Transcript of Chair Yellen's FOMC Press Conference Opening Statement

June 17, 2015

CHAIR YELLEN. Good afternoon. Today the Federal Open Market Committee reaffirmed the current 0 to ¼ percent target range for the federal funds rate. Since the Committee last met in April, the pace of job gains has picked up and labor market conditions have improved somewhat further. Inflation has continued to run below our longer-run objective, but some of the downward pressure on inflation resulting from earlier sharp declines in energy prices is abating. The Committee continues to judge that the first increase in the federal funds rate will be appropriate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term. At our meeting that ended today, the Committee concluded that these conditions have not yet been achieved. It remains the case that the Committee will determine the timing of the initial increase in the federal funds rate on a meeting-by-meeting basis, depending on its assessment of incoming economic information and its implications for the economic outlook. Let me emphasize that the importance of the initial increase should not be overstated: The stance of monetary policy will likely remain highly accommodative for quite some time after the initial increase in the federal funds rate in order to support continued progress toward our objectives of maximum employment and 2 percent inflation. I will come back to today's policy decision in a few moments, but first I would like to review recent economic developments and the outlook.

The U.S. economy hit a soft patch earlier this year; real gross domestic product (GDP) looks to have changed little in the first quarter. Growth in household spending slowed, business fixed investment edged down, and net exports were a substantial drag on growth. Part of this weakness was likely the result of transitory factors. Despite the soft first quarter, the fundamentals underlying household spending appear favorable and consumer sentiment remains solid. Looking ahead, the Committee still expects a moderate pace of GDP growth, with continuing job gains and lower energy prices supporting household spending.

The labor market data so far this year have shown further progress toward our objective of maximum employment, although at a slower pace than late last year. Over the past three months, job gains have averaged about 210,000 per month, down from an average pace of 280,000 per month over the second half of last year, but still well above the pace consistent with trend labor force growth. Although the unemployment rate, at 5.5 percent in May, was unchanged from the latest reading available at the time of our April meeting, the labor force participation rate edged up. A broader measure of unemployment that includes individuals who want and are available to work but have not actively searched recently and people who are working part time but would rather work full time has continued to improve. But it seems likely that some cyclical weakness in the labor market remains: The participation rate remains below most estimates of its underlying trend, involuntary part-time employment remains elevated, and wage growth remains relatively subdued. So, although progress clearly has been achieved, room for further improvement remains.

Inflation has continued to run below our longer-run objective, in part reflecting lower energy prices. Declines in import prices have also restrained inflation. However, energy prices appear to have stabilized recently. My colleagues and I continue to expect that as the effects of these transitory factors dissipate and as the labor market improves further, inflation will move gradually back toward our 2 percent objective over the medium term. Market-based measures of inflation compensation remain low, though they have risen some from their levels earlier this year, and survey-based measures of longer-term inflation expectations have remained stable. The Committee will continue to monitor inflation developments carefully.

This assessment of the outlook is reflected in the individual economic projections submitted for this meeting by FOMC participants. As always, each participant's projections are conditioned on his or her own view of appropriate monetary policy. For economic growth, participants reduced their projections for this year, in line with the disappointing data for the first quarter. The central tendency of the growth projections for 2015 is now 1.8 to 2.0 percent, down a little more than one-half percentage point from the March projections. The central tendency rises to 2.4 to 2.7 percent next year, somewhat above estimates of the longer-run growth rate. The unemployment rate projections for this year are a little higher than in March. At the end of this year, the central tendency for the unemployment rate stands at 5.2 to 5.3 percent, a bit above participants' estimates of the longer-run normal unemployment rate. Committee participants generally see the unemployment rate declining a little further over the course of 2016 and 2017. Finally, FOMC participants project inflation to be quite low this year, largely reflecting lower energy and non-energy import prices. The central tendency of the inflation projections for this year is below 1 percent, unchanged since March. As the transitory factors holding down inflation abate, the central tendency rises to 1.6 to 1.9 percent next year and to 1.9 to 2.0 percent in 2017.

Returning to monetary policy, as I noted, the Committee reaffirmed its view that the current 0 to ¼ percent target range for the federal funds rate remains appropriate. As we said in our statement, the decision to raise the target range will depend on our assessment of realized and expected progress toward our objectives of maximum employment and 2 percent inflation. We continue to base that assessment on a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. And we continue to anticipate that it will be appropriate to raise the target range for the federal funds rate when the Committee has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term.

On both of these fronts, as I noted, we have seen some progress. Even so, the Committee judged that economic conditions do not yet warrant an increase in the federal funds rate. While the Committee views the disappointing economic performance in the first quarter as largely transitory, my colleagues and I would like to see more decisive evidence that a moderate pace of economic growth will be sustained, so that conditions in the labor market will continue to improve and inflation will move back to 2 percent.

Once we begin to remove policy accommodation, we continue to expect that—as we say in our statement—"even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run." In other words, although policy will be data dependent, economic conditions are currently anticipated to evolve in a manner that will warrant only gradual increases in the target federal funds rate.

Compared with the projections made in March, most FOMC participants lowered somewhat their paths for the federal funds rate, consistent with the revisions made to the projections for GDP growth and the unemployment rate. The median projection for the federal funds rate continues to point to a first increase later this year, with the rate rising to about 1¾ percent in late 2016 and 2¾ percent in late 2017. In 2016 and 2017, the median path is about ¼ percentage point below that projected in March. The median projected rate in 2017 remains below the 3¾ percent or so projected by most FOMC participants as the longer-run value of the federal funds rate even though the central tendency of the unemployment rate by that time is slightly below its estimated longer-run value and the central tendency for inflation is close to our 2 percent objective. Participants provided a number of explanations for the federal funds rate running below its normal longer-run level at that time. These included, in particular, the residual effects of the financial crisis, which are likely to continue to constrain spending and credit availability for some time.

I would like to emphasize that the forecasts of the appropriate path of the federal funds rate are conditional on participants' individual projections of the most likely outcomes for economic growth, employment, inflation, and other factors. But our actual policy decisions over time will depend on evolving economic conditions. Accordingly, if the expansion proves to be more vigorous than currently anticipated and inflation moves higher than expected, then the appropriate path would likely follow a steeper and higher trajectory; conversely, if conditions were to prove weaker, then the appropriate trajectory would be lower and less steep.

Finally, the Committee will continue its policy of reinvesting proceeds from maturing Treasury securities and principal payments from agency debt and mortgage-backed securities. The Committee's sizable holdings of longer-term securities should help maintain accommodative financial conditions and promote further progress toward our objectives.

Thank you. I'll be happy to take your questions.