Transcript of Chairman Powell's Press Conference Opening Remarks
December 19, 2018

CHAIRMAN POWELL: Good afternoon, everyone. Thanks very much for being here today.

Over the past year, the economy has been growing at a strong pace, the unemployment rate has been near record lows, and inflation has been low and stable. All of those things remain true today. Since the September meeting of the FOMC, however, some crosscurrents have emerged. I'll explain how my colleagues and I are incorporating those crosscurrents into our judgments about the outlook and the appropriate course of policy.

Since September, the U.S. economy has continued to perform well, roughly in line with our expectations. The economy has been adding jobs at a pace that will continue bringing the unemployment rate down over time. Wages have moved up for workers across a wide range of occupations, a welcome development. Inflation has remained low and stable, and is ending the year a bit more subdued than most had expected. Although some American families and communities continue to struggle and some longer-term economic problems remain, the strong economy is benefiting many Americans.

Despite this robust economic backdrop and our expectation for healthy growth, we have seen developments that may signal some softening relative to what we were expecting a few months ago. Growth in other economies around the world has moderated somewhat over the course of 2018, albeit to still-solid levels. At the same time, financial market volatility has increased over the past couple of months, and overall financial conditions have tightened--that is, they have become less supportive of growth.

In our view, these developments have not fundamentally altered the outlook. Most FOMC participants have, instead, modestly lowered their growth and inflation forecasts for next year. The projections of Committee participants released today show growth continuing at healthy levels, the unemployment rate falling a bit further next year, and inflation remaining near 2 percent. The projections also show a modestly lower path for the federal funds rate, which should support the economy and keep us near our goals. As the economy struggled to recover from the financial crisis and the subsequent recession, the Committee held our policy rate near zero for seven years to give the economy the best chance to recover. And the economy did recover steadily, if slowly at times. Three years ago the Committee came to the view that the best way to achieve our mandate was to gradually move interest rates back to levels that are more normal in a healthy economy. Today, we raised our target range for short-term interest rates by another quarter of a percentage point. As I've mentioned, most of my colleagues expect the economy to continue to perform well in the coming year. Many FOMC participants had expected that economic conditions would likely call for about three more rate increases in 2019. We have brought that down a bit and now think it is more likely that the economy will grow in a way that will call for two interest rate increases over the course of next year.

We always emphasize that our policy decisions are not on a preset course and will change if incoming data materially change the outlook. And, given recent developments, the statement notes that we "will continue to monitor global economic and financial developments and assess their implications for the economic outlook."

Now I will provide some additional context and detail, starting with a review of policy over the last year. Last December, the unemployment rate was 4.1 percent and inflation had been running just below 2 percent. FOMC participants and many other forecasters were predicting that growth in 2018 would be strong. This growth was predicted to push the unemployment rate down to near historic lows, and the increasingly tight labor market was expected to help push inflation up to 2 percent.

Given this outlook, Committee members judged that the appropriate way to sustain the expansion with inflation near 2 percent was to continue gradually withdrawing the extraordinary support for the economy that had been in place for almost 10 years. Thus, in December 2017, the median of the projections of FOMC participants pointed to three quarter-point interest rate increases in 2018, which would have left the target range for the federal funds rate at year-end at 2 to 2-1/4 percent, still below most estimates of the longer-run normal rate.

Early in 2018, it became clear that the economy was likely to be even stronger than we had expected, in part because the fiscal stimulus adopted near the start of the year was larger and more front-end loaded than most had anticipated. The signs of a more robust economy proved accurate, and the FOMC has now raised rates four times this year, counting today's action, one more time than anticipated in the median projection a year ago.

This illustrates the nature of data dependence that we always emphasize. In 2018, the economy was somewhat more robust than expected, and this led to a slightly faster pace of policy normalization than had been projected. When the economy has, instead, turned out weaker than expected, the Committee has slowed or paused the pace of rate increases--as we did in 2016. And when the economy has performed about as expected, the Committee has generally moved in line with the median projection--as we did in 2017.

What kind of year will 2019 be? We know that the economy may not be as kind to our forecasts next year as it was this year. History attests that unforeseen events as the year unfolds may buffet the economy and call for more than a slight change from the policy projections released today.

With that caveat, there are two important differences in the policy outlook today versus last year. In early 2018, we saw a rising trajectory for growth; today, instead, we see growth moderating ahead. FOMC participants along with many other forecasters had long predicted some moderation of growth in 2019. The additional tightening of financial conditions we have seen over the past couple of months, along with signs of somewhat weaker growth abroad, have also led us to mark down growth and inflation projections a bit. The median of FOMC participants' projections shows growth of 3.0 percent this year and 2.3 percent in 2019. With growth remaining next year above its longer-run normal value, the unemployment rate is projected to fall a bit further to 3.5 percent by the end of 2019. Inflation in the median projection remains near 2 percent.

Second, the economy has continued to strengthen this year. And given our four rate increases and the ongoing reduction in our portfolio, monetary policy will be providing a smaller boost to the economy in 2019. After today's action, the target range for the federal funds rate is 2-1/4 to 2-1/2 percent, putting it at the lower end of the range of estimates of the longer-run normal rate provided by the Committee.

Over the next year, if events play out broadly as expected, the federal funds rate will be in a range in which judgments of people both inside and outside the Fed will sometimes differ regarding whether the stance of policy is modestly accommodative, neutral, or modestly restrictive. When rates are in this range, the FOMC makes policy in light of the array of diverse views on the Committee. Moving forward, my colleagues and I will be watching the economy closely for indications that the stance of policy is appropriate to sustain the expansion with a strong labor market and inflation near 2 percent.

It is worth noting that the Summary of Economic Projections (SEP) is a compilation of the individual projections of all FOMC participants. We sometimes point to the median of these projections to illustrate the broad middle of views of the Committee. Each participant's projection represents appropriate policy under the baseline outlook provided by that participant. We believe that the SEP provides useful information about Committee participants' thinking, but the median is not a consensus judgment, and certainly does not represent a Committee plan. Actual policy will, as always, be adjusted as incoming data shed light on the state of the economy, the outlook, and the changing balance of risks.

Neither the pace nor the ultimate destination of any further rate increases is predetermined. We will adjust monetary policy as best we can to keep the expansion on track, the labor market strong, and inflation near 2 percent. We know that our policy decisions affect all American families and businesses, and will continue to make our decisions objectively and based solely on the best information and analysis. Thank you, and I'll be happy to take you questions.