CHAIR POWELL. Good afternoon. My colleagues and I remain squarely focused on our dual mandate to promote maximum employment and stable prices for the American people. We understand the hardship that high inflation is causing, and we remain strongly committed to bringing inflation back down to our 2 percent goal. Price stability is the responsibility of the Federal Reserve. Without price stability, the economy doesn't work for anyone. In particular, without price stability, we will not achieve a sustained period of strong labor market conditions that benefit all.

Since early last year, the FOMC has significantly tightened the stance of monetary policy. Today, we took another step by raising our policy interest rate 1/4 percentage point, and we are continuing to reduce our securities holdings at a brisk pace. We have covered a lot of ground, and the full effects of our tightening have yet to be felt. Looking ahead, we will continue to take a data-dependent approach in determining the extent of additional policy firming that may be appropriate. I will have more to say about monetary policy after briefly reviewing economic developments.

Recent indicators suggest that economic activity has been expanding at a moderate pace. Growth in consumer spending appears to have slowed from earlier in the year. Although activity in the housing sector has picked up somewhat, it remains well below levels of a year ago, largely reflecting higher mortgage rates. And higher interest rates and slower output growth also appear to be weighing on business fixed investment.

The labor market remains very tight. Over the past three months, job gains averaged 244 thousand jobs per month, a pace below that seen earlier in the year but still a strong pace. The unemployment rate remains low, at 3.6 percent. There are some continuing signs that supply and demand in the labor market are coming into better balance. The labor force participation rate has moved up since last year, particularly for individuals aged 25 to 54 years. Nominal wage growth has shown some signs of easing, and job vacancies have declined so far this year. While the jobs-to-workers gap has narrowed, labor demand still substantially exceeds the supply of available workers.

Inflation remains well above our longer-run goal of 2 percent. Over the 12 months ending in May, total PCE prices rose 3.8 percent; excluding the volatile food and energy categories, core PCE prices rose 4.6 percent. In June, the 12-month change in the Consumer Price Index, or CPI, came in at 3.0 percent, and the change in the core CPI was 4.8 percent. Inflation has moderated somewhat since the middle of last year. Nonetheless, the process of getting inflation back down to 2 percent has a long way to go. Despite elevated inflation, longer- term inflation expectations appear to remain well anchored, as reflected in a broad range of surveys of households, businesses, and forecasters, as well as measures from financial markets.

The Fed's monetary policy actions are guided by our mandate to promote maximum employment and stable prices for the American people. My colleagues and I are acutely aware that high inflation imposes significant hardship as it erodes purchasing power, especially for those least able to meet the higher costs of essentials like food, housing, and transportation. We are highly attentive to the risks that high inflation poses to both sides of our mandate, and we are strongly committed to returning inflation to our 2 percent objective.
At today's meeting the Committee raised the target range for the federal funds rate by 1/4 percentage point, bringing the target range to 5-1/4 to 5-1/2 percent. We are also continuing the process of significantly reducing our securities holdings.

With today's action, we have raised our policy rate by 5-1/4 percentage points since early last year. We have been seeing the effects of our policy tightening on demand in the most interest-rate-sensitive sectors of the economy, particularly housing and investment. It will take time, however, for the full effects of our ongoing monetary restraint to be realized, especially on inflation. In addition, the economy is facing headwinds from tighter credit conditions for households and businesses, which are likely to weigh on economic activity, hiring, and inflation.
In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. We will continue to make our decisions meeting by meeting, based on the totality of incoming data and their implications for the outlook for economic activity and inflation as well as the balance of risks.
We remain committed to bringing inflation back to our 2 percent goal and to keeping longer-term inflation expectations well anchored. Reducing inflation is likely to require a period of below-trend growth and some softening of labor market conditions. 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 Fed will do everything we can to achieve our maximum employment and price stability goals. Thank you, and I look forward to your questions.

>> REPORTER: Mr. Chairman, thank you. I think a couple times in your opening remarks you talked about this language in determining the extent of additional policy firming it may be appropriate. Should we take that to mean that additional hikes are likely on the way? And should we also believe that all future meetings,

say, September or November are live. Are you in a every other meeting mode.
>> CHAIRMAN POWELL: We haven't made a decision to go to every other meeting. We're going to be going meeting by meeting. As we go into each meeting we're asking ourselves the same question. We haven't made any decisions about any future meetings including the pace at which we consider hiking. But we're going to be assessing the need for further tightening that may be appropriate. You read the language, to return inflation to two percent over time. I would say the intermeaning data came in broadly in line with expectations. Economic activity remained resilient. Job creation remained strong while cool ag bit. And the CPR report came in better than expectations for a change. The June CPI report was welcomed but it's only one report, one month's data. We hope that inflation will follow a lower path as will be consistent with the CPI reading. But we don't know that and we're just going to need to see more data.

So what are looking at? The whole broader picture. Starting with we're looking for moderate growth. We're looking for supply and demand through the economy coming into better balance. Including in particular the labor market. We'll be looking at inflation. Asking ourselves does this whole collection of data, do we assess it as suggesting that we need to raise rates further. If we make that conclusion then we will go ahead and raise rates. So that's how we're thinking about the next meeting. And, you know, how we're thinking about meetings going forward potentially. But we're now mainly thinking about the next meeting.

I will also say since we're talking about it, between now and the September meeting, we get two more job reports, two more CPI reports. I think we have an ECI report coming later this week which is employment compensation index. And lots of data on economic activity. All of that information is going to inform our decision as we go into that meeting. I would say it is certainly possible that we would raise funds again at the September meeting if the data warranted. And I would also say it's possible that we would choose to hold steady at that meeting. We're going to making careful assessments as I said meeting by meeting. And I'll close by saying we've raised the federal funds right now by 525 basis points since March 2022. Monetary policy we believe is restrictive and putting downward pressure on economic activity and inflation.
>> REPORTER: If I could briefly follow up. You said the data in the int meaning period came in in line with expectations. Does that mean there's been a change in the overwhelming outlook of the committee that two more hikes are necessary.
>> CHAIRMAN POWELL: I'm going to go back to what I said. You know, that's the question we have eight weeks now until the September meeting and all that data I recited, we'll be looking at that and making that assessment then. We did have the one good reading and we well com that but it's just one reading as everybody knows. We've seen this before in the data. Many forecasts call for inflation to remain low but we just don't know that until we see the data. So we'll be focusing

on that.
>> REPORTER: Obviously you upgraded the language around growth in the statement today. You know, we've seen the bar by movie numbers. We've seen everybody going to Taylor Swift concerts this summer. Seems like the consumer is in pretty good shape and seems like growth is picking up or at least doing well. I wonder from your perspective if that continues, if we see growth not just stabilizing but performing well this summer, that is a problem because it's inflationary? Or is it good news because suggests that a soft landing is more likely? How are you thinking that that sort of trajectory?
>> CHAIRMAN POWELL: I would say it this way. The overall resilience of the economy, the fact that we've been able to achieve disinflation so far without any meaningful negative impact on the labor market, the strength of the economy overall that's a good thing. It's good to see that of course. It's also you see consumer confidence coming up and things like that. That will support activity going forward. But you're right though. At the margins, stronger growth could lead over time to higher inflation and that would require an appropriate response for monetary policy. So we'll be watching that carefully and seeing how it evolves over time.
>> REPORTER: Thanks Chair Powell. As you referenced earlier in the intermediary period soft CPI, job reports strong but moderated. So if you are data dependent why not pause again? Why not take another meeting off when the data was at least cutting in the direction you want to see?
>> CHAIRMAN POWELL: So, if you go back to what we're trying to do here. We're trying to achieve a stance of policy that's suly restrictive to pri inflation down to two percent. At the last meet week wrote down our individual estimates of that, what that would take. The meaning was in addition two rate hikes. So I would say we looked at the intmeaning data. As I mentioned broadly consistent. Not perfectly consistent but broadly consistent with expectations. As a result we went ahead and took another step. And that's a labor market that continues to be strong but gradually slowing. I mentioned that the inflation report was a little better than expected. But, you know, we're going to be careful about taking too much signal from a single reading. And, you know, growth came in stronger than expected. So that's how we look at it. So we did take that step today.
>> REPORTER: Chair Powell, markets widely believe the medium FRC participation forecast from June for theforce of this year will be too high given autos and shelter. By September that may water down the inflation forecast of twenty to thirty basis points. Would that type of inflation progress be enough to hold rates steady from here? Or do you need to see below trend growth and decelerating labor income growth to be convinced you've done enough?
>> CHAIRMAN POWELL: It's hard to pick the pieces apart and say how much of this and that. We'll be looking at everything. And of course we'll be looking to see

whether the signal from June CPI is replicated or the opposite of replicated or somewhere in the middle. We'll be looking at the growth data, the labor market data very closely of course and making an overall judgment. It's the totality of the data. I think but with a particular focus on making progress on inflation.
>> REPORTER: Last month you said there were benefits to moderating the pace of increases because it would give you more information to make decisions. Would another CPI report like the one we just had in June allow you to at least maintain that slower pace and defer until the fall any decision on whether you need that second rate hike?
>> CHAIRMAN POWELL: So I'm just going to tell you again what we're going to do in September. We're going to look at two additional job reports. Two additional CPI reports. Lots of activity data. And that's what we're going to look at and we're going to make the decision then. That decision could mean another hike in September or mean that we decide to maintain at that level. Again the question we're going to be asking ourselves is, is the overall signal one that we need to do more. That we need to tighten further. And if we get that signal, whenever we get it, and that's the collective judgment of the committee, then we will move ahead. If we don't, you know, then we'll have the option of maintaining policy at that level. But it's, you know, it's really dependent so much on the data and we just don't have it yet.
>> REPORTER: Hi. Associated press. Consumer confidence in the economy is rising. Likely in large part because of the declines in headline inflation. You also see wages are also rising faster than prices now. After trailing for a long time. How much are Americans truly harmed by inflation as its current level, headline level of three percent? And with that in mind, when do you put weight back on the employment side of this dual mandate?
>> CHAIRMAN POWELL: So I guess I'd say it this way. First, it is a good thing that headline inflation has come down so much. Because that's really what the public experiences. And I would say that having headline inflation move down that much almost creates, it will strengthen the broad sense that the public has that inflation is coming down. Which will in turn, we hope, help inflation continue to move down. So you are really -- sorry your question was?
>> REPORTER: You talked for many press conferences now about the harm created by inflation and how hard it is for people. How much of that are we still seeing with inflation now down at three?
>> CHAIRMAN POWELL: I guess I would put it this way. It's really a question of how do you balance the two risks. The risk of doing too much or too little. And, you know, I would say that, you know, we're coming to a place where there really are risks on both sides. It's hard to say exactly whether they're in balance or not. But as our stances become more restrictive and inflation mod rates we do increasingly face that risk. But we need to see that inflation is durbly down that

far. We think and most economists think core inflation is a better signal of where headline inflation is going. Because headline inflation is affected greatly by volatile energy and food prices. So we would want core inflation to be coming down. Because that's what we think -- core is signaling where headline is going to go in the future. And core inflation is still pretty elevated. There's reason to think it can come down now but it's still quite elevated. And so we think we need to stay on task. And we think we're going to need to hold policy at a restricted level for some time and we need to be prepared to raise further if we think that's appropriate.
>> REPORTER: If inflation were to stay at three or drops a little bit more, I mean how much of an increase in unemployment do you think is acceptable to get that last bit of inflation? People are talking about the potential difficulty of the last so-called last mile of inflation. How much unemployment do you think is justified to get down that last one point.
>> CHAIRMAN POWELL: It is a very positive thing that actually the unemployment rate is the same as it was when we lifted off in March of 22 at 3.6 percent. That's a blessing that we've been able to achieve some disinflation. We don't seek -- it's not that we're aiming to raise unemployment. But I would just say the historical record, we have to be honest about the record which does suggest which central banks go in and slow the economy to bring down inflation the result tends to be some softening in the labor market conditions. So that is still the likely outcome here.

And, you know, we hope that that's as little as possible. We have to be honest that that is the likely outcome.

The worst outcome for everyone of course would be not to deal with inflation now. Not get it done. Whatever the short-term social costs of getting inflation under control, the longer term social costs of failing to do so are greater. And the historical record is very, very clear on that. If you go through a period where inflation expectations are not anchored, inflation is volatile, interferes with people's lives and economic activity and that's the thing we really need to avoid and will avoid.
>> REPORTER: At this point you say the policy is restrictive. But all year long we have seen growth surprise to the upside. Unemployment to the down side. And inflation lately to the down side. I'm wondering by definition should be restrictive enough under these conditions? Do you think you might need to do more? I'm curious about what you see as "inflation dynamics now." Is the economy still moving in a direction where it creates more inflation? People talk about base effects and higher energy costs and now we have some large labor settlements. Or is the economy disinflating and you're just -- you're able to go back to the old Fed policy of opportunistic disinflation?
>> CHAIRMAN POWELL: I'll just say, again the broader picture of what we want to

see is we want to see easing of supply constraints and normalization of pandemic related distortions to demand and supply. We want to see economic growth running at moderate or modest levels to help ease inflationary pressures. We want to see continued restoration of supply and demand balance. Particularly in the labor market. All that should lead to declining inflationary pressures. What we see are those pieces of the puzzle coming together and we're seeing evidence of those things now. But I would say what our eyes are telling us is policy has not been restrictive enough for long enough to have its full desired effects. So we intend to keep policy restrictive until we're confident that inflation is coming down sustainably to our two percent target. And we're prepared to further tighten if that is appropriate. We think the process, you know, still probably has a long way to go.
>> REPORTER: Do you think under current conditions you are restrictive enough unless something changes?
>> CHAIRMAN POWELL: Well I think -- we think, you know, today's rate hike was appropriate. I think we're going to be looking at the incoming data to inform our decision at the next meeting about is the incoming data telling us we need to do more. If it does tell us more, if that's our view we will do more.
>> REPORTER: If September is in fact a live meeting, how does that square with the need for a more gradual tightening pace that you spoke of last month in explaining the rationale for holding the funds rate steady at the June meeting?
>> CHAIRMAN POWELL: So a more gradual pace doesn't go immediately to every other meeting. It could be two out of three meetings. It just means if you are slowing down -- the point really was to slow down the decision cycle as we get closer and closer to we think our destination. And I wouldn't want to go automatically to every other meeting because I just don't think that's -- I think it's not an environment where we want to provide a lot of forward guidance. There's a lot of uncertainty out there. We just want to keep moving at what we think is the right pace. I do think it makes all the sense in the world to slow down as we now make these finally judged decisions. So that's what we did. And I think it's possible, I mentioned before, it's possible that we would move at consecutive meetings. We're not taking that off the table. Or we might not. It really depends on what the data tells us.
>> REPORTER: We shouldn't assume every other meeting is lowest tightening frequency. It could be longer intervals in between as well.
>> CHAIRMAN POWELL: I think we're going to make a decision about the next meeting then we're going to make a decision about the one after that. And I think it will sort itself out.
>> REPORTER: Among your colleagues there have been people who said they feel that very little transmission has taken place so far for monetary policy into the economy. And those who feel they say it's happened very fast this time and it's

kind of up to date. Where are you on that continuum?
>> CHAIRMAN POWELL: So there's a long running debate about the lags between changes in financial conditions and the response to those changes from economic activity and inflation right. So we know that in the modern era financial conditions move and anticipation of our decisions and that has clearly been the case in this cycle. In a sense the clock starts earlier than it used to. But that doesn't necessarily change the process from that point on and it's not clear that it has.

I'll tell what you we know and what we don't know. We know that financial conditions affect economic activity and inflation with a lag that can be long and variable. Or lags plural that can be long and variable. A lot of uncertainty around the length of the lags. That's just one component of the broader uncertainty that we face. So I'll tell you how I think about this. First thing to say is we're determined to bring inflation down to two percent over time and we will use our tools to do that. No one should doubt that. I will look at this way. The real federal funds rate is now in a meaningfully positive territory. Take the non-fund rate and subtrabt the near expectations and you get a real rate above most estimates of the longer term neutral rate. So I would say monetary policy is restrictive. More so after today's decision. Meaning it is putting downward pressure on economic activity and inflation. We'll keep monetary policy restrictive until we think it's not appropriate to do so. So that's how I think about it.

I mean if I sum it up I would say we've come a long way. We are resolutely committed to returning inflation to our two percent goal over time. Inflation has proved repeatedly stronger than we and other forecasters have expected. And at some point that may change. We have to be ready to follow the data. And given how far we've come we can afford to be a little patient as well as resolute as we let this unfold.
>> REPORTER: On the credit side I'm wondering if you saw anything in the latest loose data that made you think you are getting a quantum of credit contraction beyond what you expect. The bank lending data the growth rating heading below zeer which is usually on recession indicator.
>> CHAIRMAN POWELL: I guess the sleuths will come out early next week. It's broadly consistent with what you would expect. You've got lending conditions tight and getting tighter. Weak demand. And, you know, it gives a picture of a pretty tight credit conditions in the economy. I think it's really hard to tease out how much of that is from this source or that source. But I think what matters is the overall picture of tightening lending conditions and that's what the sleuths will say.
>> REPORTER: Could you break down the reasons why inflation has fallen and what share of that credit you would give to factors that don't stem directly from rate hikes or that might be within your control at all. Like easing supply change and drop in energy prices over the past year.
>> CHAIRMAN POWELL: Yeah. So interesting question. So let me start by saying

that the inflation surge that we saw in the pandemic resulted from a collision of elevated demand and constraint supply both of which followed from the unprecedented features of the pandemic and the response from fiscal and monetary policy. We've always expected that the disinflationary process would stem both from the normalization of those broad pandemic related supply and demand conditions and from restrictive monetary policy. Which would help return the balance between supply and demand by restraining demand. We think that's broadly what we're seeing.

To break it down a little further. Of course headline inflation has come down sharply from elevated levels as energy and food prices have come down mostly due to reversal of the effects from the war in Ukraine. And that's a good thing and the public experiences that as I mentioned earlier.

For core inflation I'd say there has been a role for most, for both factors. Both that I mentioned. Clearly for goods normalization supply conditions is playing an important role as is the reversal, the beginning of the reversal of spending back into services and away from goods. The combination of an increase in sales and inventories while vehicle inflation has decelerated points to a substantially role for supply. But there sosz a role for demand as loans and things like that are more expensive. Housing services inflation starts to move down. Clearly higher rates have slowed the housing market. You know, I would say monetary policy is working about as we expect and we think it will play an important role going forward in particular in non-housing services where we think that's where the labor market will come in as a very important factor. So we think both of those sources of disinflation are playing an important role.

>> REPORTER: Just to follow up. Do you think of those two source that's core will rely more heavily on seeing impact from rate hikes? Or is there a more even split there too.

>> CHAIRMAN POWELL: I think monetary policy is going to be important going forward. Because we are sort of reaping now the benefits of the reversal of some of the very specific pandemic things. We're seeing that with goods in particular. Supply chains and shortages moving. So I think going forward monetary policy will be important particularly in the sector in the non-housing services sector.

>> REPORTER: First, let me compliment your choice of tie. So the beige book said input cost measures remain elevated for services firms but ease notably for manufacturing sectors. Is that an indication that there's a wage inflation pressure? And how do you target and pressure on the wage inflation without pushing the economy into recession?

>> CHAIRMAN POWELL: I think as it relates to the goods it's really an indication that supply chains and shortages are easing. And so what was the first part?

>> REPORTER: So wage inflation. How do you target wage inflation without pushing an economy into recession?

>> CHAIRMAN POWELL: I don't think we're targeting wage inflation. I think what we're looking for is a broad cooling in the labor market conditions. That's what we're seeing. Wages have actually been gradually moving down. They're still at levels that would be consistent over a long period of time with two percent inflation. Nonetheless, we're making progress there. By so many indicators, labor market demand is cooling. You can look at surveys by workers and businesses who see that. You can look at the quits rate normalizing. At job openings coming down. You can look at job creation in the establishment survey, you know, it's a still at a high level but really an extraordinary high level for most of the last two years. So you see cooling particularly in private sector in the last report. So I think we see that. And it's happening at a gradual pace. So that's actually not a bad thing in a sense. Because if what we see is a labor market -- very strong demand for labor. Which is really the engine of the economy. People are getting hired. Many people are going back to work. Getting wages. Spending money. That's really what is driving the economy. But it's gradually slowing, gradually cooling, that's a good prescription for getting where we want to get.
>> REPORTER: We see a push to raise minimum wage. A lot of unions go on strike. They come up on with agreements like big pay increases. Like UPS and we have the autoworkers coming up. Are you concerned about a trend of series of big unions these contracts pushing wage inflation.
>> CHAIRMAN POWELL: Not for us to comment on contract negotiations. Not our job. Not our role. You know, we monitor these things and we'll keep an eye on them but really that's something that is handled at that level.
>> REPORTER: I wanted to ask about the SEP which suggests you would cut rates as overall and core CPR get to around or under three percent. Is the level of inflation what's sort of important as you think about getting to two percent and when you might start cutting rates? Or the speed at which inflation is fall is important.
>> CHAIRMAN POWELL: I think you take both into account. Everything into account when you start cutting rates. I would depend on a wide range of things. When people are running down rate cuts next year it is a sense that inflation is coming down and we're comfortable that it's coming down and time to start cutting rates. But I mean there's a lot of uncertainty between what happens in the next meeting cycle let alone the next year, the year after that. So it's hard to say exactly what happens there. What's motivating people.
>> REPORTER: So it's stubbornly in the high twos you wouldn't necessarily cut rates.
>> CHAIRMAN POWELL: I'm not saying that at all. I'm not giving any numerical guidance. We'd be comfortable cutting rates when we're comfort cutting rates. That won't be this year I don't think. Many people wrote down rate cuts for next year. I think the meeting was several for next year. That's just going to be a

judgment that we have to make then a full year from now. It will be about how confident we are that inflation is in fact coming down to our two percent goal.
>> REPORTER: A good part of Wall Street has become more confident that the Fed is going to be able to engineer a soft landing. And they've reduced their forecast for recession. I'm wondering if the staff has changed its view on the likelihood of recession being likely and if you personally have changed your view in terms of becoming more confident that you can achieve a soft landing?
>> CHAIRMAN POWELL: So, it has been my view consistently that we do have a shot. And my base case is that we will be able to achieve inflation moving back down to our target without the kind of really significant down turn that results in high levels of job losses that we've seen in some past instances. Many past instances of tightening that look like ours. That's been my view and is still my view.

I think that is sort of consistent with what I see today. So but it's a long way from assured. And we have a lot left to go to see that happen.

So the staff now has a noticeable slow down in growth starting later this year in the forecast. But given the resilience of the economy recently they are no longer forecasting a recession. I just want to note that our staff produces its own forecast which is independent of the forecast that we as FOMC participants produce. Having an independent staff forecast as well as the individual participant forecast is really a strength of our process. There's just a lot of I think constructive diversity of opinion that helps us make, informs our deliberatations and helps us make I hope better decisions.
>> REPORTER: And is the reason for optimism that inflation has come down and you still have a strong labor market? I mean does that add to the optimism?
>> CHAIRMAN POWELL: I wouldn't use the term "optimism" about this year. I would say there's a pathway. And yes that's a good way to think about it. We've seen so far the beginnings of disinflation without any real costs in the labor market. And that's a really good thing. I would just also say the historical record suggests there's likely to be some softening of the labor market conditions. And consistent with having a soft landing. You would have some softening in the labor market conditions. And that's still likely as we go forward with this process. But it's a good thing to date that we haven't really seen that. We've seen softening through other -- not through higher unemployment. We've seen softening through, you know, job openings coming down part of the way back to more normal levels. The quits rate. People are not quitting as much. Participation. People coming in so labor supply has improved which has lowered the temperature in the labor market which was quite over heated, you know, going back a year or so. So we are seeing that kind of cooling and that's very healthy. And, you know, we hope it continues.
>> REPORTER: You and other fed officials in the past have suggested that you

don't need to keep hiking until inflation hit two percent. That as long as you see continued progress. I'm wondering how close do you need to get with the inflation numbers coming down. How many months of data do you need to see that will give you sufficient confidence. And, you know, how far does that fight need to go before you are willing to kind of declare victory on it?
>> CHAIRMAN POWELL: So the idea that we would keep hiking until inflation gets to two percent would be a prescription of going way past the target. That's clearly not the appropriate way to think about it. If you look at our forecast, the median participant -- again these are forecasting out years to take them with a grain of salt. But people are cutting rates next year. Because, you know, the federal funds rate is at a restrictive level now. So if we see inflation coming down credibly, sustainably, we don't need to be the at a restrictive level any more. We can move back to it, to a neutral level and then below a neutral level at a certain point. I think we of course would be very careful about that. We'd really want to be sure that inflation is coming down in a sustainable level. It's hard to make -- I'm not going to try to make a new miracle assessment when and where that would be but that's the way I think about it. You'd stop raising long before you got to two percent inflation. And you'd start cutting before you got to two percent inflation too. Because we don't see ourselves getting at two percent inflation until all the way back to two until 2025 or so.
>> REPORTER: Thank you, Chair Powell. It's been over four months since a handful of regional banks including Silicon Valley bank failed. When you look at credit conditions now given bank of California's acquisition of PAC west, does this acquisition suggest the full impact has not been felt? Or are you comfortable saying that we've seen most of the ripple effects that may have occurred at this point and how does this play into our outlook for policy?
>> CHAIRMAN POWELL: I don't want to comment on any particular merger proposal. But I will say things have settled down for sure out there. Deposit flows have stabilized. Capital and liquidity remain strong. Aggregate bank lending was stable quarter over quarter and up significantly year over year. Banking sector profits are coming in strong this quarter. Overall the banking system remains strong and resilient. Of course we're still watching, you know, the situation carefully and monitoring, you know, monitoring the conditions in the banking sector.

In terms of the actual effect on -- if you think of a particular set of banks that were affected because of their size and business model and things like that, they were more affected by the turmoil in March than others, it's very hard as I mentioned to sort of tease out the effects on this very large economy of ours from them tightening. They may be tightening a little bit more. Probably are. Than other banks. The sluice has been telling us more than a year that banking conditions are tightening. I think we have to take a step back. I can't separate

those anymore. I think basically we're just looking at the overall picture. Which is one of tightening credit conditions. And that's going to restrain economic activity. And it is restraining economic activity. That's how I would look at it.
>> REPORTER: How that is informing your outlook for setting policy this.
>> CHAIRMAN POWELL: So I think that goes -- that is an expected result of tightening interest rate policy. Is that bank credit conditions, bank lending conditions would tighten as well. So the question is, is it more effective this time because of what happened in May? I just don't think we know that. I think we're looking at the current data in GDP and seeing strong spending. We're seeing a strong economy. And it's made us confident that we can go ahead and raise interest rates now for the third time since the March events. And it seems like the economy is weathering this well. But of course we're watching it carefully. And expect to continue to do that.
>> REPORTER: I wondered on wages if you were at all concerned about any inflationary impact of wages now outpacing inflation? Which is likely contributing to the boost in consumer sentiment and the continued strength of the consumer that we've been seeing.
>> REPORTER: Well wages in excess of inflation means real wages are positive. Of course we want that. We want people to have real wages. But we want wages going up at a level that's consistent with two percent inflation over time. As I mentioned, nominal wages have been coming down gradually. And that's what we want to see. We expect to see more of that. That's just more of what's consistent over a longer period of time. We don't really think that wages were an important cause of inflation in the first year or so of the outbreak. But I would say that wages are probably an important issue going forward. Labor market conditions broadly are going to be an important part of getting inflation back down. And that's why we think we need some further softening in labor market conditions.
>> REPORTER: This goes sort to the balance of risk question. But you mentioned at the start how you're keeping an eye on consumer activity and whether there might be some sort of a rebound there. I'm curious what the feds explanation explanation would be to families if further interest rate hikes are to hit the labor market. Start to, you know, drive that sentiment back down. What's the message of why you continue to keep rates elevated or to raise them?
>> CHAIRMAN POWELL: Well we have a job assigned to us by Congress to get inflation under control. And we think the single most important thing we can do to benefit those very families, especially families at the lower end of the income spectrum, is to get inflation sustainably under control and restore price stability. We think that's the most important thing we can do and are determined to do that.

I would point out the people most hurt by inflation right away are people on a low fixed income. When you are talking about travel or transportation costs,

heating costs, clothing, foods, things like that, if you're just making it through each month on your paycheck and prices go up, you are in trouble right away. Even middle class people have some resources and can absorb inflation. People in the lower end of the income spectrum have a harder time doing that. So we need to get this done. And, you know, the record is clear that if we take too long or if we don't succeed that the pain will only be greater. So that's how I would explain what we're doing.

>> REPORTER: Thank you, Chair Powell. You had said last month that this meeting this week was going to be a live one. In the event the market had assigned, you know, roughly ninety nine probability to the rate move that you announced today. The decision was of course unanimous. And the statement was basically unchanged from last month. So may I ask, you know, to what extent was the meeting actually alive one? Was there ever any doubt over the past two days about what the decision was actually going to be?

>> CHAIRMAN POWELL: Well I mean you could -- was there doubt? I would say there's a range of views on the committee. When you see the minutes in three weeks you will see that. There's a range of views about what we should do at this meeting and the next meeting. And it's process that we go through. Many times when we go into a meeting the decision is not, you know, fundamentally in doubt. Nonetheless we have the meeting. And some meetings are, you know, less uncertain than others. And I'll just leave it at that.

>> REPORTER: Financial conditions has been loosening at a fairly steady clip in recent weeks. The dollar, the stock market, et cetera. What does that mean for the Fed and being sure that inflation will come down to target?

>> CHAIRMAN POWELL: So we monitor of course financial conditions. Broad financial conditions. You are right, it's this dollar and equities. We're of course very focused on rates and our own policy. We are going to use our policy tools working through financial conditions to get inflation under control. The implication is we will do what it takes to get inflation down. And in principle that could mean that if financial conditions get looser we have to do more. But what tends to happen though is financial conditions get in and out of alignment with with what we're doing and ultimately over time we get where we need to go.

>> REPORTER: If I could also ask about the SEP from June that showed rate cuts. Do you expect the Fed to cut nominal rates next year while continuing QT?

>> CHAIRMAN POWELL: That could happen. The question is is that consistent with -- if you think about them both as normalization. Imagine it's a world where things are okay and it's time to bring rates down from what our restrictive levels to more normal levels. Normalization in the case of the balance sheet would be to reduce QT. Or to continue it. You depending on where you are in the cycle. There are two independent things. The active tool of monetary policy is rates. But you can imagine circumstances in which it would be appropriate to have them working

in what might be seen to be different ways but that wouldn't be the case.
>> REPORTER: Thanks, Chair Powell. I have a question about the discount window. I'm wondering if since the bank failures of the spring, if you've seen signs that banks have taken more steps to be proactive in assuring they're ready to use that facility if they need to. And if you have any sort of thoughts on whether policies might be appropriate for making sure that banks sort of test regularly to show they are prepared to use it.
>> CHAIRMAN POWELL: That's a very important thing, yes. And yes to both sides of that. Yes, banks are now working to see they are ready to use the discount window. And we are strongly encouraging them to do that. Banks broadly. We did find as you know during the events of March and that, you know, it's a little clunkye. It can be clunkier and not as quick as it needs to be sometimes. So why not be in a situation where you're just much more ready in case you need to access the discount window.
>> REPORTER: Mr. Chairman, you've talked in the past about getting the housing market back into better balance. And also that the market might have bottomed. Where do you see that situation and balance or lack thereof right now particularly with the restrained, constrained inventory of existing homes that might otherwise be coming on the market at a time when existing homeowners are reluctant to move. And of course all that happening with the thirty year fixed rate mortgage still around seven percent on the heels of fed tightening and with what you are talking about tightening industry lending standards. Are we getting closer to balance or farther away? What's your sense?
>> CHAIRMAN POWELL: I think we've got a ways to go to get back to balance for the reasons you talked about. With existing homes many people have low rate mortgages and whereas they might want to sell in a normal situation they're not going to because they have so much value in their mortgage. Which means that supply of existing homes is really, really tight. Which is keeping prices up. On the other hand there's a lot of supply coming online now. And there are people coming in, a lot of the buyers are, you know, first-time buyers coming in. Buying, you know, with these relatively elevated mortgage rates. But I think this will take too time to work through. Hopefully more supply comes online and, you know, we work through it. We're still living through the, you know, the aftermath of the pandemic.
>> REPORTER: Russia has pulled out of an agreement allowing shipments of grain, safe passage through the Black Sea and alternative route at this point could be closed off. Just wondering, how could that contribute to higher food prices and inflation generally and how closely are you watching that?
>> CHAIRMAN POWELL: We're watching it very closely. And you are right, the withdrawal from the Black Sea grain initiative does raise concerns about global food security, particularly for poorer countries that import a live share of their

food. Grain prices did go up but remain well below the peaks of last spring. The moves we've seen so far are not expected to make a significant contribution to U.S. inflation. Of course we will be watching that careful.
>> REPORTER: So you don't think it would have a big affect on Fed policy at this moment.
>> CHAIRMAN POWELL: You wouldn't say looking at what we know now. Thanks very much.