Transcript of Chair Powell's Press Conference Opening Statement
January 26, 2022

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, in support of these goals, the Federal Open Market Committee kept its policy interest rate near zero and stated its expectation that an increase in this rate would soon be appropriate. The Committee also agreed to continue reducing its net asset purchases on the schedule we announced in December, bringing them to an end in early March. As I will explain, against a backdrop of elevated inflation and a strong labor market, our policy has been adapting to the evolving economic environment, and it will continue to do so.

Economic activity expanded at a robust pace last year, reflecting progress on vaccinations and the reopening of the economy, fiscal and monetary policy support, and the healthy financial positions of households and businesses. Indeed, the economy has shown great strength and resilience in the face of the ongoing pandemic. The recent sharp rise in COVID cases associated with the Omicron variant will surely weigh on economic growth this quarter. High-frequency indicators point to reduced spending in COVID-sensitive sectors, such as travel and restaurants. And activity more broadly may also be affected as many workers are unable to report for work because of illness, quarantines, or caregiving needs. Fortunately, health experts are finding that the Omicron variant has not been as virulent as previous strains of the virus, and they expect that cases will drop off rapidly. If the wave passes quickly, the economic effects should as well, and we would see a return to strong growth. That said, the implications for the economy remain uncertain. And we have not lost sight of the fact that for many afflicted individuals and families, and for the healthcare workers on the front lines, the virus continues to cause great hardship.

The labor market has made remarkable progress and by many measures is very strong. Job gains have been solid in recent months, averaging 365,000 per month over the past three months. Over the past year, payroll employment has risen by 6.4 million jobs. The unemployment rate has declined sharply, falling 2 percentage points over the past six months to reach 3.9 percent in December. The improvements in labor market conditions have been widespread, including for workers at the lower end of the wage distribution, as well as for African Americans and Hispanics. Labor demand remains historically strong. With constraints on labor supply, employers are having difficulties filling job openings and wages are rising at their fastest pace in many years. While labor force participation has edged up, it remains subdued, in part reflecting the aging of the population and retirements. In addition, some who would otherwise would be seeking work report that they are out of the labor force because of factors related to the pandemic, including caregiving needs and ongoing concerns about the virus. The current wave of the virus may well prolong these effects. Over time there are good reasons to expect some further improvements in participation and employment.

Inflation remains well above our longer-run goal of 2 percent. Supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation. In particular, bottlenecks and supply constraints are limiting how quickly production can respond to higher demand in the near term. These problems have been larger and longer lasting than anticipated, exacerbated by waves of the virus.

While the drivers of higher inflation have been predominantly connected to the dislocations caused by the pandemic, price increases have now spread to a broader range of goods and services. Wages have also risen briskly, and we are attentive to the risks that persistent real wage growth in excess of productivity could put upward pressure on inflation. Like most forecasters, we continue to expect inflation to decline over the course of the year.

We understand that high inflation imposes significant hardship, especially on those least able to meet the higher costs of essentials like food, housing, and transportation. In addition, we believe that the best thing we can do to support continued labor market gains is to promote a long expansion, and that will require price stability. We are committed to our price stability goal. We will use our tools both to support the economy and a strong labor market and to prevent higher inflation from becoming entrenched. And we will be watching carefully to see whether the economy is evolving in line with expectations.

The Fed's monetary policy actions have been guided by our mandate to promote maximum employment and stable prices for the American people. As I noted, the Committee left the target range for the federal funds rate unchanged and reaffirmed our plan, announced in December, to end asset purchases in early March. In light of the remarkable progress we have seen in the labor market and inflation that is well above our 2 percent longer-run goal, the economy no longer needs sustained high levels of monetary policy support. That is why we are phasing out our asset purchases and why we expect it will soon be appropriate to raise the target range for the federal funds rate.

Of course, the economic outlook remains highly uncertain. Making appropriate monetary policy in this environment requires humility, recognizing that the economy evolves in unexpected ways. We will need to be nimble so that we can respond to the full range of plausible outcomes. With this in mind, we will remain attentive to risks, including the risk that high inflation is more persistent than expected, and are prepared to respond as appropriate to achieve our goals.

To provide greater clarity about our approach for reducing the size of the Federal Reserve's balance sheet, today the Committee issued a set of principles that will provide a foundation for our future decisions. These high-level principles clarify that the federal funds rate is our primary means of adjusting monetary policy and that reducing our balance sheet will occur after the process of raising interest rates has begun. Reductions will occur over time in a predictable manner primarily through adjustments to reinvestments so that securities roll off our balance sheet. Over time, we intend to hold securities in the amounts needed for our ample reserves operating framework, and in the longer run we envision holding primarily Treasury securities. Our decisions to reduce our balance sheet will be guided by our maximum employment and price stability goals. In that regard, we will be prepared to adjust any of the details of our approach to balance sheet management in light of economic and financial developments. The Committee has not made decisions regarding the specific timing, pace, or other details of shrinking the balance sheet, and we will discuss these matters in upcoming meetings and provide additional information at the appropriate time.

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 Federal Reserve will do everything we can to achieve our maximum employment and price stability goals. Thank you. I look forward to your questions.