just talked about the need to eliminate too-big-to-fail. Of course, Dodd–Frank—that's the intent of it. My question is twofold: Do you agree? And is there an argument to be made for breaking up the banks? And is that something that the Fed should consider when weighing the importance of financial stability? And, sort of, to this earlier point that you made is, what in your view is the litmus test that will allow us to know that we can achieve ending too-big-to-fail through Dodd–Frank?

CHAIRMAN BERNANKE. Well, there may be circumstances where a bank or financial institution is artificially large. And in that context, if it were posing a severe threat to financial stability, then I suppose that considering breaking it up would be something that regulators should look at. My own view, though, is that a more market-responsive way to address this problem is to eliminate the incentive to be too-big-to-fail. That is, to—through tougher supervisory oversight, through higher capital requirements, through greater liquidity requirements, through restrictions on interconnectedness, et cetera, take away the benefits or force firms to internalize the costs of being large and complex. And on the other side, as I was saying earlier, if we can safely unwind a failing firm, then we no longer have too-big-to-fail, obviously, and so I think that's a very, very important objective. The test would be that the financial markets that lend to large firms base their bond spreads and what they're willing to pay for the stock of those firms solely on the risk-taking and on the business model of those firms and not on the fact that there's some anticipation of a government bailout. And so I think market indicators will help us see our progress towards ending too-big-to-fail.

STEVE BECKNER. Steve Beckner of Market News International. Mr. Chairman, good to see you. There's been some concern in markets about what will happen to bond yields at the expiration of Operation Twist on June 30th and some speculation on what the Fed might do—might need to do to keep downward pressure on yields. Is that a concern that you share? And do you and your colleagues feel the need not to disappoint these kinds of market expectations?

CHAIRMAN BERNANKE. Well, to your last point, the purpose of monetary policy is to achieve our objectives of maximum employment and price stability, it's not to disappoint or not disappoint investors. So we will take actions based on those economic objectives and not try to achieve certain market outcomes.

There's some disagreement, I think, about exactly how balance sheet actions by the Federal Reserve affect Treasury yields and other asset prices. The view that we have generally taken at the Fed, in which I think—for which I think the evidence is pretty good, is that it's the quantity of securities held by the Fed at a given time rather than the new purchases—the flow of new purchases—which is the primary determinant of interest rates. And if that theory is correct, then at such time that our purchases come to an end, there should be relatively minimal effects on interest rates at that time. And that, in fact, has been our—generally our experience in previous episodes where we have launched a program and then allowed it to come to a natural end.

Of course, we'll continue to monitor the situation, and if we believe that financial conditions for whatever reason are inconsistent with our macroeconomic objectives, then we will act to fix that. But, again, our expectation is that, at whatever point that the purchases end, that financial markets being quite forward looking will have anticipated that, and that the effects ought to be moderate.

AKIO FUJII. Thank you, Chairman. I am Akio Fujii from *Nikkei* newspaper. My question is follow-up for your comment about Japan and U.S. Now, are you confident U.S. economy would avoid long-term stagnation like we had in Japan, or so-called Japanization? And if it's the case, only policy response make a difference of Japan and U.S., or are there any other factor make difference?

CHAIRMAN BERNANKE. The last part again—are there measures?

AKIO FUJII. Yes, policy response is the only reason make a difference U.S. and Japan or are there any other factor make a difference of U.S. and Japan situation?

CHAIRMAN BERNANKE. Well, I think the—I would draw two distinctions between the U.S. and Japan, or the Japanese experience. The first is that, as I mentioned earlier—and I think this is very important—is that we acted aggressively and preemptively to avoid deflation. Now, of course, Japan had a much bigger bubble and a much bigger shock when the bubble collapsed, and so these differences may be certainly understandable. But, again, we did avoid deflation. The other thing which I think we have done reasonably well here in the United States was that we moved fairly quickly to make sure that our banks were recapitalized and were recognizing their bad assets. And I think the stress tests that we conducted last month are good evidence that the U.S. banking system is considerably stronger and, indeed, much more resilient than it was a couple of years ago.

So those two things are positives and would tend to suggest that we will avoid some of the problems that Japan has faced. That being said, I think it's always better to be humble and just to, you know, avoid being too confident. And we need to continue to maintain a strong monetary policy support to make sure that the economy continues on a recovery path and returns to a more normal situation.

SCOTT SPOERRY. Scott Spoerry with CNNMoney, sir. I wanted to ask you about the labor force participation rate. It's at the lowest level since the early '80s. Can you talk about why people are dropping out of the job market, whether it's a permanent structural problem, and what convinces you that things may change? If I could just a pop a second question to follow up on Steve and the bonds—your colleague Sheila Bair wrote this week that her—about her concern over being in a bond bubble. She said you should declare victory, and you should do something about puncturing that bubble before it gets too much out of control. Can you respond to that too?

CHAIRMAN BERNANKE. On declaring victory, I think it's a little premature to declare victory. I think that keeping interest rates low is still appropriate for our economy. As for the bond bubble, interest rates are low for a lot of reasons; they include monetary policy, of course, but they also include a weak economy, low inflation expectations, and safe-haven demands for U.S. Treasuries. So, of course, interest rates will rise at some point. We hope that they do because that would be an indication that the economy is recovering and strengthening. And I think it's important for holders of long-term securities to manage their risks and pay attention to that. But all that being said, I think, again, that there are both good reasons to continue monetary ease and good reasons for interest rates to be low. The first part of your question was—

SCOTT SPOERRY. About the—

CHAIRMAN BERNANKE. Oh, participation, labor participation, yes. Actually, we had a very good discussion of that at the meeting because it is an important issue, trying to assess how much of the change in employment is structural, how much is cyclical, and so on. There is, in fact, a downward trend in labor participation in the United States. It comes from, first, the fact that we're no longer getting increased participation from women; female participation has leveled out. And, secondly, because, as the society ages, and also for other reasons, male participation has been declining over time. So there is a downward trend that we have to take into account.

The participants at the meeting, at least some of them, suggested, though, that a good bit of the decline in participation that we've seen in the last few years does represent cyclical factors. Much of it is young people, for example, who presumably are not out of the labor force indefinitely, but, given the weak job market, they are going to school or doing something else rather than working. So one possibility and one reason why the unemployment rate may not fall as quickly going forward is that as the economy strengthens, as the labor market strengthens, many of these folks are going to come back in the labor force looking for work, which I think would be a good thing. But we'll just have to see. But I do think—I think I would agree with the argument that a significant part of the decline over and above the downward trend in the participation rate is reflecting cyclical factors and should reverse when the economy gets stronger.

DON LEE. Don Lee from the *L.A. Times*. Can you give us your assessment of the impact of the mild winter weather on job growth and what that might mean going forward? And related to that, I think you said last month that some of the recent job gains reflected a catch-up from outsize cuts right after the recession. I mean, given those two things, what kind of job growth can we expect?

CHAIRMAN BERNANKE. Well, the weather issue just reflects how difficult it can be to make real-time assessments of the state of the economy. The weather has probably affected a number of things. It probably brought forward some of the hiring so that it made perhaps January and February artificially strong and March perhaps artificially a little bit weak. It probably affected construction, manufacturing. There's a number of things that were probably affected to some extent by the unusually warm weather that we had this winter, and we're doing our best to try to adjust for that. We're also looking at some of the seasonality issues that have arisen because of the unusually large recession in 2008 and 2009. So, again, that makes the data harder to interpret.

I advanced the hypothesis that the increase in employment we've seen in the last five, six months might to some extent be greater than we'd expect going forward because it represented a one-time catch-up, undoing the very sharp layoffs in 2008 and 2009. That's only a hypothesis. We'll have to see going forward. If it's correct, then job gains will be somewhat less than the 250,000 a month that we've been seeing recently. But we don't know yet, we don't know yet. And I wouldn't draw too much conclusion from the March report. I think, again, because of weather and other factors, we really can't take a conclusive result from that. So, we'll continue to be watching the labor market. That's a very important consideration. If unemployment looks like it's no longer making progress, that'll be an important consideration in thinking about policy options.

DON LEE. What kind of job growth, on average, is consistent with the unemployment projections that you've made?

CHAIRMAN BERNANKE. Well, we need something—estimates differ. We need fewer jobs monthly to keep unemployment consistent or stable than in the past—I suppose more like 100,000 a month for stability. I don't have an exact answer, but broadly speaking, 150–200,000 jobs or so. But that's a very rough estimate, and, of course, individual participants may have different views.

Again, that's not a forecast, I've made a hypothesis, which would imply slower improvement in unemployment. But the possibility, of course, exists that this recovery will generate a virtuous circle with greater hiring, which in turn generates more consumer spending, and greater hiring, and so on. That remains to be seen, and, of course, which way that goes is going to be a very important determinant of our response.

PETER COOK. Mr. Chairman, Peter Cook with Bloomberg Television. Thank you for the time. First up, sir, on the projections—in your bid for transparency, for more openness here at the Fed, would you consider, in the future, you and your colleagues actually attaching your name to the projections here so that, again, markets, folks out in the—watching your actions get a better sense of exactly what you're thinking in the future, what your colleagues are thinking? And separately, sir, as you consider where you are at this moment, all you've been through with the financial crisis, the recovery, what is it right now that most frustrates you about this recovery, that still confounds you most about this recovery, that confuses you most?

CHAIRMAN BERNANKE. Well, those things are not all the same. On the former, our subcommittee, headed by Vice Chair Yellen, is looking at the SEP for ways to improve transparency, and we're looking at everything. So, your particular suggestion is on the table, as are other ways to try to make this more useful. And, again, it's a work in progress, as I said before.

The most frustrating aspect, I guess, of the recovery has been that it's—has been that it's been quite slow. And as a result, here we are, almost three years from the beginning of the expansion, and the unemployment rate is still over 8 percent. So we're looking and hoping that as the headwinds lift, as financial stresses ease, as housing improves, that we'll begin to get more rapid improvement in the economy and in the labor market. But it has been a very long slog, and that, I think, would be the single most concerning thing. From a policy perspective, there are many issues, like the fiscal issues, for example. But within the province of the Federal Reserve, I think it would be the pace of improvement in the labor market.

Thank you.