Transcript of Chair Yellen's Press Conference Opening Remarks
September 21, 2016

CHAIR YELLEN: Good afternoon. At our meeting that concluded earlier today, my colleagues and I on the Federal Open Market Committee discussed overall economic conditions and decided to keep the target range for the federal funds rate at 1/4 to 1/2 percent. We judged that the case for an increase has strengthened, but decided for the time being to wait for further evidence of continued progress toward our objectives. Our current policy should help move the economy toward our statutory goals of maximum employment and price stability. I'll have more to say about our decision shortly, but first I will review recent economic developments and the outlook.

Economic growth, which was subdued during the first half of the year, appears to have picked up. Household spending continues to be the key source of that growth. This spending has been supported by solid increases in household income as well as by relatively high levels of consumer sentiment and wealth. Business investment, however, remains soft, both in the energy sector and more broadly. The energy industry has been hard hit by the drop in oil prices since mid-2014, and investment in that sector continued to contract through the first half of the year. However, drilling is now showing signs of stabilizing. Overall, we expect that the economy will expand at a moderate pace over the next few years.

Turning to employment, job gains averaged about 180,000 per month over the past four months, about the same solid pace recorded since the beginning of the year. In the longer run, that's well above the pace that we estimate is needed to provide work for new entrants in the job market. But so far this year, most measures of labor market slack have shown little change. The unemployment rate in August--4.9 percent--was the same as in January. And a broader measure of unemployment has also flattened out--a measure that includes people who want and are

available to work but have not searched recently as well as people who are working part time but would rather work full time. The fact that unemployment measures have been holding steady while the number of jobs has grown solidly shows that more people, presumably in response to better employment opportunities and higher wages, have started actively seeking and finding jobs. This is a very welcome development, both for the individuals involved and the nation as a whole. We continue to expect that labor market conditions will strengthen somewhat further over time.

Ongoing economic growth and an improving job market are key factors supporting our inflation outlook. Overall consumer price inflation--as measured by the price index for personal consumption expenditures--was less than 1 percent over the 12 months ending in July, still short of our 2 percent objective. Much of this shortfall continues to reflect earlier declines in energy and import prices. Core inflation--which excludes energy and food prices that tend to be more volatile than other prices--has been running about 1-1/2 percent. As transitory influences holding down inflation fade, and as the job market strengthens further, we continue to expect inflation to rise to 2 percent over the next two to three years.

Our inflation outlook also rests importantly on our judgment that longer-run inflation expectations remain reasonably well anchored. However, we can’t take the stability of longer-run inflation expectations for granted, and we will continue to carefully monitor actual and expected progress toward our inflation goal. Indeed, we are fully committed to achieving our 2 percent inflation objective.

Let me turn to the economic projections--now extending through 2019--that were submitted for this meeting by the Federal Open Market Committee participants. As always, participants conditioned their projections on their own view of appropriate monetary policy

which, in turn, depends on each participant's assessment of the multitude of factors that shape the outlook. The median projection for growth of inflation-adjusted gross domestic product (GDP) is 1.8 percent this year. This figure is somewhat lower than projected in June as a result of the weaker-than-expected growth seen in the first half of the year. In 2017 and 2018, the median growth projection is unchanged at 2 percent, somewhat higher than the median estimate of longer-run normal growth. In 2019, growth edges down to 1.8 percent, in line with its estimated longer-run rate, which has been revised down a bit since June. The median projection for the unemployment rate stands at 4.8 percent at the end of this year, a touch higher than in June. Over the next three years, the median unemployment rate runs near 4-1/2 percent, modestly below the median estimate of its longer-run normal rate. Finally, the median inflation projection is 1.3 percent this year and rises to 1.9 percent next year and 2 percent in 2018 and 2019.

Returning to monetary policy, the recent pickup in economic growth and continued progress in the labor market have strengthened the case for an increase in the federal funds rate. Moreover, the Committee judges the risks to the outlook to be roughly balanced. So why didn't we raise the federal funds rate at today's meeting? Our decision does not reflect a lack of confidence in the economy. Conditions in the labor market are strengthening, and we expect that to continue. And while inflation remains low, we expect it to rise to our 2 percent objective over time. But with labor market slack being taken up at a somewhat slower pace than in previous years, scope for some further improvement in the labor market remaining, and inflation continuing to run below our 2 percent target, we chose to wait for further evidence of continued progress toward our objectives. This cautious approach to paring back monetary policy support is all the more appropriate given that short-term interest rates are still near zero, which means

that we can more effectively respond to surprisingly strong inflation pressures in the future by raising rates than to a weakening labor market and falling inflation by cutting rates.

We continue to expect that the evolution of the economy will warrant only gradual increases in the federal funds rate over time to achieve and maintain our objectives. That's based on our view that the neutral nominal federal funds rate--that is, the interest rate that is neither expansionary nor contractionary and keeps the economy operating on an even keel--is currently quite low by historical standards. With the federal funds rate modestly below the neutral rate, the current stance of monetary policy should be viewed as modestly accommodative, which is appropriate to foster further progress toward our objectives. But since monetary policy is only modestly accommodative, there appears little risk of falling behind the curve in the near future, and gradual increases in the federal funds rate will likely be sufficient to get to a neutral policy stance over the next few years.

This view is consistent with participants' projections of appropriate monetary policy. The median projection for the federal funds rate rises only gradually to 1.1 percent at the end of next year, 1.9 percent at the end of 2018, and 2.6 percent by the end of 2019. Compared with the projections made in June, the median path for the federal funds rate has been revised down 1/4 to 1/2 percentage point. Most participants also marked down their estimate of the longer-run normal federal funds rate, with the median now at 2.9 percent.

As I have noted on previous occasions, participants' projections for the federal funds rate, including the median path, are not a fixed plan for future policy. Policy is not on a pre-set course. These forecasts represent participants' individual assessments of appropriate policy given their projections of economic growth, employment, inflation, and other factors at a particular point in time. However, the economic outlook is inherently uncertain, and any

assessment of the appropriate path for the federal funds rate will change in response to changes to the economic outlook and associated risks.

Finally, we will continue to reinvest proceeds from maturing Treasury securities and principal payments from agency debt and mortgage-backed securities. As our statement says, we anticipate continuing this policy until normalization of the level of the federal funds rate is well under way. Maintaining our sizable holdings of longer-term securities should help maintain accommodative financial conditions and should reduce the risk that we might have to lower the federal funds rate to zero in the event of a future large adverse shock.

Thank you. I would be happy to take your questions.