Transcript of Chairman Bernanke's Press Conference Opening Remarks
September 18, 2013

CHAIRMAN BERNANKE: Good afternoon. The Federal Open Market Committee (FOMC) concluded a two-day meeting earlier today. As you already know from our statement, the Committee decided today to keep the target range for the federal funds rate at 0 to 1/4 percent and to make no change in either its asset purchase program or its forward guidance regarding the federal funds rate target. I will discuss the rationales for our decision in a moment.

Economic growth has generally been proceeding at a moderate pace, with continued—albeit somewhat uneven—improvement in labor market conditions. Of course, to say that the job market has improved does not imply that current conditions are satisfactory. Notably, at 7.3 percent, the unemployment rate remains well above acceptable levels. Long-term unemployment and underemployment remain high. And we have seen ongoing declines in labor force participation, which likely reflects discouragement on the part of many potential workers, as well as longer-term influences such as the aging of the population.

In the Committee's assessment, the downside risks to growth have diminished, on net, over the past year, reflecting, among other factors, somewhat better economic and financial conditions in Europe and increased confidence on the part of households and firms in the staying power of the U.S. recovery. However, the tightening of financial conditions observed in recent months, if sustained, could slow the pace of improvement in the economy and the labor market. In addition, federal fiscal policy continues to be an important restraint on growth and a source of downside risk.

Apart from some fluctuations due primarily to changes in oil prices, inflation has continued to run below the Committee's 2 percent longer-term objective. The Committee recognizes that inflation persistently below its objective could pose risks to economic performance, and we will continue to monitor inflation developments closely. However, the unwinding of some transitory factors has led to moderately higher inflation recently, as expected; and, with longer-term inflation expectations well-anchored, the Committee anticipates that inflation will gradually move back toward 2 percent.

In conjunction with this meeting, the 17 participants in our policy discussions—5 Board members and 12 Reserve Bank presidents—submitted individual economic projections. As always, each participant's projections are conditioned on his or her own view of appropriate monetary policy. Also, at this meeting, we extended the horizon of our projections through 2016.

Generally, the projections of individual participants show that they continue to expect moderate economic growth, picking up over time, as well as gradual progress toward levels of unemployment and inflation consistent with the Federal Reserve's statutory mandate to foster maximum employment and price stability. More specifically, participants' projections for economic growth have a central tendency of 2.0 to 2.3 percent for 2013, rising to 2.9 to 3.1 percent in 2014 and 2.5 to 3.3 percent in 2016. For the unemployment rate, the central tendency of projections for the fourth quarter of each year is 7.1 to 7.3 percent for 2013, declining to 6.4 to 6.8 percent in 2014 and, by 2016, to 5.4 to 5.9 percent—about the longer-run normal level for the unemployment rate. Most participants see inflation gradually increasing from its current low level toward the Committee's longer-run objective of 2 percent; the central tendency of their projections for inflation is 1.1 to 1.2 percent for this year, 1.3 to 1.8 percent in 2014, and 1.7 to 2.0 percent in 2016.

With unemployment still elevated and inflation projected to run below the Committee's longer-run objective, the Committee is continuing its highly accommodative policies. As you know, in normal times the Committee eases monetary policy by lowering its target for the short-term policy interest rate, the federal funds rate. However, the target range for the federal funds rate, currently at 0 to 1/4 percent, cannot be lowered meaningfully further. Accordingly, the Committee has been providing policy support to the economy through two complementary methods: (1) by purchasing and holding Treasury securities and agency mortgage-backed securities, and (2) by communicating the Committee's plans for setting the federal funds rate target over the medium term. I'll discuss these tools in turn, beginning with our program of asset purchases.

In September 2012, the FOMC initiated a program of purchasing $40 billion per month in agency mortgage-backed securities, in addition to the $45 billion per month in longer-term Treasury securities that we were already acquiring as part of our Maturity Extension Program. We stated that, subject to our ongoing assessment of the efficacy and costs of the program, purchases would continue until we saw a substantial improvement in the outlook for the labor market in a context of price stability. In December 2012, we announced that we would continue to purchase $45 billion per month in longer-term Treasuries after the Maturity Extension Program ended later that month. Thus, our total purchases of longer-term securities were maintained at $85 billion per month, in addition to the reinvestment or rolling over of maturing securities on our balance sheet. The Committee agreed today to continue asset purchases at that rate, subject to the same conditions that we laid out a year ago.

Because the Committee tied its asset purchases to the outlook for the labor market, it is important to assess how that outlook has evolved. As I noted earlier, conditions in the job market today are still far from what all of us would like to see. Nevertheless, meaningful progress has been made in the year since we announced the asset purchase program. For example, the unemployment rate has fallen from 8.1 percent at the time of our announcement to 7.3 percent today, and about 2.3 million private-sector jobs have been created over the same period. Over the past 12 months, aggregate hours of work are up by about 2.4 percent, weekly new claims for unemployment insurance have fallen by about 50,000, and surveys suggest that households perceive jobs as more readily available. Importantly, these gains were achieved despite substantial fiscal headwinds, which are likely slowing economic growth this year by a percentage point or more and reducing employment by hundreds of thousands of jobs. Not all labor market developments over the past year were positive, however; notably, the labor force participation rate fell by about 0.3 percentage points over the past year, and real wages remained about flat.

In light of this cumulative progress, the FOMC concluded at our June meeting that the criterion of "substantial improvement in the outlook for the labor market" might well be met over the subsequent year or so. Accordingly, the Committee sought to provide more guidance on how the pace of purchases might be adjusted over time. The Committee anticipated in June that, subject to certain conditions, it might be appropriate to begin to moderate the pace of purchases later this year, continuing to reduce the pace of purchases in measured steps through the first half of next year, and ending purchases around midyear 2014. However, we also made clear at that time that adjustments to the pace of purchases would depend importantly on the evolution of the economic outlook, in particular, on the receipt of evidence supporting the Committee's expectation that gains in the labor market will be sustained and that inflation is moving back toward its 2 percent objective over time.

At the meeting concluded earlier today, the sense of the Committee was that the broad contours of the medium-term economic outlook—including economic growth sufficient to support ongoing gains in the labor market, and inflation moving toward its objective—were close to the views it held in June. But in evaluating whether a modest reduction in the pace of asset purchases would be appropriate at this meeting, however, the Committee concluded that the economic data do not yet provide sufficient confirmation of its baseline outlook to warrant such a reduction. Moreover, the Committee has some concern that the rapid tightening of financial conditions in recent months could have the effect of slowing growth, as I noted earlier, a concern that would be exacerbated if conditions tightened further. Finally, the extent of the effects of restrictive fiscal policies remains unclear, and upcoming fiscal debates may involve additional risks to financial markets and to the broader economy. In light of these uncertainties, the Committee decided to await more evidence that the recovery's progress will be sustained before adjusting the pace of asset purchases.

The Committee will, of course, continue to monitor economic and financial developments closely. As noted in today's statement, in judging when to moderate the pace of asset purchases, the Committee will, at its coming meetings, assess whether incoming information continues to support the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective. However, as we have said and as today's decision underscores, asset purchases are not on a preset course. The Committee's decisions about their pace will remain contingent on the economic outlook and on the Committee's ongoing assessment of the likely efficacy and costs of the program.

Let me turn now to the FOMC's forward guidance regarding the federal funds rate. The Committee again reaffirmed its expectation that the current exceptionally low range for the funds rate will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent, so long as inflation and inflation expectations remain well-behaved (as described in our statement). As I have noted frequently, the economic conditions we have set out as preceding any future rate increase are thresholds, not triggers. For example, a decline in the unemployment rate to 6-1/2 percent would not lead automatically to an increase in the federal funds rate target, but would instead indicate only that it had become appropriate for the Committee to consider whether the broader economic outlook justified such an increase. The Committee would be unlikely to increase rates if inflation were projected to remain below our 2 percent objective for some time, for example; and, in making its assessment, the Committee would also take into account additional measures of labor market conditions, such as job gains. Thus, the first increases in short-term rates might not occur until the unemployment rate is considerably below 6-1/2 percent.

The projections of the path of the federal funds rate by individual Committee participants are generally consistent with this guidance. Although the central tendency of the projected unemployment rate for the fourth quarter of next year encompasses 6-1/2 percent, 12 of the 17 participants expect the first rate increase to take place in 2015 and two expect it to occur in 2016.

Most participants also see the funds rate target rising only very slowly after the process of removing policy accommodation begins. The median projected funds rate for the end of 2015 is 1 percent. And notably, although the central tendencies of the projections for both inflation and the unemployment rate in 2016 are close to the longer-run normal values of those variables, the median projection for the federal funds rate at the end of 2016 is 2 percent, well below the longer-run normal value for the federal funds rate of 4 percent or so projected by most participants. Committee participants generally believe that, because the headwinds to recovery will abate only gradually, achieving and maintaining maximum employment and price stability will require a patient policy approach that involves keeping the target for the federal funds rate below its longer-run normal value for some time.

Let me close by noting that, although the FOMC is employing two instruments of policy, asset purchases and forward guidance about short-term interest rates, the overall stance of monetary policy is what matters for growth, jobs, and inflation. Our program of asset purchases was set up a year ago to help achieve a substantial improvement in the outlook for the labor market in a context of price stability, relative to conditions when the program was initiated, and we have made progress toward meeting that criterion. However, even after asset purchases are wound down—which we will do in a manner that is both deliberate and dependent on the incoming economic data—the Federal Reserve's rates guidance and its ongoing holdings of securities will ensure that monetary policy remains highly accommodative, consistent with an aggressive pursuit of our mandated objectives of maximum employment and price stability.

Thank you. I'd be glad to take your questions.