Transcript of Chair Powell’s Opening Statement
July 28, 2021

CHAIR POWELL. Good afternoon. At the Federal Reserve, we are strongly committed to achieving the monetary policy goals that Congress has given us: maximum employment and price stability.

Today the Federal Open Market Committee kept interest rates near zero and maintained our asset purchases. These measures, along with our strong guidance on interest rates and on our balance sheet, will ensure that monetary policy will continue to support to the economy until the recovery is complete.

Progress in vaccinations and unprecedented fiscal policy actions are also providing strong support to the recovery. Indicators of economic activity and employment have continued to strengthen, and real GDP this year appears to be on track to post its fastest rate of increase in decades. Much of this rapid growth reflects the continued bounceback in activity from depressed levels. The sectors most adversely affected by the pandemic have shown improvement but have not fully recovered. Household spending is rising at an especially rapid pace, boosted by the ongoing reopening of the economy and ongoing policy support. The housing sector remains very strong, and business investment is increasing at a solid pace. In some industries, near-term supply constraints are restraining activity. These constraints are particularly acute in the motor vehicle industry, where the worldwide shortage of semiconductors has sharply curtailed production so far this year.

As with overall economic activity, conditions in the labor market have continued to improve. Demand for labor is very strong, and employment rose 850,000 in June, with the leisure and hospitality sector continuing to post notable gains. Nonetheless, the labor market has a ways to go. The unemployment rate in June was 5.9 percent, and this figure understates the
shortfall in employment, particularly as participation in the labor market has not moved up from the low rates that have prevailed for most of the past year. Factors related to the pandemic, such as caregiving needs, ongoing fears of the virus, and unemployment insurance payments, appear to be weighing on employment growth. These factors should wane in coming months, leading to strong gains in employment.

The economic downturn has not fallen equally on all Americans, and those least able to shoulder the burden have been hardest hit. In particular, despite progress, joblessness continues to fall disproportionately on lower-wage workers in the service sector and on African Americans and Hispanics.

Inflation has increased notably and will likely remain elevated in coming months before moderating. As the economy continues to reopen and spending rebounds, we are seeing upward pressure on prices, particularly because supply bottlenecks in some sectors have limited how quickly production can respond in the near term. These bottleneck effects have been larger than anticipated, but as these transitory supply effects abate, inflation is expected to drop back toward our longer-run goal. Very low readings from early in the pandemic as well as the pass-through of past increases in oil prices to consumer energy prices also contribute to the increase, although these base effects and energy effects are receding.

The process of reopening the economy is unprecedented, as was the shutdown at the onset of the pandemic. As the reopening continues, bottlenecks, hiring difficulties, and other constraints could continue to limit how quickly supply can adjust, raising the possibility that inflation could turn out to be higher and more persistent than we expect. Our new framework for monetary policy emphasizes the importance of having well-anchored inflation expectations, both to foster price stability and to enhance our ability to promote our broad-based and inclusive
maximum-employment goal. Indicators of longer-term inflation expectations appear broadly consistent with our longer-run inflation goal of 2 percent. If we saw signs that the path of inflation or longer-term inflation expectations were moving materially and persistently beyond levels consistent with our goal, we’d be prepared to adjust the stance of policy.

The effects of the pandemic on the economy have continued to diminish, but risks to the economic outlook remain. Progress on vaccinations has limited the spread of COVID-19. However, the pace of vaccinations has slowed, and the “delta” strain of the virus is spreading quickly in some areas. Continued progress on vaccinations would support a return to more normal economic conditions.

The Fed’s policy actions have been guided by our mandate to promote maximum employment and stable prices for the American people, along with our responsibilities to promote the stability of the financial system. As the Committee reiterated in today’s policy statement, with inflation having run persistently below 2 percent, we will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. We expect to maintain an accommodative stance of monetary policy until these employment and inflation outcomes are achieved. With regard to interest rates, we continue to expect that it will be appropriate to maintain the current 0 to ¼ percent target range for the federal funds rate until labor market conditions have reached levels consistent with the Committee’s assessment of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.

In addition, we are continuing to increase our holdings of Treasury securities by at least $80 billion per month and of agency MBS by at least $40 billion per month until substantial
further progress has been made toward our maximum-employment and price-stability goals. Our asset purchases have been a critical tool. They helped preserve financial stability and market functioning early in the pandemic and since then have helped foster accommodative financial conditions to support to the economy. 

At our meeting that concluded earlier today, the Committee continued to discuss the progress made toward our goals since the Committee adopted its asset purchase guidance last December. We also reviewed some considerations around how our asset purchases might be adjusted, including their pace and composition, once economic conditions warrant a change. Participants expect that the economy will continue to move toward our standard of “substantial further progress.” In coming meetings the Committee will again assess the economy’s progress toward our goals, and the timing of any change in the pace of our asset purchases will depend on the incoming data. As we have said, we will provide advance notice before making any changes to our purchases.

On a final note, we announced the establishment of two standing repo facilities, a domestic one for primary dealers and additional banks, and another for foreign and international monetary authorities. These facilities will serve as backstops in money markets to support the effective implementation of monetary policy and smooth market functioning.

To conclude, we understand that our actions affect communities, families, and businesses across the country. Everything we do is in service to our public mission. We at the Fed will do everything we can to support the economy for as long as it takes to complete the recovery.

Thank you. I look forward to your questions.