Jerome H Powell: Semiannual Monetary Policy Report to the Congress

Testimony by Mr Jerome H Powell, Chair of the Board of Governors of the Federal Reserve System, before the Committee on Financial Services, US House of Representatives, Washington DC, 6 March 2024.

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Chairman McHenry, Ranking Member Waters, and other members of the Committee, I appreciate the opportunity to present the Federal Reserve's semiannual Monetary Policy Report.

The Federal Reserve remains squarely focused on our dual mandate to promote maximum employment and stable prices for the American people. The economy has made considerable progress toward these objectives over the past year.

While inflation remains above the Federal Open Market Committee's (FOMC) objective of 2 percent, it has eased substantially, and the slowing in inflation has occurred without a significant increase in unemployment. As labor market tightness has eased and progress on inflation has continued, the risks to achieving our employment and inflation goals have been moving into better balance.

Even so, the Committee remains highly attentive to inflation risks and is acutely aware that high inflation imposes significant hardship, especially on those least able to meet the higher costs of essentials, like food, housing, and transportation. The FOMC is strongly committed to returning inflation to its 2 percent objective. Restoring price stability is essential to achieve a sustained period of strong labor market conditions that benefit all.

I will review the current economic situation before turning to monetary policy.

Current Economic Situation and Outlook

Economic activity expanded at a strong pace over the past year. For 2023 as a whole, gross domestic product increased 3.1 percent, bolstered by solid consumer demand and improving supply conditions. Activity in the housing sector was subdued over the past year, largely reflecting high mortgage rates. High interest rates also appear to have been weighing on business fixed investment.

The labor market remains relatively tight, but supply and demand conditions have continued to come into better balance. Since the middle of last year, payroll job gains have averaged 239,000 jobs per month, and the unemployment rate has remained near historical lows, at 3.7 percent. Strong job creation has been accompanied by an increase in the supply of workers, particularly among individuals aged 25 to 54, and a continued strong pace of immigration. Job vacancies have declined, and nominal wage growth has been easing. Although the jobs-to-workers gap has narrowed, labor demand still exceeds the supply of available workers. The strong labor market over the past two years has also helped narrow long-standing disparities in employment and earnings across demographic groups.[1]

Inflation has eased notably over the past year but remains above the FOMC's longer-run goal of 2 percent. Total personal consumption expenditures (PCE) prices rose 2.4 percent over the 12 months ending in January. Excluding the volatile food and energy categories, core PCE prices rose 2.8 percent, a notable slowing from 2022 that was widespread across both goods and services prices. Longer-term inflation expectations appear to have remained well anchored, as reflected by a broad range of surveys of households, businesses, and forecasters, as well as measures from financial markets.

Monetary Policy

After significantly tightening the stance of monetary policy since early 2022, the FOMC has maintained the target range for the federal funds rate at 5-1/4 to 5-1/2 percent since its meeting last July. We have also continued to shrink our balance sheet at a brisk pace and in a predictable manner. Our restrictive stance of monetary policy is putting downward pressure on economic activity and inflation.

We believe that our policy rate is likely at its peak for this tightening cycle. If the economy evolves broadly as expected, it will likely be appropriate to begin dialing back policy restraint at some point this year. But the economic outlook is uncertain, and ongoing progress toward our 2 percent inflation objective is not assured. Reducing policy restraint too soon or too much could result in a reversal of progress we have seen in inflation and ultimately require even tighter policy to get inflation back to 2 percent. At the same time, reducing policy restraint too late or too little could unduly weaken economic activity and employment. In considering any adjustments to the target range for the policy rate, we will carefully assess the incoming data, the evolving outlook, and the balance of risks. The Committee does not expect that it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent.

We remain committed to bringing inflation back down to our 2 percent goal and to keeping longer-term inflation expectations well anchored. Restoring price stability is essential to set the stage for achieving maximum employment and stable prices over the longer run.

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 am happy to take your questions.

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[1] A box in our latest Monetary Policy Report, "Employment and Earnings across Demographic Groups," discusses differences in labor market outcomes among segments of the population.