**Rough Transcript of Powell's Press Conference At December FOMC**

CHAIR POWELL. Good afternoon. My colleagues and I remain squarely focused on achieving our dual mandate goals of maximum employment and stable prices for the benefit of the American people. The economy is strong overall and has made significant progress toward our goals over the past two years. The labor market has cooled from its formerly overheated state and remains solid. Inflation has moved much closer to our 2 percent longer-run goal. We are committed to maintaining our economy's strength by supporting maximum employment and returning inflation to our 2 percent goal. To that end, today, the Federal Open Market Committee decided to take another step in reducing the degree of policy restraint by lowering our policy interest rate by 1/4 percentage point. We also decided to continue to reduce our securities holdings. I will have more to say about monetary policy after briefly reviewing economic developments. Recent indicators suggest that economic activity has continued to expand at a solid pace. GDP rose at an annual rate of 2.8 percent in the third quarter, about the same pace as in the second quarter. Growth of consumer spending has remained resilient, and investment in equipment and intangibles has strengthened. In contrast, activity in the housing sector has been weak. Overall, improving supply conditions have supported the strong performance of the U.S. economy over the past year. In our Summary of Economic Projections, Committee participants generally expect GDP growth to remain solid, with a median projection of about 2 percent over the next few years. In the labor market, conditions remain solid. Payroll job gains have slowed from earlier in the year, averaging 173 thousand per month over the past three months. The unemployment rate is higher than it was a year ago, but at 4.2 percent in November, it has remained low.

Nominal wage growth has eased over the past year, and the jobs-to-workers gap has narrowed. Overall, a broad set of indicators suggests that conditions in the labor market are now less tight than in 2019. The labor market is not a source of significant inflationary pressures. The median projection for the unemployment rate in the SEP is 4.2 percent at the end of this year and 4.3 percent over the next few years. Inflation has eased significantly over the past two years but remains somewhat elevated relative to our 2 percent longer-run goal. Estimates based on the Consumer Price Index and other data indicate that total PCE prices rose 2.5 percent over the 12 months ending in November; and that, excluding the volatile food and energy categories, core PCE prices rose 2.8 percent. 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 median projection in the SEP for total PCE inflation is 2.4 percent this year and 2.5 percent next year, somewhat higher than projected in September. Thereafter, the median projection falls to our 2 percent objective. Our monetary policy actions are guided by our dual mandate to promote maximum employment and stable prices for the American people. We see the risks to achieving our employment and inflation goals as being roughly in balance, and we are attentive to the risks on both sides of our mandate. At today's meeting, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point, to 4-1/4 to 4-1/2 percent. We have been moving policy toward a more neutral setting in order to maintain the strength of the economy and the labor market while enabling further progress on inflation. With today's action, we have lowered our policy rate by a full percentage point from its peak, and our policy stance is now significantly less restrictive. We can therefore be more cautious as we consider further adjustments to our policy rate. We know that reducing policy restraint too fast or too much could hinder progress on inflation. At the same time, reducing policy restraint too slowly or too little could unduly weaken economic activity and employment. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will assess incoming data, the evolving outlook, and the balance of risks. We are not on any preset course. In our Summary of Economic Projections, FOMC participants wrote down their individual assessments of an appropriate path for the federal funds rate, based on what each participant judges to be the most likely scenario going forward. The median participant projects that the appropriate level of the federal funds rate will be 3.9 percent at the end of next year and 3.4 percent at the end of 2026. These median projections are somewhat higher than in September, consistent with the firmer inflation projection. These projections, however, are not a Committee plan or decision. As the economy evolves, monetary policy will adjust in order to best promote our maximum employment and price stability goals. If the economy remains strong and inflation does not continue to move sustainably toward 2 percent, we can dial back policy restraint more slowly. If the labor market were to weaken unexpectedly or inflation were to fall more quickly than anticipated, we can ease policy more quickly. Policy is well positioned to deal with the risks and uncertainties that we face in pursuing both sides of our dual mandate. On a technical note, we lowered the offering rate on our overnight reverse repo facility to align it with the bottom of the target range for the federal funds rate—its typical configuration. Technical adjustments of this kind have no bearing on the stance of monetary policy.

The Fed has been assigned two goals for monetary policy—maximum employment and stable prices. We remain committed to supporting maximum employment, bringing inflation sustainably to our 2 percent goal, and keeping longer-term inflation expectations well anchored. Our success in delivering on these goals matters to all Americans. 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. I look forward to your questions.

**NEW YORK TIMES: I wonder if you could talk about why officials think it's appropriate to cut rates at all in 2025 if inflation is expected to remain firm throughout the year? And what would you expect at this point the timing might look like? Would a January cut potentially be possible? Or does a pause next month seem more likely?**

POWELL: Let me start by saying why we cut today and move to 2025. I would say today was a closer call, but we decided it was the right call because we thought it was the best decision to foster achievement of both of our goal, maximum employment and price stability. We see the risks as two-sided, moving too slowly and needlessly undermine activity in the labor market or move too quickly and needlessly undermine our progression on inflation. And on balance, we decided to go ahead with the further cut. And I'll give you details on why.

Downside risks appear to have diminished but the labor market is looser than pre-pandemic and it's clearly still cooling further. So far in a gradual and orderly way. We don't think we need further cooling to get inflation down to 2%. Job creation is now well below the level or certainly below the level that would hold unemployment constant. The job finding rate is low and declining. And other measures such as surveys of workers and businesses, things like that, broadly show a much cooler labor market than we had in 2019. It's still gradually cooling. So we keep an eye on that.

Inflation, we see that story as broadly on-track and I'll tell you why. We've made a great deal of progress. 12-month core inflation through November is estimated at 2.8%, down from a high of 5.6%. But 12-month inflation has been moving sideways as we are lapping the low readings of late last year. Housing is steadily coming down now, although at a slower pace, but it has come down substantially and making progress slower than hoped. And we've had recent high readings from non-market services and bumpiness for goods. So I'll just say, So remember that we coupled this decision today with the extent timing language in the post-meeting statement that signals that we are at or near a point at which it will be appropriate to slow the pace of further adjustments.

You asked about 2025, I think that the lower -- the slower pace of cuts for next year really reflects both the higher inflation readings we've had this year and the expectation inflation will be higher. You saw in the SEP that risks and uncertainty around inflation, we see as higher. Nonetheless, we see ourselves as still on-track to continue to cut. I think the actual cuts that we make next year will not be because of anything we wrote down today. We're going to react to data. That's just the general sense of what the committee thinks is likely to be appropriate.

**NEW YORK TIMES: One quick follow-up. What would be the trigger to cut?**

POWELL: To cut further after this point, I would say it this way. We reduced our policy rate now by 100 basis points. We are significantly closer to neutral. At 4.3% and change, we believe policy is still meaningfully restrictive. As for additional cuts, looking for further progress on inflation as well as continued strength in the labor market. And as long as the economy and labor market are solid, we can be cautious as we consider further cuts and. All of that is reflected to your question, in the December SEP which shows a median forecast down two cuts next year compared to four in September.

**REUTERS: What's the split on this one? How much of this was accounting for data that was coming in and how much is expecting that there will be inflationary fiscal policy next year?**

POWELL: I would say, I point to five or six things. Let me start by saying that we think the economy is in a really good place and we think policy is in a really good place. Let's remember the economy is growing 2.5% this year. Inflation has come down to 50% from 5.6% to 2.6%. Headline inflation is 2.5% on a 12-month basis. We're actually in a really good starting place here.

But since -- so what's really driving the slower rate cut path? First thing is growth is stronger, right? The economy grew fastener the second half of 2024 so far than we had expected. And is expected to be above what our expectations in September next year as well. Unemployment is lower, and you know, in the SEP, you'll see that participants think that the down side risks are less and uncertainty is less. So that's more strength, right?

Inflation is higher, as we talked about. Inflation is higher this year. And it's also high customer the forecast next year. And I'd also point out that we are closer to the neutral rate which is another reason to be cautious about further moves. But then getting to your point, there's also -- there's uncertainty around inflation, I pointed out, is actually higher. It's also in the case of some people, some people -- the way I would say this is this: Some people did take a very preliminary step and start to incorporate, you know, highly-conditional estimates of economic effects of policies into and said so in the meeting. Some people said they didn't do so. And some people didn't say whether they did or not. So we have people making a bunch of different approaches to that.

But some did identify policy uncertainty as one of the reasons for their writing down more uncertainty around inflation. And you know, the point about uncertainty is, it's kind of common sense thinking that when the path is uncertain, you go a little bit slower. It's not unlike driving on a foggy night or walking into a dark room of furniture. You just slow down. So that may have affected some of the people. But as I said, there's a range of approaches on the committee.

**REUTERS: You mentioned the risk and uncertainty indices toward the back of the document. The upside risk to inflation jumped quite substantially. The only thing really that's happened, you mentioned that the disinflationary story remains intact, yet, the risk waiting has jumped to the upside. Is it fair to say that's driving the higher sense of upside risk?**

POWELL: Actually, that's not the only thing that's happened. Our forecast for inflation for this year, I think are five-tenths higher than they were in September. So you had two months of higher inflation in September and October. As I mentioned, November is back on-track, but you know, once again, we've had a year-end projection for inflation. And it's kind of fallen apart as we've approached the end of the year.

So that is certainly a large factor in people's thinking. I can tell you that might be the single biggest factor, inflation has once again underperformed relative to expectations. It's still going to be between 2 Pat and 3, way below where it was. But we really want to see progress on inflation, as I mentioned. As we think about further cut, we're going to be looking for cuts on inflation. We have been moving sideways on 12-month inflation as the 12-month window moves. That's, in part, because inflation was very, very low measured in the fourth quarter of 2023. Nonetheless, as we go toward, we want to see further progress on bringing inflation down and keeping a solid labor market.

**ASSOCIATED PRESS: In September 2018, the fed staff discussed a policy of looking through any new tariffs as long as they were one-time increases. Can you comment on if the analysis remains effective and any other thinking on tariffs generally that you can share.**

POWELL: I do think the September 2018 Tealbook alternative simulations are a good place to start. I happen to have brought them here with me today. I'm sure you have them too. They're a good starting point. And I would just say, You know, it's six years old analysis, but nonetheless, this is still, I think, the right questions to ask. And you know, there were two simulations. One was seeing through. One was not. And I point you to -- there's some language in the see through paragraph that says -- that considers situations in which it might be appropriate to see through inflation. And then name some conditions in which it might not be. In any case, this is not a question that's in front of us right now. We won't face that question -- we don't know when we'll face that question. What the committee is doing now is discussing pathways and understanding, again, the ways in which tariff-driven inflation can affect -- tariffs can affect inflation in the economy and how to think about that.

So we've done a bit of good bit of work, each of us has, and puts us in position when we finally do see what the actual policies are, to make, you know, a more careful, thoughtful assessment of what might be the appropriate policy response.

**ASSOCIATED PRESS: The recent bout of inflation with consumers seeing how prices can rise and businesses seeing that they can raise prices, at least for some time, does that make it a little bit riskier to look through tariffs? Do you feel you have to respond more quickly to inflation threats given what we've seen in the past few years?**

POWELL: So the main thing is and this is also a point in the alternative simulation, there are many, factors that go into what -- how much tariffs will even go into consumer inflation. How persistent will that be. So we just don't know, really, very much at all about the actual policies. So it's very premature to try to make any kind of conclusion. We don't know what will be tariffed from what countries for how long in what size. We don't know whether there will be retaliatory tariffs. We don't know the transmission of any of that into consumer prices. To your point as well, I wouldn't say that we know whether the last episode is or is not a good model for what happened. You pointed out, we've just been through a period of high inflation. We've just gotten through that period. That's a difference. And it was quite a bit of diversion of trade away from China to other countries since that may have effects. I don't know. We need to take our time, not rush. And make a very careful sequels., but only when we've actually see what the policies are and how they're implemented and. We're just not at that stage. We're at the stage of doing what other forecasters are doing when is thinking about these questions but not trying to get to definitive answers for some time.

**WALL STREET JOURNAL: Participants today revised up their core PCE inflation projection for '25 so the central tendency runs from 2.5 to 2.7% and as Howard noted, most of the committee sees the risks to the month to the upside. If inflation only declines from 2.8 to 2.5 to 2.7, what would compel the committee to be cutting in that situation?**

POWELL: Let me find these numbers. So we have -- we have inflation -- core inflation coming down to 2.5% next year. That would be significant progress. You see a slower path. I think that does take onboard that we want to see real progress, but we'd be seeing meaningful progress to get inflation down to that level. That wouldn't be all the way to 2%, but that would be, you know, better than this year. This year will be 2.8% or 2.9%. That would be meaningful.

We also have to think about the labor market. And while we have the play boar market forecast as being in good shape, we are also mindful that it is still out there very gradually cooling, so far in an orally, gradual way, but it's also something we need to keep our eye on.

**WALL STREET JOURNAL: If somebody looked at the projections and also the insertion of the extent and timing language in statement which has been used at times in the past when the committee thinks maybe it's going to be on hold for a while, and they said, gee, this looks like it could be the last rate cut for some time, would they be mistaken to infer that?**

POWELL: That's not any decision we've made at all. Let me explain extent and timing. The sense of that wording is to make clear if the economy does evolve about as anticipated, we are at a point where it would be appropriate to slow the pace of rate cuts. So extent, that relates to how much further we can reduce our policy rate consistent with getting to a neutral stance. Clearly that has junk by a hundred basis points. So it's significantly smaller some that's the extent question.

And again, we're going to be looking for further progress on inflation as well as a strong labor market to make those cuts.

Timing suggests, again, that we're at a place, assuming the economy develops as expected, we're at or near a level that will make it appropriate to slow the pace of adjustment. So that's what we mean by that. We're not trying to make decisions about the longer run. You know, we're trying to make sensible policy as we go. And you know, I would emphasis the uncertainty, it's just a function of the fact that we expect significant policy changes, nothing really unusual about that. I think we need to see what they are and see what effects they will have. We'll have a much clearer picture, I think, when that happens.

**BLOOMBERG RADIO AND TELEVISION: Even though you've cut rates by a hundred basis points this year, we haven't seen much change in mortgage, auto loan rates or credit card rates. You say you're significantly restrictive. Are you running a risk that the markets are fighting against you? And the economy could be more at risk of a slowdown than you anticipate?**

POWELL: The rates that you talked about are really longer-run rates and they are affected, to some extent, by fed policy but they're also affected by many other things. And longer rates have actually gone up quite a bit since September, as you well know. And those are the things that drive, for example, mortgage rates more than short-term rates do.

So we look at that. But we look at all financial conditions, and then we look at what's happening in the economy. So what we see happening in the economy, again, is most forecasters have been calling for a slow down in growth for a very long time, and it keeps not happening. So we are now well into another year of growth that looks like it might be 2.5%. Second and third quarters were right about the same level. So U.S. economy is performing very, very well, substantially better than our global peer group. And there's no reason to think a downturn is anymore more likely than it usually is.

So the outlook is pretty bright for our my. We have to stay on task though and continue to have restrictive policies so we can get inflation down to 2%. We're also going to be looking out for the labor market. We have to keep the lay boar market pretty close to where it is. We're pretty close to the natural rate of unemployment. Job creation is a little below the level that would keep it there, but nonetheless, close. And so, that's what our policy is trying to achieve.

**BLOOMBERG: Your formulation for beginning rate cuts included the phrase "we needed to have confidence." Do you have confidence or are you uncertain about the rate of inflation?**

POWELL: Confidence was our test for raising rates. We've made a great deal of progress. We're well into the 2s in core inflation and around 2.5 or lower than that, we have been for headline inflation. So I would say I'm confident that inflation has come down a great deal, and I'm confident in the story about why it's come down and why that tends well. And I'll tell you why. Again, you do see with housing services inflation, which is one that we've really worried about, it really has come down quite steadily at a slower pace than we thought two years ago, but it's nonetheless steadily coming down as apartment rents equal better with new leases that turnover. Not new tenants but new leases. So that's happening, that process is ongoing pretty much as we expect.

Goods inflation, which is another big piece of it, has returned right to the range where it was before the pandemic. Just for some months this year, it kind of moved up in a bumpy way because of used cars and things like, that but overall, that should generally be in the range it was in. That leaves non-housing services and market-based non-housing services in good shape. It's non-market services and those are services that are inputterred rather than measured directly. And they don't -- we think they don't really tell us much about the tightness in the economy. They don't really reflect that. I mean, a good example is financial service which is really done off of asset prices. And that just -- so that's how Thane inauguration works. So the overall picture, the story of why inflation should be coming down is still intact. In particular, the labor market. Look at the labor market, it is cooler by so many measures now. Modestly cooler than 2019, a year h inflation was well under 2%. So it's not the source of inflationary pressures. Not to say there aren't regional and particular professions where labor is tight, but overall, you're not getting impulses of significance from the labor market. So what's the story? The story is just we're unwinding from these large shocks that the economy got in 2021 and '22, and for example, in housing services and now also in insurance, in particular, where cost went up and those are now being reflected later in housing insurance. It's real inflation. So we and most other forecasters still feel that we're on-track to get down to 2%. It might take another year or two from here. But I'm confident that's the path we're on. And our policy will do everything it can to assure that is the case.

**FINANCIAL TIMES: The unemployment rate is within spitting distance -- in the lead-up to the 50-basis point cut in September. Hiring has narrowed to a handful of sectors. And now the committee appears comfortable skipping cuts at upcoming meetings. What has changed about the committee's assessment of the risks con fronting the labor mark Senate less concern now on that front? Or is it just about there being more upside risk that now needs to be accounted for?**

POWELL: The unemployment rate has now -- is now the same as it was in July, 4.2%. It's moved up-and-down, but it's now the same as July. And job creation is lower than it has but it's been stead -- it's not declining. It's steady at a level which, as I pointed out a couple time is, below the level that would hold the unemployment rate constant but not so far below. So if we have the break-even level right and if job creation continues at that level in the establishment survey, then you would get a tenth maybe every other month kind of thing.

To gradually declining, but we don't have that kind of precision in this. But you're right, and I read out some of the reasons. We think the labor market is still cooling by many measures and we are watching that closely. It's not cooling in a quick or a way that really raises concerns. I think, you know, you pointed out, participants in the FOMC thought that the risks and uncertainty improved relative to the labor market. And because things have gotten better. Unemployment rate flat and things like. That nonetheless, we're watching it closely.

**FINANCIAL TIMES: If the idea is that no additional softening the welcomed here, what's to prevent that from happening if rates are still restrictive?**

POWELL: What I said is I don't think we need further soften to get to 2% inflation. Not that it's not welcome. We don't need it, we don't think. If you had a situation where inflation is moving around by a tenth every few months, you know, we would have to weigh that against the fact that inflation has in recent months been moving sideways in 12-month window. So we have to weigh them both at this point. For a while there, we were only focused mainly focused on inflation. We've now got on the a place where the risks to the two we think are broadly, roughly in balance. So that's how we think about it.

**CNBC: Mr. Chairman, I did not hear you use the word "recalibration" today. And I'm wondering if the recalibration phase is over? And what you might call this new phase and whether the criteria for changing rates is somehow different and higher than it was before? Thanks.**

POWELL: We're not renaming the phase. Yet. But we may get around to that. No, I would say, We are though in a new phase in the process, as I said. And that's just because we've reduced our policy rate by a hundred basis points. We are significantly closer to neutral. We still think where we are is meaningfully restrictive. And I think from this point forward, you know, it's appropriate to move cautiously and look for progress on inflation. We've done a lot to support economic activity by cutting a hundred basis points. And that's a good thing. I support the decision. And I think it was the right decision to make. I think from now, we are in a place where the risks really are balanced and we need to see progress on inflation. And that's how we're thinking about it. So it is kind of a new thing. We moved pretty quickly to get to here. And going forward, moving slower had which is consistent with the SEP.

**CNBC: How much you or the committee are looking through some of the high numbers we've had in the recent inflation numbers. For example, cars up maybe because of the hurricanes. Eggs because of the flu. That kind of stuff. And then looking forward to housing inflation coming down as it did in the recent report.**

POWELL: So we always try to be careful about not throwing out the numbers we don’t like. It’s just occupational hazard is to look – oh, those high months are wrong. What about the low months? We have a very low month potentially in November. It’s estimated by many to be in the mid-teens for core PCE. So that could be low. We try to look at not just a couple of three months. We shouldn’t – our position shouldn’t change based on two or three months of good or bad data. We have a long string now of inflation coming down, gradually over time. As I mentioned, 12-month, I think it’s 12-month headlines 2.5, 12-month core is 2.8. That’s way better than we were. We still have work to do though is how we’re looking at it. And we need policy to remain restrictive to get that work done, we think.

**AXIOS: Financial markets have been buoyant all year. Is the committee comfortable with where financial conditions are? Or do you see a risk that it could undermine progress on the inflation target?**

POWELL: We look carefully at financial conditions, that’s part of what we do. But what we look at is the performance of our goal variables and how we're affecting the economy. So what we have seen over the course of just take the last year, we've seen inflation, well, over the last couple years come down a lot. We have seen the labor market cool off quite a bit. That suggests our policy is restrictive. And we can look more directly at the parts of the economy that are app effected that are interest sensitive. Like housing. Housing activity is very low, and that's significantly because of our policies. So we think our policy is working. It's transmitting and having the affects on our goal variables that we would want. You know, a lot of things move financial conditions around, as you know, and we don't really control those. But we see the effects we're hoping to see on did goal variable ands places where we would expect to see it.

**AXIOS: Speaking of assets that have been buoyant, do you see value or benefit in the US government building a reserve of Bitcoin?**

POWELL: So, you know, we're not allowed to own Bitcoin. The Federal Reserve act says what we can own and we're not looking for a law change. That's the kind of thing for Congress to k but we are not looking for a law change at the Fed.

**WASHINGTON POST: I was wondering if you are satisfied with the way 2024 is ending? If you're confident that we have avoided the recession that forecasters were predicting as inevitable a couple years ago?**

POWELL: I think it's pretty clear we have avoided a recession. I think growth this year has been solid. It really has. PDF p, which we think is the best indicator, private demand is looking to come in around 3% this year. This is a really good number. The U.S. economy has been remarkable. In these international meetings that I attend, this has been the story is how well the U.S. is doing. If you look around the world, there's a lot of slow growth and continued struggle with inflation.

So I feel very good about where the economy is and the performance of the economy and we want to keep that going.

**WASHINGTON POST: The other thing I wanted to ask about, you guys have noted that the unemployment rate is still low. However, employment rates have fallen rather quickly. The prime employment rate has fallen by half a point recently. The question, I guess is: Do you think there's maybe more downside momentum in the labor market than the unemployment rate alone is signaling?**

POWELL: I don't think so, no. Overall, the participation is still very high. What's going on in the labor market is that the hiring rate is low. So if you have a job, you're doing very well. And lay-offs are very low. So people are not losing their jobs in large numbers, unusually large numbers. If you are looking for a job though, the hiring rate is low. And that's a signal of lower demand. It has come down. So we look for sign like that. And that's clearly a sign of softening, further softening, I didn't mention it earlier, but I think you can see an ongoing gradual softening in the labor market. Again, not something we need to see to get 2%

inflation. And that's part of the reason that explain why is we moved ahead today with the action w the additional cut.

But you take a step back, the level of unemployment is very low. Again, participation is high. Wages are at a healthy and ever-more sustainable level. So the labor market, this is a good labor market. And we want to keep it that way.

**BLOOMBERG: I just want to put a final point on the labor market. Can you keep the labor market this way in the strong position you have described without further cuts? In other words, do you still view the labor market as needing support to protect against further cooling?**

POWELL: You know, we can't know that with any tremendous certainty. I will say that we think that our policy balances the risks. We think the risks are roughly in balance between the two mandates. And we think the labor market is in solid shape. And when I say it's softening or cooling, it's very gradual process. You know, job creations are meanfully positive. Wages are, if anything, a still a bit above what would be sustainable if product activity were to revert to its longer-run trend. If you take into account the high productivity readings we've had, wages are already at a sustainable level relative to 2% inflation.

So again, I don't want to overstate the down side in the labor market because the down side clearly appear to have diminished. Nonetheless, it's one of our mandate goals. And you know, we pay close attention to it. And it's worth noting that it is still gradually cooling. Gradually and in an orderly way. And you know, that's how I would characterize and it that's why we're paying careful attention.

**ABC NEWS: As you noted, the Fed is forecasting higher inflation next year, high prices are still a burden for so many households right now. Why do you think that inflation is proving to be more stubborn than you expected?**

POWELL: You know, it breaks down into a long answer if you want. But just has been a little bit more stubborn. I think if you go back two or three years, many people were saying that to get this far down, we would have had to have a deep recession and high unemployment by now. That has not been the case. The path down has actually been much better than many predicted. We've managed to have the unemployment rate remain, essentially, at its longer-run, natural rate while inflation has come down from, you know, core PCE inflation has come down from 5.6% to 2.8% on a 12-month basis. So that's a pretty good outcome.

Why hasn't it come down? One reason is that just a technical issue around the way we calculate housing services. And that process has been slower than market rents are showing up more slowly in that measure than we might have thought two years ago. So that's part of it.

I think there are other parts of the story. But, you know, what I think people are feeling right now is the effect of high prices. Not high inflation. So we understand very well that prices went up by a great deal, and people really feel that. And prices of food and transportation and heating your home and things like that. So there's tremendous pain in that burst of inflation that was very global. This was everywhere in all advanced economies at the same time. So now we have inflation itself is way down but people are still feeling high prices. And that is really what people are feeling. The best we can do for them, and that's who we work for, is to get inflation back down to it's target and keep it there so that people are earning, you know, big, real wage increases so that their wages are going up, their compensation is going up faster than inflation year upon year upon year and that's what will restore people's good feeling about the economy. That's what it will take, and that's what we're aiming for

**ABC NEWS: As we look ahead to next year, what do you see as the biggest challenge to the economy under the next administration?**

POWELL: I feel really good about where the economy is. I'm very optimistic about the economy. And we're in a really good place. Our policy is in a really good place. I expect another good year next year.

**FOX BUSINESS: You say we're closer to the neutral rate. What percent do you see and the committee believe, where is that neutral rate?**

POWELL: So I'll say a couple things. First of all, when -- the thing we write down in the summary of economic projections is the longer had run neutral rate which is the neutral rate at a time when supply and demand are in balance, the full economy is in balance, and no shocks are hitting the economy. That is not where we are right now. So when we're making monetary policy at the Fed, that's not the question we're asking. So you can't do a straight read between those longer-run numbers that we write down and what we think the appropriate policy should be.

So basically, at any given time, various shocks are hitting the economy. So what we're doing in real time is we're looking at our policy stance and we're looking at the way it's hitting the economy and particularly, we look at the effects it's having as we try to move the economy towards maximum employment and price stability. And the answer can be, there are things that affect the economy that are lasting but not permanent. And the ones that are permanent are the ones that would be in our star. The ones that could be lasting but nonetheless go away over time, they could actually affect what's sort of technically the appropriate neutral stance in near term. So we're looking at that, and you know, we don't know exactly where it is. But as I like to say, We know it by its works. And what we know for sure is we're a hundred basis points closer to it right now. There are many estimates of where that might be, and we know we're closer to it. And I think we're in a good place, but I think from here, it's a new phase. And we're going to be, you know, cautious about further cuts.

**FOX BUSINESS: But I think the markets are looking for more clarity. I've heard estimates from 2.9% to 4%. The markets would like to see more clarity about a year out, 18 months out, for where the goalpost, for lack of a better term, is? Because at the moment, it looks big.**

POWELL: There are countless models of what a neutral rate might be. Empirical models, theoretical models. And they have as many different answers as you would like. There's no real certainty. And it's a good thing to know that we don't know exactly where it is. So you're not tempted to think, oh, thing model or this estimate is right. You just have to be open to, you know, the empirical data that are coming in and how it's affecting the outlook. And it's not made easier by the fact that our policy works with long and variable legs. Nonetheless, that is the job we have so we're, I think we need -- it's appropriate for us now to proceed cautiously now that we're a hundred basis points closer to neutral. And we'll do so.

Meanwhile, the economy seems to be in good shape. And these cuts will certainly help to support economic activity and the labor market while we can still make progress on inflation because policy is still meaningfully restrictive.

**POLITICO: Are you saying that progress on core PCE as progress on inflation even if headline inflation ticks up? And since that's what's projected, what accounts for that? Why do you all see core PCE going down and potentially headline inflation ticking up?**

POWELL: And I imagine you know, the goal overall is headline inflation because that's what people experience. People don't experience core inflation. They experience inflation, and that includes food and energy costs. So that's the overall goal.

But as we know, headline inflation contains energy and food. And those prices can fluctuate for reasons not related to tightness in the economy and therefore are not really good predictors of future inflation. So turns out that core inflation is a better predictor of overall inflation than overall inflation. So we look at core inflation because it's a better measure of what future inflation is likely to be because it's a better measure of what inflation pressures exist. So that's -- it's complicated, but ultimately, our goal is headline, not core. So your question was -- your second question what was?

**POLITICO: Why do you see core going down but headline going up?**

POWELL: Headline can be affected -- you're talking about next year. Yeah, so headline, again, can be affected by energy prices and food prices. So there will be things in the headline forecast to do with forecasts of energy prices. Whereas core will be -- if you look at core going out a full year, then it will be much more driven by things like tightness in the economy. So that's -- the two can go in different directions. Headline has been lower, as you know, most of this year, but that's because energy prices have been coming down, which is a great thing for people, but energy prices will come down and then go up and it won't tell us anything about how tight the economy is --

**POLITICO: Do geopolitical risks factor in at all?**

POWELL: We monitor closely -- really carefully. But I would say so far, those risks haven't really -- nothing has come out of those risks that's really been important for the United States economy. The single thing you would look to is the price of oil, given that we're talking about the Middle East and Ukraine, and you know, -- but that is a good summary statistic for the kind of thing that could go wrong with global turmoil, but the price of oil has been coming down, because of supply conditions, global supply conditions. So we don't -- the U.S. is not feeling really the effects of geopolitical turmoil, but certainly we are at a time of elevated geopolitical turmoil and it remains a risk.

**CBS NEWS: I want to go back, wage growth is outpacing inflation now it wasn't the case for some time, of course, it's partly why Americans haven't felt much relief in their wallets from prices yet. But with inflation ticking up, how worried are you the progress in closing that gap could go away.**

POWELL: Yeah, so inflation, again, we don't over react to a couple of months of higher readings or a couple months of lower readings. We had four months of really nice readings, and September and October were higher, but November is much lower. So I don't really think the public is experiencing that as a surprising upside risk to inflation. I think inflation is much lower. What the public is feeling and they're right about it is that prices are just -- the price level went up because of the past inflation. And it's going to take some time for real wages to recover over a period of years in which your real compensation is growing, in other words, your compensation is growing meaningfully faster than inflation. That's exactly the kind of economy we have now. And we just want to hold on to it. That process will probably take some years, but that's what's going on right now. And I don't think that a couple months of higher inflation really signal anything of nature you're suggesting.

**CBS NEWS: You previously predicted hitting the 2% inflation target in 2026. It's now been pushed out to 2027. You said you're focused on enabling further progress on**

**inflation. That's not necessarily progress in the right direction. Are you confident that target isn't going to move further out?**

POWELL: We're talking about -- projecting the economy, you know, three years out, two years out, you're talking about high uncertainty. Very high uncertainty. We really at that point, it's not -- that's not possible to confidently predict where the economy is going to be in three years. So what we're doing is looking at what's happening now and project the same kinds of things are happening. So we keep a strong labor market, housing services inflation comes down, goods and services -- goods inflations settles down, and non-market services return to their prior level. All of those things should happen over time. And those pieces come together. There's every reason to think that they will. The timing is highly uncertain I. But you're not wrong though that we've -- it's been a bit frustrating because while we've made progress, it has been slower than we had hoped. Nonetheless, we're still on-track, and I think two years ago if you said we were at 4.2% unemployment and 2.8% inflation, people would say I'll take that. I mean, that's a pretty good interim place to be. Jobs not done. But I think we're feeling good about where we are and where we're headed.

**MARKETPLACE: You said a couple times inflation has been moving sideways. Appears to be settling in around, excuse me, 2.5%. Do you think the Fed is just going to have to settle for that and accept that you're not going to get to your 2% target?**

POWELL: No. We're not going to settle for that. I think we certainly have every intention and expectation that we'll get inflation back sustainably to 2%. That is -- and I am confident we will achieve that.

It has taken longer, but you have to be, you know, we are making progress. We have made a great deal of progress, and we'll continue to do so and get back to 2% inflation. That's what we owe the public, and we're committed to achieving it

**MARKETPLACE: In that case, can you rule out a rate hike next year?**

POWELL: You don't rule things completely in or out in this world. That doesn't appear to be a likely outcome. I think we're at 4.3%, that's meaningfully restrictive. And I think it's a well-calibrated rate for us to continue to make progress on inflation while keeping a strong labor market. Thank you very much.