

**Transcript of Chair Powell's Press Conference
January 29, 2020**

CHAIR POWELL. Good afternoon everyone. Thanks for being here. At today's meeting, my colleagues and I decided to leave our policy rate unchanged. As always, we base our decisions on our judgment of how best to achieve the goals Congress has given us—maximum employment and price stability. We believe monetary policy is well positioned to serve the American people by supporting continued economic growth, a strong job market, and a return of inflation to our symmetric 2 percent goal.

The expansion is in its 11th year, the longest on record. Growth in household spending moderated toward the end of last year, but with a healthy job market, rising incomes, and upbeat consumer confidence, the fundamentals supporting household spending are solid. In contrast, business investment and exports remain weak, and manufacturing output has declined over the past year. Sluggish growth abroad and trade developments have been weighing on activity in these sectors. However, some of the uncertainties around trade have diminished recently, and there are some signs that global growth may be stabilizing after declining since mid-2018. Nonetheless, uncertainties about the outlook remain, including those posed by the new coronavirus. Overall, with monetary and financial conditions supportive, we expect moderate economic growth to continue.

The unemployment rate has been near half-century lows for well more than a year, and the pace of job gains remains solid. Participation in the labor force by people in their prime working years, ages 25 to 54, is at its highest level in more than a decade. And wages have been rising, particularly for lower-paying jobs. People who live and work in middle-income communities and low-income communities tell us that many who have struggled to find work are now finding new opportunities. Employment gains have been broad based across all racial and

ethnic groups and all levels of education. These developments underscore for us the importance of sustaining the expansion so that the strong job market reaches more of those left behind.

Inflation continues to run below our symmetric 2 percent objective. Over the 12 months through November, total PCE inflation was 1.5 percent, and core inflation, which excludes volatile food and energy prices, was 1.6 percent. Available data suggest similar inflation readings for December, though we expect inflation to move closer to 2 percent over the next few months as unusually low readings from early 2019 drop out of the calculation. While low and stable inflation is certainly a good thing, inflation that runs persistently below our objective can lead longer-term inflation expectations to drift down, pulling actual inflation even lower. In turn, interest rates would be lower as well—closer to their effective lower bound. As a result, we would have less room to reduce interest rates to support the economy in a future downturn, to the detriment of American families and businesses. We have seen this dynamic play out in other economies around the world, and we are determined to avoid it here in the United States.

In particular, we believe the current stance of monetary policy is appropriate to support sustained economic growth, a strong labor market, and inflation returning to our symmetric 2 percent objective. As long as incoming information about the economy remains broadly consistent with this outlook, the current stance of monetary policy will likely remain appropriate. We will be monitoring the effects of the policy actions we took last year, along with other information bearing on the outlook, as we assess the appropriate path of the target range for the federal funds rate. Of course, if developments emerge that cause a material reassessment of our outlook, we would respond accordingly. Policy is not on a preset course.

I will conclude with a brief overview of our current plans for our technical operations to implement monetary policy. The plan the FOMC announced back in October to purchase

Treasury bills and conduct repo operations has proceeded smoothly and has succeeded in providing an ample supply of reserves to the banking system and effectively controlling the federal funds rate. In light of the resulting stability in the federal funds rate and money market conditions more generally, we decided to make a small technical upward adjustment to administered rates to ensure that the federal funds rate trades well within the target range. This action reverses the small downward adjustment made in September when money markets were volatile.

As our bill purchases continue to build reserves toward levels that maintain ample conditions, the role played by active repo operations will naturally recede. Over the first half of this year, we intend to adjust the size and pricing of repo operations as we transition away from their active use in supplying reserves. This process will take place gradually and, as indicated in today's FOMC directive to the Desk, we expect to continue offering repos at least through April to ensure a consistently ample supply of reserves. Based on current projections, we expect that the underlying level of reserves will durably reach ample levels sometime in the second quarter of this year. As we get close to that point, we intend to slow the pace of purchases and transition to a program of smaller reserve-management purchases that maintains an ample level of reserves without the active use of repos. At that point, as in the pre-crisis period, our balance sheet will be expanding gradually over time, reflecting the trend growth in the demand for currency and other Federal Reserve liabilities.

All of these technical measures are designed to support the efficient and effective implementation of monetary policy and are not intended to represent a change in the stance of monetary policy. We are committed to completing the transition to our longer-run ample

reserves regime smoothly and predictably. Of course, we will continue to closely monitor conditions in money markets and we will adjust these plans as conditions warrant.

Thank you, and I will be happy to take your questions.

CHRIS CONDON. Thank you, Chris Condon, Bloomberg News. Mr. Chairman, I would like you to comment in a little bit more in-depth about one small change I've noted in the statement. It notes that policy will be appropriate to bring Committee beliefs, inflation, back to the Committee's 2 percent symmetric inflation objective. That's a slight change from the last time when you were expecting it to bring inflation outcomes back in the air, the objective. And I would put this also in the context of a comment you made at the last press conference where you drew attention to the fact that a number of policymakers had projected inflation overshoots two and three years out under appropriate monetary policy. Should we take all of this together to mean simply that the Committee is more confident that a 2 percent outcome for inflation is already baked in the cake or that this is a signal that the Committee has a stronger resolution to bring inflation at least to the 2 percent objective and put—bring into play an informal make-up strategy for inflation?

CHAIR POWELL. Yeah. So in making that change, our goal was really—that was changing near to returning to—was to avoid possible misinterpretation. So you may remember in the December minutes we noted that a few Committee members suggested that the language that stated that monetary policy would support inflation near 2 percent could be misinterpreted as suggesting that policymakers were comfortable with inflation running below that level. So we thought about that in the inter-meeting period and concluded that it would be appropriate to adjust that language to send a clearer signal that we're not comfortable with inflation rising persistently—running persistently below our 2 percent symmetric objective. So, yes, there is

something in that. It's just that we wanted to underscore our commitment to 2 percent not being a ceiling to inflation running around, symmetrically around 2 percent and that we're not satisfied with inflation running below 2 percent, particularly at a time such as now where we're a long way into an expansion and a long way into a period of very low unemployment when in theory, inflation should be moving up.

NICK TIMIRAOS. Thank you, Nick Timiraos of the *Wall Street Journal*. I want to ask about the balance sheet. How many reserves are ample? How many reserves does the Fed now think it will need to conduct policy in its current framework? And can you walk me through how you and your colleagues are arriving at that answer?

CHAIR POWELL. Sure. So, thanks for that question. Why don't I say a few things about repos since I know that'll be of interest. So just to bring you back after last September's brief turmoil, we took prompt and decisive action and a result-- as a result, money markets have been operating smoothly since then. Just to review, those two adjustments were Treasury bill purchases of at least of 60 billion, sorry, at least in the second quarter, and determine overnight repo at least through April. And I will get to your specific question. The purpose of the adjustments has been to assure that our policy is transmitted smoothly to the federal funds rate, which requires well-functioning money markets. It doesn't mean we're trying to eliminate all volatility in the repo markets. We know that some volatility is normal and expected in well-functioning markets. And as I mentioned, these adjustments have been successful in supplying an ample quantity of reserves. Money markets operated smoothly, including right through year-end and the fed fund-- funds rate has remained in our target range. So we know—we will know when these adjustments have run their course when reserves are durably at a level that enables us to control the federal funds rate using our administered rates, the interest on reserves and reverse

repo without the need for frequent use of open market operations. Based on current projections, we expect that the bill purchases will durably bring the underlying level of reserves to the ample level sometime in the second quarter of this year. And when we see that we've reached that level, we'll begin to gradually reduce our asset purchases to the level of the underlying trend growth of demand for our liabilities. As our bill purchases bring the underlying level of reserves up to an ample level on a sustained basis, the necessary quantity of overnight and term repo will gradually decline. We've already begun the gradual reduction in the quantity of repo, and we'll continue to reduce those offering amounts gradually as conditions permit. At some point, we'll also raise the minimum bid rate. Even after we reach an ample level of reserves, it's possible that repo operations might play a role as a backstop and support effective control of the federal funds rate. And we'll continue to discuss that issue and review our implementation framework. Coming to your question, in terms of the actually desired reserve level, we know that reserves will continue to move up and down over the course of the calendar year in a wide range depending on volatility in non-reserve liabilities, particularly the Treasury General Account or TGA. In particular, reserve levels will need to be at a level high enough to remain ample even when the TGA peaks during the April tax season. Effectively, what that means is that we need reserves at all times to be no lower than they were in early September. And I would say, around one-and-a-half trillion subject to learning more. Reserves are going to move in a broad range, as I mentioned, and we want to be clear that will be the bottom end of the range. We want one-and-a-half trillion or thereabouts to be the bottom end of the range. So, most of the time reserves will be moving in a range substantially higher than that, but not going below one-and-a-half trillion. So it's not an—it's not something that we're aiming at all the time. We know that reserves will fluctuate and be substantially higher than that most of the time. We also want

interest on excess reserves and the fed funds rate to be well within the FOMC's target range.

And we think that'll be the case now that we made our technical adjustment. Last points. We're committed to making this adjustment process a smooth one. We'll provide more details as we go, and we expect to learn as we go as we always have. And we're prepared to adjust the details of the plan as necessary to foster efficient and effective monetary policy implementation.

STEVE LIESMAN. Steve Liesman, CNBC. Mr. Chairman, thank you for the question. Following up on Nick's question, I know you said it's not QE but it's \$390 billion over five months, which is a lot to expand the balance sheet. I guess I'd ask one more time on Nick's question, is there a number that you have in mind? Secondly, a lot of people in the market are sort of concerned that it looks like QE and they're trading that way. Are you concerned that the market is embracing this like a QE program and that the rise in the stock market is linked to it and you may then experience something of a tapered tantrum, the way Chairman Bernanke did when he tried to roll it off?

CHAIR POWELL. So I'll just—I'll repeat that. We think that the—we think we need to continue purchases until the—until reserves are at a level that at which they will not go below \$1.5 trillion roughly during the course of the calendar year. And we know that the TGA will move up and down that. So they'll be much harder than that sometime. That's—But that's kind of the number and we think we'll reach that sometime in the second quarter. That's our estimate. But we will—we'll know it when we get there. We'll know it because we'll be able to be—to control the federal funds rate without use of—without active use, ongoing use of open market operations. You know, our intention of these—for these adjustments is just to raise the level of reserves and to allow us to conduct monetary policy in an efficient and effective manner. And that's—that is our sole intention. I pointed out on other occasions more than once the

differences, the really specific differences between this and the large-scale asset purchase programs. We've been over that. In terms of what affects markets, you know, I think many things affect markets. It's very hard to say with any precision at any time what is affecting markets. What I can tell you is that you know what our intention is. It is to return reserves to an ample level. We expect that to happen during the second quarter. And our plan as we do that is as those purchases get to that level, we believe we can gradually reduce them, and we believe we can also gradually reduce repo as we reach an ample level, as we're satisfying demand now more from underlying reserves from bill purchases rather than from repo. And again, last thing I'll say is we're prepared to adjust the details of this plan as we've shown ourselves willing to do depending on conditions.

JEANNA SMIALEK. Hi, Chair Powell, Jeanna Smialek from the *New York Times*. I was hoping that you could talk a little bit about the labor market. We've recently seen wages moderating a little bit by some measures, maybe even declining a little bit by others. As you mentioned at the lower end of the sort of talent pool, it seems like we are seeing those wages climb up a little bit, but it doesn't seem to be consistent across the entire sort of average. I was wondering if you talk a little bit about whether you guys are noticing any cracks or whether you're worried about that or how you're thinking about it.

CHAIR POWELL. Labor market continues to perform well. The labor market continues to be strong. We see strong job creation. We see low unemployment. Very importantly, we see labor force participation continuing to move up really against the expectations. If you go back a few years, you will not find a lot of forecast suggesting that we could have been at 63.2 percent overall labor force participation or the levels of employment to population that we're seeing now, let alone that unemployment level. So, I think we've learned quite a lot of good things

about the labor market, good things suggesting that there's been more room to run. The performance of wages I think has to be seen in that context. We saw—If you go back four or five years, the four or five major wage statistics that we track were running at around 2 percent, and now they're running at around 3 percent, which is theoretically about where they might be at full employment, consist of inflation plus productivity growth. The—It's a bit surprising that with sustained levels of historically low unemployment we haven't seen wages moving up above that level as we have in other long expansions and other periods of low unemployment. So you asked what can be explaining that. You know, one thing can be that the natural rate of unemployment is still lower than we think, that the labor market is not as tight as it would appear just from the 3 and a half percent number. And the other can be I think that as I mentioned, the sort of supply-side shock or surprise that we're receiving from higher labor force participation. People are coming in to the labor market and providing more labor supply and that is, it's a great thing. That's a very healthy thing. We're a country that has low labor force participation compared to essentially all of our advanced-economy peers and it's a very good—positive thing, nonetheless it represents more labor supply and it may be holding down wages. .

MICHAEL MCKEE. Michael McKee from Bloomberg Radio and Television. In terms of the framework review and a little bit on Chris's question earlier, there is a general feeling now in the markets and among analysts that you're basically setting us up for some form of inflation target averaging where you let the inflation rate run above the 2 percent target for some time to make up for the time that it is spent below that. Is that a fair or reasonable assessment of where you think you're going to end up? What would you, Chairman Powell, think of that idea personally and as long as I'm asking, do you have any more details on when we can expect the results of the review?

CHAIR POWELL. Thanks. I'll just say that we undertook the review because we felt and I felt that it was time to incorporate the realities of what we could call the new normal into our policy framework. And some aspects of that new normal would include ongoing powerful global disinflationary trends, which have led to lower-than-target inflation many places in the world. Secondly, a flat Phillips curve by which I mean low levels of sensitivity of inflation to resource utilization, for example low unemployment. And thirdly, a much lower neutral real interest rate here and around the world. So those are challenging conditions for monetary policy to deliver on our statutory goals of maximum employment and stable prices, although I would say that under our existing framework, we've been able to succeed or get close to succeeding it for most of the time lately to achieve those goals, although we do struggle as other central banks do with the inflation goal. So this is about reviewing our strategy tools and communications to assure that they're the best that we can do to achieve those goals in this environment on a sustained basis. And we continued our discussions at this meeting. I'm very, very pleased at the process so far. It's included the 14 Fed Listens events around the country at which we've engaged with a full range of people and groups across American society. That was a very, very positive experience, and I think we learned a lot. We now had series of—a number of FOMC meetings at which we've reviewed what we've learned and also dug deeply into strategy tools and communications. I expect that we will conclude the review and announce our conclusions around the middle of the year. Right now, we are just at the point of coming together to put all that together. So I think I'm not the person who should be telling you my personal preferences right now. I'm trying to—And we were trying to come together as a group around the set of answers. I feel very positive that we're going to come up with some good results, and I'm just going to have to wait until we get to that point to announce them.

DONNA BORAK. Donna Borak with CNN. Going back to your outlook for global growth, we've seen some significant headwinds as you mentioned earlier with the easing—with partially U.S.-China trade deal. But now that there's some new concern following the outbreak of the coronavirus that it might shake global growth. We're already seeing reports from Ford and Toyota that they're planning to shut down their assembly plans for an extra week. Apple is rerouting their supply chains. Starbucks is shutting down close to thousands of stores. Are you worried at all about what the impact would be on the U.S. economy and do you see that as a significant risk, excuse me, to the outlook at this point.

CHAIR POWELL. So let me talk about coronavirus specifically, and then I'll turn more to global growth more generally. First, it's a very serious issue and I want to start by acknowledging the significant and considerable human suffering that the virus is already causing. There is likely to be some disruption to activity in China and possibly globally based on the spread of the virus to date and the travel restrictions and business closures that have already been imposed. Of course, the situation is really in its early stages and it's very uncertain about how far it will spread and what the macroeconomic effects will be in China and its immediate trading partners and neighbors and around the world. So in light of that uncertainty, I'm not going to speculate about it at this point. I would just tell you that, of course, we are very carefully monitoring the situation. And you know, as you suggested, our framework ultimately is what are the potential ramifications for the U.S. economy and for the achievement of our dual mandate. More broadly, though, if I can talk about the global economy for a second and if you look at the backdrop, you know, if you go back to 2017, that was the year of synchronized growth that lasted into the middle of 2018 and then you saw slowing in growth which lasted right through the end of last year, the fourth quarter growth globally was quite weak last year. And

number of factors played into that. It wasn't any one factor. There was trade policy uncertainty absolutely, but also there was the decision by the Chinese authorities to try to rein in leverage and financial excesses. There was a turn—downturn in the global high-tech manufacturing cycle in global auto production. There were some idiosyncratic strains in some countries like Argentina, Turkey and then later in Hong Kong and Chile you had social unrest. So, all of those things were playing into that cycle of weakening growth over the course of 2019 and the last half of '18. I would say now there are grounds for what I would call cautious optimism about the outlook now for the global economy. Many analysts are predicting a pick up in growth this year, although still to relatively modest growth rates and I would—people are pointing to and we would point to support of financial conditions, the easing of trade tensions, the lower odds of a hard Brexit. The high-tech manufacturing industry does appear to be rebounding well in Asia, including in China. The latest indicators, manufacturing PMIs for example, suggest that manufacturing may have bottomed out that they're still below 50 in many jurisdictions but they have moved up off of their lows. I would just say none of this is assured. As I mentioned, we saw the fourth quarter of last year came in quite weaker than expected. We are not at all assured of a global rebound, but there are signs and reasons to expect it. And then comes the coronavirus which, again, it's too early to say what the effects will be. Of course, we're, as I mentioned, monitoring it carefully. There will clearly be implications at least in the near term for Chinese output and I would guess for some of their closing neighbors and we'll just have to see what the effect is globally.

BRENDAN GREELEY. Brendan Greeley with the *Financial Times*. In—As recently as 2018, interest on excess reserves was at the top of the band sort of dragging the fed funds rate up. Over the course of the adjustments since last year it's moved steadily down closer to the bottom

of the band. So, if you're moving it back up how high do you want to get it? Are we looking to get interest on excess reserves at the top of the band again as the fed funds rate moves to the middle of the band and should we see movements in IOER as an indicator that we're approaching ample?

CHAIR POWELL. So our stated goal is to keep IOER and the federal funds rate well within the range. That's it, well within the range. And that clearly, you know, five basis points from the bottom or from the top isn't that. So that's why we moved back up. You're right. Last year we were—we saw some tightness as reserves were draining out of the system. We saw that gradually moving up. And in hindsight we know what was happening. With ample reserves we see that it's possible to bring the interest on reserves rate up to 10 basis points. So now we're—now we are well within the range, I would say.

BRENDAN GREELEY. Yeah. So you don't think that as the fed funds goes back up towards the center of the range that IOER is going to end up at the top?

CHAIR POWELL. Don't know that. We wanted to be well within the range. I think we'll continue to adjust it to the extent it's appropriate. Ultimately what we're trying to do is deliver a federal funds rate that's well within the range. IOER is just a tool to do that. If we need to make changes to keep it well within the range, we'll do that, it just means. I mean the thing that matters for the economy is that we keep the federal funds rate, which is the rate that of course transmits into other money market rates which ultimately transmit into all kinds of financial conditions. That's what we care about. So, ultimately we will use that tool to keep it well within the range.

HOWARD SCHNEIDER. Thank you. Howard Schneider with Reuters. Just to sort of close the loop on one thing. Where do discussions stand on standing repo facility? Because

what you said so far sort of implies that there won't be one without, you know, the limits of one.

So if you could let us know where that discussion stands. And also—

[Can you turn mic over? Turn mic over.]

HOWARD SCHNEIDER. Sorry about that. Sorry about that? Did you get the question? Did you hear the question OK?

CHAIR POWELL. I did. I'm not sure your colleagues did.

HOWARD SCHNEIDER. Where the discussion stand on standing repo. That was great. And the other thing is on the, yeah, on the standing repo facility and on the purchases, Treasury bill purchases as you enter this new regime later in the second quarter or later in the year. Will that be pre-announced by amounts? Will they be preset amounts like you're doing now or will that just be something that people will have to sort of intuit and figure out as you go along?

CHAIR POWELL. So I'll go in reverse order. When we make decisions about the steps, we're going to be taking in that adjustment process that I described at some length, we'll be making them as early as we can and as transparently as we can and specifically. But we're not at that stage. It's January and we're several months away from that. In terms of the standing repo facility, as I mentioned in I guess in my answer to an earlier question, there may well be a role for repo in this system even after we're at an ample reserves level. Now, we haven't decided what that role is, we have not decided—we haven't at all made a decision on standing repo facility, we haven't. We had a couple of discussions about it as you know back in I guess June and October. And there's a range of views, we're going to return, I would say, fairly soon to this question and I think it was wise to wait because we're still getting a better sense of what that world looks like. And, you know, it's really going to be a question of how useful will it be? What will be the costs and benefits? And my thinking is we will return to that fairly soon and I

wouldn't assume a decision one way or the other, really we haven't made one because we haven't had to and I think you-- when you delay, you get more information by waiting. It's good to wait. We don't have any urgency in making that decision because we're still trying to find that sort of stable equilibrium where we're in an ample-reserves regime.

HEATHER LONG. Heather Long from the *Washington Post*. I'm wondering, do you think that there is a financial stability risk from climate change? You've spoken several times that you think severe weather events are happening more often and that the Fed is monitoring what that could physically do to a bank or a financial institution, but that sort of one institution. Do you think there's a systemwide risk that may—that could develop from climate change?

CHAIR POWELL. So that's an interesting question. A question being is there a systemwide financial stability risk? I'd say over the longer term it's certainly possible and I would say that sort of feeds into the way we're thinking about climate change as an institution. So, as I've mentioned, climate change is an important issue, a very important issue but it's essentially assigned to many other agencies in the federal government and state governments for leadership on that. And importantly society's overall response to climate change needs to be decided by elected officials and not by the Fed.

All of that said, if you look at our mandate, we've got a monetary policy mandate and, more immediately perhaps, a supervisory mandate where we're supervising financial markets utilities and financial institutions—banks—and we haven't—we share overall responsibility for financial stability with a number of agencies. And that latter part, I think the public has every right to expect and will expect that we will assure that the financial system is resilient, again, and robust against the risks from climate change. Now, I think that's got to be right, we are in the very early stages as are other central banks in understanding just what that means. And there's

quite a lot of work going on around the world at other central banks and that the Fed, too, to think that through. But I do think it's—in that sense it has to be part of our role. And—but not the overall response of society to climate change. That's not us.

HEATHER LONG. And if I could follow up, can you clarify why the Fed hasn't signed on to the Network for Greening the Financial System like 40 other central banks have?

CHAIR POWELL. So we've attended all of their meetings and taken part in them and we've been looking at joining in one form or another and talking to them about that, we probably will do that at some point. So that's an ongoing question, but we're very much attending those meetings and taking part in.

EDWARD LAWRENCE. Thank you Mr. Chairman. Edward Lawrence from Fox Business Network. So there was a signing of a ratified USMCA at the White House today, mid-February the phase-one China deal gets—goes into effect. Have you seen business investment pick up at all? If not, what will it take to get that business investment going as this uncertainty is, is being cleared up?

CHAIR POWELL. Yeah. So, I guess I'd start by saying that the fact that we've reached the phase-one deal with China, and the fact that we've moved ahead closer to getting USMCA agreed, those are potentially positive things for the economy without question, without question. And financial markets, the reaction of financial markets is very consistent with that perception. A sustained reduction in uncertainty over time should improve business sentiment investment, which would provide some additional support for the economy.

It's important, though, to bear in mind a couple of things. First, trade policy uncertainty remains elevated. Businesses continue to identify it as an ongoing risk. We still have two or

even three active trade discussions that are going on in the public square right now. So, it hasn't gone away and we've just come through a round of talking to our vast network of comments—sorry, contacts in the business world. And I think clearly this, these are seen as positive developments going forward, but there's a bit of a wait-and-see attitude—is this going to be sustained that—the agreements have to be implemented, too, and that'll take quite some time. So, I would say, we need to be a little bit patient about the effect on the economy. There's also the global economy. You could, you could well see manufacturing, as I mentioned, manufacturing PMIs have started to tick up consistently among both advanced economies and emerging market economies. We do not see a decisive recovery, but it's possible that this mix of positive developments and also accommodative financial conditions could spur further growth.

MICHAEL DERBY. Hi, Mike Derby with the Dow Jones. Do you have any greater sense of what was going wrong with the repo market starting in September? There seem to be, you know, whether it was a one-off event, you know, too tight around tax payments and debt settlement or whether there's a more enduring issue going on with the market, more structural forces that are basically gumming up the repo sector?

CHAIR POWELL. Yes. As for those forces, so as we indicated we would undertake a, you know, a serious review of that question and look at both regulations and also supervisory practices, and we'd be prepared to adjust those in ways that might encourage liquidity to flow more easily in the system, as long as it didn't undermine safety and soundness. And so we've undertaken that. We've done a ton of work. Actually, we don't have anything to announce here today. But I feel good about the—what we've learned there. I think you mentioned other factors, we will be announcing our findings. I'm not going to give you a time, but we're well along in that assessment at this time.

I think we also found out, though, that the level of reserves that we need in the system to conduct our operations without frequent resort to open market operations was higher than we thought and was higher than others have thought, too. We learned that we can't let reserves—we shouldn't let reserves go below one-and-a-half trillion—roughly, the level of early September—at any point. And that means that reserves will move through, in a range over the course of the year that will be substantially higher than one-and-a-half, but they won't ever go below. So one-and-a-half is not a target level, it is the bottom of a range in which reserves will be expected to move.

CHRISTOPHER RUGABER. Hi, Mr. Chairman, I just wanted to ask you about how your balance sheet operations and repo, temporary repos, how they affect the system, and who they're helping? Clearly, they're mostly designed, as you said, to get, keep, the fed funds rate in the range you're looking for. But certainly, the repo market is also used heavily by hedge funds and other Wall Street institutions, and so how would you explain to, sort of, mainstream, why you're doing all this for that market? And how would you address criticism that it is helping mostly Wall Street along with everything else?

CHAIR POWELL. Well, let me just stress that we have a very specific and important reason for caring about money market operations generally and that just is that we are—our monetary policy decisions are transmitted through the financial markets, through the money markets into other financial markets and into broader financial conditions. So, we care that money markets are operating smoothly, and they stopped operating smoothly, briefly, back in September. And so we acted. This is a one-time thing that we're doing to adjust the level of reserves so that the money markets will be able to operate smoothly on an ongoing basis.

Repo markets are important because that's where Treasury securities—the purchase of Treasury securities, which is the way you know, the federal, part of the way the federal government is funding its operations. It's the way those are financed. So these are largely Treasury securities that have been purchased by dealers for distribution to, and buyers to a substantial extent, that's what's going on in the Treasury repo market. So it's just the financing for that. Now, again, we don't—that activity is a market activity. We're not looking to eliminate volatility or protect anybody from volatility at all. What we care about is that volatility in the repo market can affect the transmission of our policy decisions to federal funds rate. And that really is important for the public.

NANCY MARSHALL-GENZER. Nancy Marshall-Genzer with Marketplace. Chair Powell, is the Fed going to vote tomorrow on changes to the Volcker rule restrictions on banks investing in venture capital funds? What can you tell us about what the Fed is considering? And why make those changes?

CHAIR POWELL. Sure. So, we will be looking tomorrow and voting on a new part of the existing Volcker rule and that is the covered fund provisions of the rule, and we're making a bunch of proposed revisions that we believe are faithful to both the letter and the spirit of the law. We're going to put those proposals out for public discussion. And we're going to listen carefully, as we always do, to public comments on those proposals. Again, we believe that they will be, and you'll see them tomorrow, will be public, you know, will be publicly, we have a—we have a Board meeting tomorrow to do that.

NANCY MARSHALL-GENZER. Now is this just the venture capital funds, or also you're changing the rules for hedge funds and private equity fund?

CHAIR POWELL. It's covered funds. It's, so it's the covered, so it's not the proprietary trading part of Volcker, it's the covered funds part.

NANCY MARSHALL-GENZER. And is there a chance that banks could take this and run, and maybe even get involved in mortgage-backed securities again and risky investments?

CHAIR POWELL. You know, we'll—we think that what we're doing is very consistent with safety and soundness and absolutely consistent with the letter and spirit of the Volcker rule. We'll be getting comments from people, and we'll be looking into that question among many others.

GREG ROBB. Thank you. Thank you Chairman Powell. I'd like to turn your attention back to China, and the health of its financial sector in particular. And I guess I'm basing my question on reading the transcripts from 2014 that came out earlier this month. Just in March of that year, there was concern about the Chinese economy, and one of your colleagues on the FOMC at that time asked the staff about how the Chinese economy would hurt, hit the U.S. economy. And the staffer said that there was a—what they were worried about was that not only was the Chinese economy slowing down, but there was the financial sector, and the quote was, "There's a tremendous amount of dodgy loans in China." Now, I was wondering if you could give us an update on these problems in the Chinese financial sector, and how do you think it might impact the economy particularly now that they've been hit by this unexpected shock?

CHAIR POWELL. Well, China has had a problem for some years, including from that period 2014 up until, I guess, '17 or '18. And I thought—which was essentially just a lot of debt for an emerging market, for an economy at the—at this stage of evolution of the Chinese economy, they had very high levels of debt. Not sovereign debt the way we think of it, but more

business debt that have been state-owned enterprises and also just private businesses. And a couple of years ago, the authorities decided to try to get that under control to stop the growth and to control it. And that's, that, as I mentioned, that's one of the reasons why Chinese growth slowed, and it's one of the reasons why global growth slowed, because we felt that. And they've actually stuck to that even during this difficult period when they were experiencing, you know, strains from trade negotiations and that kind of thing. The authorities have stuck to that and have, again, continued to try to do that. So, to try to control the growth of debt, and that's important that they do that.

We don't think that there's any imminent risk there. Although you—as you point out the coronavirus thing is a significant thing, which will have some effects on the Chinese economy, at least in the short term. Chinese economy is very important in the global economy now. And, you know, we—when China's economy slows down, we do feel that. Not as much as countries though that are near China or the trade more actively with China, like some of the Western European countries. We still have, you know, 85 percent of our economy is domestic. And we have a much smaller external sector, trade sector, than other economies just because of our physical location.

BRIAN CHEUNG. Hi, I'm Brian Cheung here, Yahoo Finance. So the combination of T-bill purchases and repo operations had been described colloquially as liquidity. I'm just wondering if you semantically agree with that description, then secondly, what the impact of that has been on risk assets. I don't know if that's something that you know the Board or Reserve Banks are formally looking into or just looking at what the effect of it has been, how do you kind of think about that going forward? Thanks.

CHAIR POWELL. Well, so two questions. I mean, in terms of liquidity, I think what we're doing is what I said, we're trying to raise the level of reserves back up to a level so that banks can meet their reserve requirements and that there's enough reserves in the system that we don't see reserve scarcity. And we don't have to use repo operations to provide additional resource. So I think as I mentioned, we believe we can get to that state at the current pace at sometime in the second quarter.

In terms of effects on risk assets, as I said earlier, it's very hard to say what is affecting financial markets with any precision or confidence at a given time. It's not our intention to change the stance of monetary policy. These were designed to provide more reserves, and really to do that in order to enable better transmission of our rate decisions into the economy under our chosen framework. That's really the purpose of what we're doing.

JEAN YUNG. Hi, Jean Yung with MNI. I wanted to ask about the framework review, again. Would a shift of focus to inflation over an average period, would that call for a different policy stance if you made that shift? And whether or not we know the answer to that question, would the Fed consider changing the stance of monetary policy for that reason, even if there was no change to the economic outlook?

CHAIR POWELL. Well, as you know, we're comfortable with our current policy stance. We think it's appropriate, we think it'll remain appropriate as long as data coming in are broadly in keeping with our outlook. Over time, though—let me take a step back. Over time, an average inflation targeting framework would be different than our current framework in the sense that it wouldn't be—there would be some aspect of trying to make inflation average 2 percent over time, which means if it runs below 2 percent for a time it has to run above to bring the average. So, that is a different framework. Our current framework is one where we say, we or would be

equally concern with deviations of inflation from target on either side. But that isn't—that doesn't suggest an intention specifically to have those deviations be symmetric. In other words, that would—consistent with—that would be having all the deviations to be on one side, which is what we'd had actually. So I think it is a change in framework, and over time it would lead to a different approach to policy. Again, I'm not trying to—I don't want to comment on the current stance of policy, which we do think is appropriate.

DON LEE. Don Lee with the *L.A. Times*. I wanted to ask you about the stock market. By historical comparison, as you know, valuations are conservatively high. And I just wonder how much discussion and concern you and your colleagues have about that, and what risk you see for the economy?

CHAIR POWELL. Do we—we look at very broad range of financial conditions where there isn't anyone financial condition that we look at. And when we look at financial conditions, what matters for the real economy is substantial changes in, or material changes, in financial conditions that are sustained over a period of time.

If I can, maybe I'll answer that in the context of our overall substantial financial stability framework. That's one way to look at it. So we look at—when we look at financial stability, we look at, really, we've got four pillars to that. The first of which is leverage in the financial system that is at a comfortable level. Our banks, particular large banks have high levels of capital.

The second is leverage in the nonfinancial sector, and that divides into households and businesses. Households' debt to GDP is—has been coming down since the financial crisis. It's

not moving up. It's at low levels compared to what it was before the crisis. So, not every household, but in the aggregate household, debt is in a good place, a very good place.

Business debt has been moving up. We've been calling that out for more than a year, substantially more than a year, and it's something we're focused on, and we've taken appropriate measures, and we're monitoring carefully. But we think it's not something that would threaten financial stability but more be an amplifier.

The other one is asset purchases getting to your—sorry, the asset prices getting to your question. We do see asset valuations as being somewhat elevated—I do—somewhat elevated, if you look at risk spreads, they're narrow, if you look at PEs, they're high. I think, the way to think about—a good way—one way to think about equity prices though, is what's the premium you're getting paid to own equities rather than risk-free debt. And that's also at fairly low levels but not extremely low levels. So, valuations are high but not at extremes.

The final factor is funding risk, our big financial institutions and other players in the financial system funded with stable funding or is there a lot of run risk? And the answer is very stable funding, for the most part. So, if you look at overall, what you see in my view is vulnerabilities to the financial—to financial stability are moderate overall.

KATY O'DONNELL. Hi, Katy O'Donnell, Politico. I wanted to know, do you support Governor Brainard's vision for the Community Reinvestment Act reform? And is this something that we could see the Fed formally propose at some point?

CHAIR POWELL. So, let me say that I think this is a good time to, to do, to update CRA, really, in a way that is a win-win, both for the intended beneficiaries, low- and moderate-income communities, and also for banks that would like to have more certainty about what does

and doesn't qualify and that sort of thing. The law can both be more effective and more efficient is—it comes down to. And we think this is a good way. It's also just a good time to take on board the way the delivery of banking services has changed through technology and demographic change, as well. We worked very hard to try to get on the same page with the other two agencies. We think that an interagency final rule together would be the best outcome. We're sorry, we haven't able to get there. And we still hold out some hope that we will be able to. We spent a lot of time on research and analysis and looking at meaningful reform. You saw Governor Brainard's recent speech presenting some of the thinking and the analysis. And we haven't made a decisions about what we're going to do, about whether we'll propose—I mean, our focus has been entirely on trying to get to agreement with the OCC, really. So, haven't made any decisions about what we're going to do going forward.

In terms of, you know, Governor Brainard led our oversight committee over these activities for many years, and I asked her to take the lead on CRA modernization, which is a high priority for us. I was comfortable with her speech, and I'm comfortable with the work we've done and with the Fed's position on this. As I said, we haven't chosen to bring a proposal forward. We haven't decided what to do, whether going forward. And we're not going to comment on the other proposal. It's just not appropriate to do. It's not about us. It's not about our views. It's about the views of the interested parties.

HANNAH LANG. Hannah Lang with *American Banker*. Thank you for being here today. I wanted to ask about Vice Chair Quarles's recent speech on bank supervision in which he laid out some suggestions for making changes to the supervisory regime. I wanted to ask, do you agree with his approach, and are there any plans to codify some of these suggestions later in the year?

CHAIR POWELL. So, I do agree that the principles that he articulated have firm and fair supervision and effective transparency in communications. I also think it's a good thing that we would have brighter lines to define our LISCC supervisory report portfolio, which we haven't really had to date. Remember that when a firm moves from one portfolio to another, that doesn't mean that its level of scrutiny or supervision will change. So—and I also thought that, you know, the—he's raising some very interesting questions about if you—in the first part of the speech, where he's talking about regulation and supervision, and you know, how to balance the desire for transparency and due process and everything that government does with the needs of confidential supervision. It's a very challenging question. It's one that could use further thought. And as far as the specific, you know, proposals, there's, you know, they're interesting, you know, a need for their development, and we'll need lots of comment and that sort of thing.

MARK HAMRICK. Thank you. Here we go. Sorry. I had it upside down. That's not too good. Mr. Chairman, Mark Hamrick with Bankrate, thank you. I want to ask you a question about the—one of the unintended consequences of the years-long low interest rate environment—and that is that savers haven't gotten as much return as would have otherwise been the case. What would you say to those individuals who've seen the Fed again cutting rates, eroding their ability to get a higher return on their savings? And how much would you take their plight into consideration? How much can you sympathize with them?

CHAIR POWELL. Sure. So, we are assigned a job by Congress, and that is to use our tools to pursue maximum employment and stable prices. And that's what—that's our focus. Now, monetary policy is a blunt instrument, but it's a powerful one. So, I think if you look—look at the time since the financial crisis that was, in the week of fairly modest growth, it was a powerful recovery in the labor market. And part of that just is the effect of lower interest rates.

So, if—so, many, many people benefit from low interest rates. In fact, you don't hear—when you talk to the low- and moderate-income communities, one thing you don't hear is you ought to raise rates. That's not what you hear. You hear quite the opposite, which is, you know, please do whatever you can to keep this expansion going. I absolutely sympathize with people. If you're living on just the interest in a bank or on fixed-income generally, then that's a challenging thing. On the other hand, if you own a home, home values, the housing market has recovered, other financial assets have recovered, so—but yes, for some people who are limited to those sources plus whatever other help they get, it can be challenging. I mean, we have to do what's best for the overall society and the economy. That's—those are our orders from Congress.

Thanks very much.