

**Transcript of Chair Yellen's Press Conference
December 14, 2016**

CHAIR YELLEN. Good afternoon. Today the Federal Open Market Committee decided to raise the target range for the federal funds rate by $\frac{1}{4}$ percentage point, bringing it to $\frac{1}{2}$ to $\frac{3}{4}$ percent. In doing so, my colleagues and I are recognizing the considerable progress the economy has made toward our dual objectives of maximum employment and price stability. Over the past year, $2\frac{1}{4}$ million net new jobs have been created, unemployment has fallen further, and inflation has moved closer to our longer-run goal of 2 percent. We expect the economy will continue to perform well, with the job market strengthening further and inflation rising to 2 percent over the next couple of years. I'll have more to say about monetary policy shortly, but first I'll review recent economic developments and the outlook.

Economic growth has picked up since the middle of the year. Household spending continues to rise at a moderate pace, supported by income gains and by relatively high levels of consumer sentiment and wealth. Business investment, however, remains soft despite some stabilization in the energy sector. Overall, we expect the economy will expand at a moderate pace over the next few years.

Job gains averaged nearly 180,000 per month over the past three months, maintaining the solid pace that we've seen since the beginning of the year. Over the past seven years, since the depths of the Great Recession, more than 15 million jobs have been added to the U.S. economy. The unemployment rate fell to 4.6 percent in November, the lowest level since 2007, prior to the recession. Broader measures of labor market slack have also moved lower, and participation in the labor force has been little changed, on net, for about two years now, a further sign of improved conditions in the labor market given the underlying downward trend in participation

stemming largely from the aging of the U.S. population. Looking ahead, we expect that job conditions will strengthen somewhat further.

Turning to inflation, the 12-month change in the price index for personal consumption expenditures was nearly 1½ percent in October, still short of our 2 percent objective but up more than a percentage point from a year earlier. Core inflation—which excludes energy and food prices that tend to be more volatile than other prices—has risen to 1¾ percent. As the transitory influences of earlier declines in energy prices and prices of imports continue to fade and as the job market strengthens further, we expect overall inflation to rise to 2 percent over the next couple of years.

Our inflation outlook rests importantly on our judgment that longer-run inflation expectations remain reasonably well anchored. Market-based measures of inflation compensation have moved up considerably but are still low. Survey-based measures of longer-run inflation expectations are, on balance, little changed. Of course, we remain committed to our 2 percent inflation objective and will continue to carefully monitor actual and expected progress toward this goal.

Let me now turn to the economic projections that were submitted for this meeting by Committee participants. As always, they conditioned their projections on their own individual views of appropriate monetary policy, which, in turn, depend on each participant's assessment of the multitude of factors that shape the outlook. The median projection for growth of inflation-adjusted gross domestic product rises from 1.9 percent this year to 2.1 percent in 2017 and stays close to 2 percent in 2018 and 2019, slightly above its estimated longer-run rate. The median projection for the unemployment rate stands at 4.7 percent in the fourth quarter of this year. Over the next three years, the median unemployment rate runs at 4.5 percent, modestly below the

median estimate of its longer-run normal rate. Finally, the median inflation projection is 1.5 percent this year and rises to 1.9 percent next year and 2 percent in 2018 and 2019. Overall, these economic projections are very similar to those made in September: GDP growth is a touch stronger; the unemployment rate is a shade lower; and inflation, beyond this year, is unchanged.

Returning to monetary policy, the Committee judged that a modest increase in the federal funds rate is appropriate in light of the solid progress we have seen toward our goals of maximum employment and 2 percent inflation. We continue to expect that the evolution of the economy will warrant only gradual increases in the federal funds rate over time to achieve and maintain our objectives. That's based on our view that the neutral nominal federal funds rate—that is, the interest rate that is neither expansionary nor contractionary and keeps the economy operating on an even keel—is currently quite low by historical standards. With the federal funds rate only modestly below the neutral rate, we continue to expect that gradual increases in the federal funds rate will likely be sufficient to get to a neutral policy stance over the next few years.

This view is consistent with participants' projections of appropriate monetary policy. The median projection for the federal funds rate rises to 1.4 percent at the end of next year, 2.1 percent at the end of 2018, and 2.9 percent by the end of 2019. Compared with the projections made in September, the median path for the federal funds rate has been revised up just $\frac{1}{4}$ percentage point. Only a few participants altered their estimate of the longer-run normal federal funds rate, although the median edged up to 3 percent.

Of course, the economic outlook is highly uncertain, and participants will adjust their assessments of the appropriate path for the federal funds rate in response to changes to the economic outlook and associated risks. As many observers have noted, changes in fiscal policy

or other economic policies could potentially affect the economic outlook. Of course, it is far too early to know how these policies will unfold. Moreover, changes in fiscal policy are only one of the many factors that can influence the outlook and the appropriate course of monetary policy. In making our policy decisions, we will continue—as always—to assess economic conditions relative to our objectives of maximum employment and 2 percent inflation. As I have noted on previous occasions, policy is not on a preset course.

Finally, we will continue to reinvest proceeds from maturing Treasury securities and principal payments from agency debt and mortgage-backed securities. As our statement says, we anticipate continuing this policy “until normalization of the level of the federal funds rate is well under way.”

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

HARRIET TORRY. Thank you, Madam Chair. Harriet Torry with the *Wall Street Journal*. Why does the Fed now see three rate increases next year instead of two? Is it because the economy is at risk of overheating, or is the Fed behind the curve, or is this a reaction to Donald Trump's election?

CHAIR YELLEN. Well, I would like to emphasize that this is a very modest adjustment in the path of the federal funds rate and involves changes by only, you know, some of, you know, some of the participants. So in thinking about the paths and the revisions, there are a number of factors that were taken into account by participants. The unemployment rate is perhaps a touch, as I said, a touch lower than previously; you've seen some modest downward revisions in that—in that projection. For this year, there was a slight upward revision to inflation, and some of the participants, but not all of the participants, did incorporate some assumption of a change in fiscal policy into their projections. And that may have been a factor that was one of several that

occasioned these shifts, but I want to emphasize that these—the shifts that you see here are really very tiny.

STEVE LIESMAN. Steve Liesman, CNBC. In recent testimony, you said your advice was for fiscal authorities to increase the productive capacity of the economy. Do individual and business tax cuts increase the productive capacity of the economy? And how would the Fed's reaction be different to fiscal policies that increase the productive capacity of the economy and those that don't?

CHAIR YELLEN. So the statement that I made, that it would be useful to increase the productive capacity of the economy, reflects my concern that productivity growth has been very low. It's the ultimate determination of the evolution of living standards. Policies that would improve productivity growth would include policy changes that enhance education, training, workforce development; policies that spur either private or public investment to enhance the quality of capital in the United States that workers have to work with; and policies that spur innovation or competition or the formation of new firms. So tax policies can have that effect. It really depends on the specifics. I don't think there's anything that I could say in general about what tax policy would do, but that—and I really can't tell you what the Fed's response would be to any policy changes that are put into effect. I wouldn't want to speculate until I were more certain of the details and how they would affect the likely course of the economy.

STEVE LIESMAN. Okay. A quick follow-up—I'm sorry, but if there was a rush of fiscal policy that did not increase the productive capacity of the economy, would that mean the Federal Reserve would have to move more quickly with raising rates?

CHAIR YELLEN. I—you know, it's something I really just can't generalize about because, while it would be desirable to have tax policies that do increase the productive capacity

of the economy, an increase in the pace of productivity change is one of the factors that does affect the economy's neutral rate. A boost to productivity could spur investment. As we have been saying, we estimate that the value of the neutral federal funds rate is quite low—has—and one of the reasons for that is slow productivity growth. And so it's very hard to generalize about it because it could affect that neutral rate.

JIM PUZZANGHERA. Hi. Jim Puzzanghera with the *L.A. Times*. For the average American, can you explain what the impact of this hike and three additional hikes will be next year? And should they feel more confident in the economy now that you are raising rates at a slightly faster pace?

CHAIR YELLEN. So let me say that our decision to raise rates is—should certainly be understood as a reflection of the confidence we have in the progress the economy has made and our judgment that that progress will continue. And the economy has proven to be remarkably resilient. So it is a vote of confidence in the economy. As you know, this was a decision that was well anticipated in markets, and I think it will have relatively small effect on market rates. It could boost very slightly some short-term interest rates that could have an effect on borrowing costs that are linked to them, but, overall, I think that households and firms will see very modest changes from this decision. But, certainly, it's important for households and businesses to understand that my colleagues and I have judged the course of the U.S. economy to be strong, that we're making progress toward our inflation and unemployment goals. We have a strong labor market, and we have a resilient economy.

SAM FLEMING. Sam Fleming from the *Financial Times*. Clearly, there's been a lot of discussion already about fiscal—fiscal policy. But even if you discount or don't know what the fiscal outlook is going to be next year, unemployment is already below the longer-run projection

under the policy rule you cited in your August speech. That would suggest that policy ought to be tighter. Is there a risk that the Federal Reserve is already behind the curve, even before any fiscal impact steps in next year? Thanks.

CHAIR YELLEN. So I would agree that—and as we said in our statement—policy remains accommodative. The degree of accommodation I would characterize as moderate. As I've emphasized and said in the statement, we currently judge the neutral level of the federal funds rate to be pretty low. So there is some accommodation. Remember that inflation is still below our objective. The Committee projects—at least the median projection shows a very modest undershoot of estimates of the longer-run normal rate of unemployment. The median unemployment rate here gets down to 4½ percent, which is just a few tenths below the estimated longer-run normal level of the unemployment rate. And we think that that's appropriate because we want inflation to rise to our 2 percent objective in a timely fashion.

So there is not a substantial undershoot of the natural rate of unemployment. We're not seeing evidence in labor markets of very substantial upward pressures on labor that could signify extreme shortages of labor that could propel inflation higher in a very rapid way, and inflation is still operating below our objective. So I do not judge that we are behind the curve. I've—my judgment is that we're on a good path to reaching our objectives. But, of course, the outlook is uncertain. We recognize that there are many sources of uncertainty affecting the outlook. And we will have to adjust our thinking as things evolve, as conditions—conditions evolve, and we learn more about economic policy changes that could affect the outlook.

JIM TANKERSLEY. Jim Tankersley, *Washington Post*. I'm curious, you and your predecessor had both at times called for more fiscal stimulus to help with the outlook, the growth outlook. And I'm wondering, how much do you judge the economy has capacity for fiscal

stimulus right now? It's a version of Steve's question, but I think we're trying to get at, how much can happen before we run that risk of overheating?

CHAIR YELLEN. Well, I believe my predecessor and I called for fiscal stimulus when the unemployment rate was substantially higher than it is now. So, with a 4.6 percent unemployment and a solid labor market, there may be some additional slack in labor markets, but I would judge that the degree of slack has diminished. So I would say at this point that fiscal policy is not obviously needed to provide stimulus to help us get back to full employment. But, nevertheless, let me be careful that I am not trying to provide advice to the new Administration or to Congress as to what is the appropriate stance of policy. There are many considerations that Congress needs to take account of and many bases for justifying changing fiscal policy. I've continued to highlight the importance of spurring productivity growth, that I think that would be something that's beneficial for the economy. Of course, it's also important for Congress to take account of the fact that, as our population ages, that the debt-to-GDP ratio is projected to rise, and that needs to continue to be taken into account. And so there are many factors that I think should enter into such decisions.

CHRISTOPHER CONDON. Thank you. Chris Condon, Bloomberg News. Chair Yellen, you've just spoken about some of the risks—the inflationary risks of running in this expansionary fiscal policy. But in October you were wondering whether it might be possible to repair some of the damage done to the labor force during the recession by running what you termed a “high-pressure economy.” So I'm wondering, why couldn't fiscal policy serve the same end in seeking to run a high-pressure economy, hoping to draw more Americans off the sidelines and into the workforce? Is there something necessarily riskier about approaching it

from the fiscal side, or perhaps have you become less enthusiastic about the idea of running a high-pressure economy? Thank you.

CHAIR YELLEN. So I want to be clear that what I said in that speech in Boston is that an important research question is whether or not, in an economy with a very strong labor market, there might be changes that took place that permanently raised the labor force participation, training, and other things of the labor—of the labor force that would be positives for the productive potential of our economy on a long-lasting basis. I never said that I favor running a high-pressure economy. And, you know, as you can see in the SEP projections of the participants—and this has long been true not just in this forecast, but in earlier ones as well—you see a modest undershooting. The under—unemployment rate is projected to modestly undershoot, for several years, levels that are deemed to be normal in the longer run. That's an appropriate policy purely on the grounds that inflation is running below our objective. And while we don't want to overshoot our 2 percent objective, we also don't want a persistent undershoot of our 2 percent objective, and that does involve a labor market that may succeed in attracting more people off the sidelines into the labor market. It's something we will see as we examine experience over the next couple of years. We may adjust our views on this. But I do want to make clear that I have not recommended running a "hot" economy as some sort of experiment.

LINDSAY DUNSMUIR. Hi, Lindsay Dunsmuir with Reuters. How comfortable are you with possible interference on Fed policy by the incoming President? And I'm talking there about the negative impacts his tweets on aerospace companies in the last week have had on their share prices. And do you feel having a President tweeting about individual companies—do you feel that that could begin to distort corporate decisionmaking?

CHAIR YELLEN. Well, I'm not going to offer the incoming President advice about how to conduct himself in policy. I'm a strong believer in the independence of the Fed. We have been given the independence by Congress to make decisions about monetary policy in pursuit of our dual-mandate objectives of maximum employment and inflation, and that is what I intend to stay focused on. That's what the Committee is focused on.

BINYAMIN APPELBAUM. Binya Appelbaum with the *New York Times*. The President-elect has said that overhauling financial regulation is a high priority for him. I'm curious whether the Fed has been asked to provide any advice on how that might be done, and what advice you would provide to the President-elect about how our financial regulatory system should be improved?

CHAIR YELLEN. So we have been—our staff have been in touch with the Trump transition team. And we, of course, share the objective that the whole government has to work constructively to ensure a smooth transition. I've not been in touch beyond that, and it's not something that I would expect. But—I'm sorry, so what would I—

BINYAMIN APPLEBAUM. I was saying, what advice would you give about how the system should be improved?

CHAIR YELLEN. About how—

BINYAMIN APPLEBAUM. —on financial regulation.

CHAIR YELLEN. —the financial rate. Yes. So, okay, on financial regulation, I feel that we lived through a devastating financial crisis that took a huge toll on our economy. And most members of Congress and the public came away from that experience feeling that it was important to take a set of steps that would result in a safer and stronger financial system. And I

feel that we have done that. That has been our mission since the financial crisis for the last six or seven years. That's what Dodd-Frank was designed to do.

I think it's very important that we have reduced the odds that a systemically important firm could fail by requiring higher capital, higher liquidity, by performing stress tests that provide us another way of ensuring that the firms we count on to supply credit to households and businesses would be able to go on doing that even in the face of a severely adverse shock. The firms—the largest firms have a great deal more capital than they did before the crisis. Those are important changes. We have placed the toughest regulations on those firms that are systemically important. I would advise that—and we have been trying to do this—that it's important to look for ways to relieve regulatory burden on community banks and smaller institutions, to tailor regulation so that it's appropriate for the systemic risk profile of the particular institutions.

I think there was broad agreement also that we should end “too big to fail,” and that means not only reducing the odds of the failure of a systemically important institution, but also making sure that, should such a firm fail, that it could be resolved in an orderly way. And the living wills process has been about that, and I think we've made considerable progress in making sure that the largest and most systemic firms conduct their businesses in a day-to-day way with some thought about—with important thinking in place about whether or not the way they are conducting their business would aid resolution in the event that they encountered a severe negative shock. So this is progress, I would say, it's very important not to roll back. There may be some changes that could be made, and we've suggested a few, like eliminating the burden of compliance with the Volcker rule, or incentive compensation, regulations for smaller banks, or modestly raising the threshold for banks that are subject to enhanced prudential supervision. But I would urge that it's important to keep this in place.

MARTIN CRUTSINGER. Marty Crutsinger with the Associated Press. The election of Donald Trump seemed to have sparked a major reaction in financial markets: stock prices at record highs, the dollar has strengthened, long-term interest rates are higher. The—did any of that get discussed in the meeting and did it—do you feel that it will have any effect, either negative or positive, on things? And also, did you have any broader discussion about Trump's economic plan and what it might do and how the Fed might have to react?

CHAIR YELLEN. So we did discuss these topics in our meeting today. I would simply summarize by saying that all the FOMC participants recognize that there is considerable uncertainty about how economic policies may change and what effect they will have on the economy. And in so far as that will affect monetary policy, of course we will have to factor those policies along with many other things, including the global environment and oil prices and other matters. We will have to factor that into our outlook and figure out what is an appropriate response. But we're operating under a cloud of uncertainty at the moment, and we have time to wait to see what changes occur and to factor those into our decisionmaking as we gain greater clarity.

You mentioned the market moves. So I see the market moves as implicit forecasts about what impact these policies are likely to have on the economy. The changes—the financial market changes that you described, particularly the increase in stock prices, the increase in longer-term rates, and the strengthening of the dollar, suggest that many market participants anticipate expansionary fiscal policies that would raise interest rates somewhat in the United States relative to abroad and would cause a strengthening in the dollar. But market participants were uncertain too, and I would expect changes in our understanding of what is going to happen to also affect market prices in financial markets as we move forward.

NANCY MARSHALL-GENZER. Hi, Nancy Marshall-Genzer with Marketplace. Wondering about slack, when do you think the slack in the labor market will have worked its way through so we're no longer talking about it at press conferences and it's not such a big issue?

CHAIR YELLEN. So this is not something that it's possible to judge precisely. My colleagues write down their best estimates of a normal longer-run unemployment rate. The median stands at 4.8 percent, so we're close, possibly—the unemployment rate right now is ever so slightly below, but in the neighborhood. If we look at larger, broader measures of slack, like the U-6 measure that includes involuntary part-time employment and those who are marginally attached to the labor force, they're slightly higher than pre-recession levels, but they've come down considerably. We look at a broad array of indicators of the labor market, and if you look at job openings or the hires rate or the quits rate or difficulty of hiring workers as reported in business surveys, you know, I would say the labor market looks a lot like the way it did before the recession, that it's—we're roughly comparable to 2007 levels when we thought the, you know, there was a normal amount of slack in the labor market. The labor market was in the vicinity of maximum employment.

MICHAEL MCKEE. Michael McKee from Bloomberg Television and Radio. Given President-elect Trump's criticism of your low-rate policy during the campaign, like it or not, market participants are going to focus a lot in 2017 on you. You've suggested you will serve out your term, but I'm curious if that statement still holds, if you would like another term as Fed Chair, if you would accept another term as Fed Chair, and would you stay on the Committee if you were not Fed Chair?

CHAIR YELLEN. So I guess the way I think about it is that I was confirmed by the Senate to a four-year term. The term of the Fed Chair was not meant to coincide with that of the President, and there were good reasons for that, too. It's part of ensuring the independence of the Fed. And so I do intend to serve out my four-year term. I haven't made any decision about the future. I, you know, I recognize I might or might not be reappointed. It's a decision that I don't have to make and don't, you know, don't have thoughts on at this time. And, as you said, I recognize too that I could stay on as a Board member, and that's a decision for another day.

PETER BARNES. Peter Barnes, Fox Business. Just to follow up on Marty's question about the financial markets, the Dow is about to hit 20,000. It's up substantially since the election on, apparently, investor optimism about potential—the impact of President-elect Trump's policies on the economy and an improving economy. I wonder if you share that optimism, number one, and, if not, are we seeing a bout of, perhaps, irrational exuberance right now? Or are you concerned at all about a bubble in equity prices that could create some financial instability in the economy?

CHAIR YELLEN. So, you know, I really don't want to comment on the level of stock prices. They may have been boosted by expectations about tax policy; possible cuts in corporate tax rates that have been much discussed; or by expectations about growth, possible reductions, and downside risk to the economy. But, you know, these are things that market participants are trying to view, along with the likely path of—paths of interest rates, and I think all of that factors into movements and stock valuations. But I don't—I don't want to offer a view as to whether they're appropriate.

PETER BARNES. You have said—mentioned—can I just follow up? On equity prices, you have talked about whether or not the valuations are still—are within historical ranges and norms. Did—is Dow 20,000 kind of within historical norms? Are you comfortable with that?

CHAIR YELLEN. Well, I think rates of return in the stock market relative to—remember that the level of interest rates is low, and, taking that into account, I believe it's fair to say that they remain within normal ranges.

JOHN HELTMAN. John Heltman of *American Banker*. You said that much progress has been made since the crisis in making the banks more secure, more safe, higher liquidity, capital levels, et cetera. Does that feeling extend to the culture of the banks, the way that they run, the way that they operate in their approach towards—towards business? Do you think that more needs to be done there? Do you expect that if there has been improvement, that it will continue to be—that culture will continue to improve in the next Administration and the next Congress?

CHAIR YELLEN. Well, there have been many ways in which there have been compliance failures at large organizations, and you've seen a series of enforcement actions by the banking regulators over a range of practices that suggests some breakdown of compliance or culture, whether it involves violations of sanctions or foreign exchange or LIBOR or other matters. So this is something that we've discussed and emphasized, the importance of a culture of compliance. And the Board will be undertaking review. We've already begun this year, broadly, of compliance and management of compliance risk in the largest corporations. So I think this is something that's important. And the failings that we have seen in a number of institutions suggest there is certainly room for improvement.

GREG ROBB. Greg Robb from MarketWatch. I'd like to—two questions, if I might—follow up on the question about running the economy hot that you mentioned in your speech up in Boston a couple months ago. You brought it up. Are you now sort of distancing yourself from the idea?

CHAIR YELLEN. Well, I want to make clear what I said and what I didn't say. One of the things we've learned from our financial crisis and from a series of financial crises in history and around the globe is that, very commonly, when the economy takes a hit and falls into a recession, that productivity doesn't pick up to pre-recession levels and that there looks like there is a permanent hit to the path of potential output for the economy, which is called "hysteresis." And I raised the question as to whether or not this might operate in the opposite direction as well. We have seen quite a few people who lost their jobs during the Great Recession drop out of the labor force and, you know, lose their ties and become discouraged and not reenter. And I raised the question as to whether or not hysteresis could operate in the opposite direction. And that was a research question for economists to see if there is any evidence, because it could be important in determining policy. But I didn't—I didn't draw any policy conclusions from that. And, as I indicated, I think the path that you see—that the Committee has laid out in a tentative way that involves a modest degree of undershooting of normal longer-run levels of unemployment going down to around 4½ percent would remain for a couple of years—might provide some insight. So I was not recommending a substantially easier policy in order to test that hypothesis.

GREG ROBB. Thank you, Madam Chair. I guess my question to—that I had before that follow-up was, both times you've raised rates in this cycle, the market expectations of a rate hike have been over 50 percent. The market has, you know, kind of priced it in. Is that a prerequisite going forward? Will that have to happen as you go forward?

CHAIR YELLEN. It's not a prerequisite, but we do try to explain our evolving views as clearly as we can. It's important for market participants to have a sense of how we think about the economy and the appropriate path of policy, to look at incoming data, and to form their own judgments as to whether or not changes in policy would be appropriate. And while it's not a prerequisite, if we're in good sync in terms of explaining what goes into our policy judgments, it's not surprising that it would often be true that moves are well anticipated by the market. As I said, in thinking about today's move, we've indicated that we thought we were making progress on our objectives. We wanted to see some more. I think anyone looking at incoming data can clearly see that we have enjoyed further progress both in the labor market and on inflation. And, therefore, there are good reasons why the market should have anticipated a move today.

PATRICK GILLESPIE. Chair Yellen, Patrick Gillespie with CNN. There's been a lot of discussion about manufacturing jobs and trade. I'm wondering, what do you think are two or three concrete steps that could be taken to increase manufacturing employment in the United States? And, separately, I've asked you about the importance of job training programs, something that you've emphasized. Specifically, what do you think about the worker assistance provided to workers who lose their jobs to trade, both the financial assistance and the worker retraining programs? Are they sufficient?

CHAIR YELLEN. So, I don't want to weigh in. I don't intend to weigh in. I haven't weighed in on either fiscal policy, specifics of evaluating policies. I'm not going to weigh in either on the details of particular trade policies. But, more generally, I'd say, you asked me about manufacturing. There were a lot of manufacturing jobs lost over a long period of time and particularly after—during the Great Recession. We've had some recovery in manufacturing employment as the economy's recovered. So, to some extent, manufacturing employment

depends on the progress of the economy, and we have seen some recovery. Over a long period of time, technological change is something that has been important in reducing manufacturing employment absolutely and as a share of jobs in the economy. For decades, the pace of technological change in manufacturing has outstripped that in the economy as a whole. And, so, firms—manufacturing firms have found it easier to continue producing by—with reducing their workforces. And that's a change that I would expect to continue.

You mentioned worker assistance. So some of the forces that are acting on manufacturing and other sectors, including technological change and globalization—even though most economists would judge the overall consequences of these developments for the economy to be positive, certainly there are groups of workers who were harmed by developments pertaining to globalization and technology. And I think most economists and policymakers recognize that it's important to provide ways for workers who were harmed by these kinds of developments to be retrained for jobs so that they can succeed in the economy. And so, I mean, I would agree—without getting into any particular program and whether it's sufficient, I do think that it's important to recognize there are those who were harmed by these developments, and their concerns, I think, need to be addressed by policymakers, certainly.

JUSTINE UNDERHILL. Justine Underhill, Yahoo Finance. So the Fed's balance sheet has grown to over \$4 trillion. And as the Fed begins removing policy accommodation, under what circumstances would you see the Fed removing or possibly winding down its balance sheet in either letting mature—securities mature or possibly outright selling bonds from the SOMA portfolio?

CHAIR YELLEN. So we've indicated in our normalization principles that we expect to diminish the size of our portfolio over time largely by ceasing reinvestments of principal rather

than by selling securities. We've indicated that once the process of normalization of the federal funds rate is well under way, we would probably begin to allow our portfolio to run off. We've not yet made any precise decisions about when that will occur. We want to feel that if the economy were to suffer an adverse shock, that we have some scope through traditional means of interest rate cuts to be able to respond to that. Now, there's no mechanical rule about what level of the federal funds rate we might deem appropriate to begin that process. It's not something that only depends on the level of the federal funds rate. It also depends on our judgment of the amount of momentum in the economy and possible concerns about downside risks to the economy. So we've not yet made this decision, but it is something that we have long planned, to begin to allow our balance sheet to run off. And then it would take several years. And we would end up, if all goes well, with a substantially smaller balance sheet than we have at present.

MICHAEL DERBY. Mike Derby from Dow Jones Newswires. I wondered if the unexpected outcome of the election and the sense that a lot of people are really upset with how the economy is performing despite having, you know, aggregate economic statistics that look pretty good—is that causing you in any way to think differently about how you evaluate the economy, like what sort of things you look for to get a sense of what's going on in the economy? Is—you know, basically, did how things turned out in the election—is it making you think differently about how you evaluate the economy's performance and how it's doing?

CHAIR YELLEN. Well, I mean, we've long been aware, and I've spoken about previously disturbing trends in the economy, particularly rising wage inequality, income inequality, and the fact that a significant share of our population hasn't been enjoying significant real wage gains, if any. And so these are long-standing concerns. These are not new phenomenon, but the recession was very severe and probably exacerbated developments that had

long been affecting many American workers and households. And I think they are quite disturbing.

Now, they're ones that the Fed is not well positioned—I think our policies can affect the general level of economic activity and slack in the labor market, the level—the rate of inflation, which we focus on. But I think it's important for policymakers more broadly to be attentive to these trends and to think about policies that could address them. We've been quite attentive with respect to particular demographic groups in the labor market. Particularly, minorities tend to be very badly affected by downturns. We've discussed that. We've been focused on it—it's not just since the election—and are pleased to see that they are enjoying gains. For example, the African American unemployment rate at this point is now rough—about back to 2007 levels as well. But these are important trends, and I think it's important for policy to address them.