Pedestrians walk past the New York Stock Exchange on January 19. Spencer Platt/Getty Images

The US economy added a whopping 353,000 jobs in January, racing past economists' expectations.

Here's what Wall Street has to say:

- "The Fed's 'highly unlikely' for March seems applicable. Whether the Fed goes in March or May, the pivot has happened and monetary policy will be wind at the sails of fixed income investors in this strong economic environment," said **Lindsay Rosner, head of multi-sector fixed income investing at Goldman Sachs Asset Management**.
- "Today's jobs report calls into question the narrative of a soft landing for the economy. The January jobs report was pretty dramatic, implying there may be no landing. The economy is ripping ahead," said **David Donabedian, chief investment office at CIBC Private Wealth US.**
- "On the basis of today's jobs report, there is absolutely no sign of a softening labor market or weakening wage pressures. ... Certainly, with this kind of number, the six or seven rate cuts

strategist at Principal Asset Management.

- "Just as many were caught off guard by the recession that never appeared in 2023, there's always the possibility that another year will go by without a recession – and if that's the case, it's hard to see a new bear market starting without one," said **Chris Zaccarelli, chief investment officer at Independent Advisor Alliance.**
- "There was a lot of noise in the data, with potential for revisions lower. It keeps a bottom on interest rates for now but also doesn't mean inflation is headed back up considering the recent productivity numbers. Longer term, stocks could be in a strong spot with accelerating economic growth supporting consumption and earnings," said **David Russell, global head of market strategy at TradeStation**.

10:23 a.m. ET, February 2, 2024

What this super strong jobs report means for the 2024 presidential race

From CNN's David Goldman

Former President Donald Trump said the economy would tumble. He said the stock market is booming because of the prospect of his victory. And he's promoting conspiracy theories about the Fed considering rate cuts to favor President Joe Biden.

Former South Carolina Gov. Nikki Haley has attacked Biden's record on inflation and the cost of living.

But the economy, fresh off a shockingly strong year in 2023, is expected to grow at an even stronger 4.2% rate in the first quarter. And today's jobs report shows America's economy remains surprisingly strong.

A new CNN poll shows Biden still has a lot of convincing to do: Perception of the economy remains deep under water. But the mood is heading in a positive direction — which should come as a relief to Biden, because the economy is one of his weakest issues, according to favorability polls. However, if hiring remains strong and inflation keeps falling, it may become easier for Biden to convince voters he's doing a good job strengthening the economy.

9:38 a.m. ET, February 2, 2024

American workers are still enjoying strong wage gains

Wage growth picked up in the beginning of the year, remaining at historically strong levels not seen in pre-pandemic times.

Average hourly earnings for private workers rose by 19 cents in January, or 0.6%, to $34.55. That's a stronger monthly gain than December's 0.4% increase. From a year ago, wages were up 4.5%, down slightly from 2023's peak of 4.7%, but well above any annual wage increase on Labor Department records going back to 2007.

That means Americans might just be gaining more spending power. Inflation slowed markedly throughout 2023, not showing any signs of picking up in the final months of last year.
If inflation gauges due later this month show that price hikes continued to cool in January, or simply held steady, then that's a big win for American workers who are continuing to earn more.

For the Fed, strong wage growth could make it harder to successfully defeat inflation. That's because strong wage growth points to employers' labor costs rising, and those higher costs

Wage gains can indeed be robust without stoking inflation — if productivity is keeping up. The goods new for now is that data this week showed that productivity, measured as nonfarm employee output per hour, rose at a solid 3.2% annualized rate in the fourth quarter.

9:32 a.m. ET, February 2, 2024

Markets open mixed after strong jobs report and tech earnings

People walk by the New York Stock Exchange in the Financial District of New York City in March 2023. Spencer Platt/Getty Images

US stocks opened mixed on Friday following a stronger-than-expected jobs report and earnings beats from tech giants Amazon and Meta.

The blue-chip Dow Jones Industrial Average lost 63 points, or 0.2%, on Friday morning. The S&P 500 was up 0.2% and the tech-heavy Nasdaq Composite was 0.3% higher.

remained unchanged at 3.7% last month. Wages also grew by 4.5% year over year.

The news pushed Treasuries higher – the yield on the 10-year Treasury was up about 0.14%, and crossed the 4% threshold.

In the past, a strong labor market has worried Wall Street because the Federal Reserve has cited it as a reason to keep interest rates higher for longer. But at the central bank's January meeting, Fed Chair Jerome Powell indicated that Wall Street should treat good news as good news.

"I think we look at stronger growth, we don't look at it as a problem," Powell said. "At this point, we want to see strong growth. We want to see a strong labor market. We're not looking for a weaker labor market. We're looking for inflation to continue to come down as it has been coming down for the last six months."

In corporate news, Big Tech popped after Amazon and Facebook-parent Meta beat earnings expectations.

Meta shares soared by about 16% after the company also announced a $50 billion share buyback program and said it would pay a quarterly dividend for the first time.

Amazon shares grew by 6.1% following an earnings beat.

Apple shares, however, slid 2.9% after the company said sales in China had declined.

9:19 a.m. ET, February 2, 2024

Where the jobs are

From CNN's Matt Stiles and Byron Manley

Total nonfarm payroll employment rose by 353,000 in January, and the unemployment rate remained at 3.7 percent. Job gains occurred in professional and business services, health care, retail trade, and social assistance. Employment declined in mining, quarrying, and oil and gas extraction.

Education and health services	112K
Professional and business services	74K
Retail trade	45.2K
Government	36K
Manufacturing	23K
Transportation and warehousing	15.5K
Information	15K
Construction	11K
Leisure and hospitality	11K
Financial activities	8K
Other services	5K
Wholesale trade	2.1K
Utilities	1.8K
Mining and logging	−6K

Data last updated Feb. 2, 2024.

Note: Employment numbers reflect monthly change in non-farm jobs and is seasonally adjusted. Figures from two most recent months are preliminary.

Source: US Bureau of Labor Statistics
Graphic: Byron Manley and Matt Stiles, CNN

9:09 a.m. ET, February 2, 2024

How did the unemployment rate stay the same even with a blowout jobs number?

A whopping number of jobs were added last month — so how did the unemployment rate hold firm at 3.7%?

unemployed. To be considered unemployed, you don't necessarily have to have been laid off recently.

The Bureau of Labor Statistics classifies someone as unemployed if they aren't working but are available for work and made a specific effort in the past month to find a job. If they don't satisfy that criteria, they aren't considered part of the labor force.

What that means is the unemployment rate will increase when the number of unemployed people increases by more than the number of employed people in a given month.

There's one other wrinkle, though. The so-called "headline jobs number," or the number of jobs that were added in a month, is a product of a different survey than the one used to calculate the unemployment rate. That's another reason why there can be months when a lot of jobs are added and the unemployment rate increases.

9:27 a.m. ET, February 2, 2024

Wall Street is finally giving up on the possibility of the Fed cutting interest rates in March

Federal Reserve Board Chairman Jerome Powell speaks during a news conference in Washington, DC, on Wednesday. Anna Moneymaker/Getty Images

The latest jobs data shows that America's job market remains shockingly robust in the face of the highest interest rates in 23 years.

And the January report could have finally quelled Wall Street's belief that the Federal Reserve could start to cut interest rates as soon as March, according to futures.

About a month ago, the odds of a March cut were north of 75%, but as of Friday morning, they were below 19%, according to the CME FedWatch tool. The Fed's March 19-20 meeting is still several weeks away and many economic reports are due by then, but investors finally seem to be coming to grip with what Fed officials have been communicating all along.

At this week's Fed policy meeting, Fed Chair Jerome Powell pushed back on the market's expectation of the first cut coming in the spring, saying that “there was no proposal to cut rates,” and that cutting in March is “probably not the most likely case.” Officials need to see “greater confidence” that inflation is on a sustainable path toward 2% before considering rate cuts, he said.

summer of 2022 as the labor continued to hum along. But economists widely agree that it will be highly unlikely for inflation to drift all the way to the Fed's 2% target without a further weakening in the job market.

Inflation's slowdown in recent years was mostly due to supply-side developments, such as improving supply chains, so the final mile of the Fed's historic inflation would have to be helped along by waning demand.

The January jobs report shows that demand is expected to remain solid, with Americans employed and enjoying strong wage growth.

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Transcript of Chair Powell's Press Conference
December 13, 2023

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.

As we approach the end of the year, it's natural to look back on the progress that has been made toward our dual-mandate objectives. Inflation has eased from its highs, and this has come without a significant increase in unemployment. That's very good news. But inflation is still too high, ongoing progress in bringing it down is not assured, and the path forward is uncertain. As we look ahead to next year, I want to assure the American people that we're fully committed to returning inflation to our 2 percent goal. Restoring price stability is essential to 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. We've raised our policy interest rate by 5¼ percentage points and have continued to reduce our securities holdings at a brisk pace. Our actions have moved our policy rate well into restrictive territory, meaning that tight policy is putting downward pressure on economic activity and inflation, and the full effects of our tightening likely have not yet been felt.

Today, we decided to leave our policy interest rate unchanged and to continue to reduce our securities holdings. Given how far we have come, along with the uncertainties and risks that we face, the Committee is proceeding carefully. We will make decisions about the extent of any additional policy firming and how long policy will remain restrictive based on the totality of the incoming data, the evolving outlook, and the balance of risks. I will have more to say about monetary policy after briefly reviewing economic developments.

Recent indicators suggest that growth of economic activity has slowed substantially from the outsized pace seen in the third quarter. Even so, GDP is on track to expand around

2½ percent for the year as a whole, bolstered by strong consumer demand as well as improving supply conditions. After picking somewhat over the—up somewhat over the summer, activity in the housing sector has flattened out and remains well below the levels of a year ago, largely reflecting higher mortgage rates. Higher interest rates also appear to be weighing on business fixed investment. In our Summary of Economic Projections (SEP), Committee participants revised up their assessments of GDP growth this year but expect growth to cool, with the median projection falling to 1.4 percent next year.

The labor market remains tight, but supply and demand conditions continue to come into better balance. Over the past three months, payroll job gains averaged 204,000 jobs per month, a strong pace that is nevertheless below that seen earlier in the year. The unemployment rate remains low at 3.7 percent. Strong job creation has been accompanied by an increase in the supply of workers. The labor force participation rate has moved up since last year, particularly for individuals aged 25 to 54 years, and immigration has returned to pre-pandemic levels.

Nominal wage growth appears to be easing, and job vacancies have declined. Although the jobs-to-workers gap has narrowed, labor demand still exceeds the supply of available workers. FOMC participants expect the rebalancing in the labor market to continue, easing upward pressures on inflation. The median unemployment rate projection in the SEP rises somewhat from 3.8 percent at the end of this year to 4.1 percent at the end of next year.

Inflation has eased over the past year but remains above our longer-run goal of 2 percent. Based on the consumer price index and other data, we estimate that total PCE prices rose 2.6 percent over the 12 months ending in November and that, excluding the volatile food and energy categories, core PCE prices rose 3.1 percent.

The lower inflation readings over the past several months are welcome, but we will need to see further evidence to build confidence that inflation is moving down sustainably toward our goal.

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. As is evident from the SEP, we anticipate that the process of getting inflation all the way to 2 percent will take some time. The median projection in the SEP is 2.8 percent this year, falls to 2.4 percent next year, and reaches 2 percent in 2026.

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, 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.

As I noted earlier, since early last year, we have raised our policy rate by 5¼ percentage points, and we have decreased our securities holdings by more than $1 trillion. Our restrictive stance of monetary policy is putting downward pressure on economic activity and inflation. The Committee decided at today's meeting to maintain the target range for the federal funds rate at 5¼ to 5½ percent and to continue the process of significantly reducing our securities holdings.

While we believe that our policy rate is likely at or near its peak for this tightening cycle, the economy has surprised forecasters in many ways since the pandemic, and ongoing progress—sorry—ongoing progress toward our 2 percent inflation objective is not assured. We are prepared to tighten policy further if appropriate. We're committed to achieving a stance of monetary policy that is sufficiently restrictive to bring inflation sustainably down to 2 percent over time and to keeping policy restrictive until we're confident that inflation is on a path to that objective.

In our SEP, 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. While participants do not view it as likely to be appropriate to raise interest rates further, neither do they want to take the possibility off the table. If the economy evolves as projected, the median participant projects that the appropriate level of the federal funds rate will be 4.6 percent at the end of 2024, 3.6 percent at the end of 2025, and 2.9 percent at the end of 2026, still above the median longer-term rate.

These projections are not a Committee decision or plan; if the economy does not evolve as projected, the path of policy will adjust as appropriate to foster our maximum-employment and price-stability goals.

In light of the uncertainties and risks, and how far we have come, the Committee is proceeding carefully. We will continue to make our decisions meeting by meeting, based on the totality of the incoming data and their implications for the outlook for economic activity and inflation, as well as the balance of risks. In determining the extent of any 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 remain committed to bringing inflation back down to our 2 percent goal and to keeping longer-term inflation expectations well anchored. 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. I look forward to your questions.

MICHELLE SMITH. Let's go to Chris Rugaber.

CHRISTOPHER RUGABER. Thank you. Chris Rugaber at Associated Press. I wanted to ask, how should we interpret the addition of the word "any" before "additional . . . firming" in the statement? I mean, does that mean that you're pretty much done with rate hikes and the Committee has shifted away from a tightening bias and toward a more neutral stance? Thank you.

CHAIR POWELL. So—specifically on "any": We do say that "in determining the extent of any additional policy firming that may be appropriate," so "any additional policy firming"—that sentence. So we added the word "any" as an acknowledgement that we believe that we are likely at or near the, the peak rate for this cycle. Participants didn't write down additional hikes that we believe are likely, so that's what we wrote down. But participants also didn't want to take the possibility of further hikes off the table. So that's really what we were thinking.

MICHELLE SMITH. Steve.

STEVE LIESMAN. Steve Liesman, CNBC. Happy holidays, Mr. Chairman. Fed Governor Chris Waller said that if inflation continues to fall, then the Fed in the next several months could be cutting interest rates. I wonder if you could comment on whether you agree with Fed Governor Waller on that, that the Fed would become more restrictive if it didn't cut rates if inflation fell. Thank you, sir.

CHAIR POWELL. So, of course, I don't comment on, on any other officials, even those who work at the Fed. But I'll—but I'll try to answer your question more broadly. So the way—the way we're looking at it is, is really this. When we started out, right, we said the first question is, how fast to move, and we moved very fast. The second question is, you know, really, how high to raise the policy rate? And that's really the question that we're still on here. We're, we're very focused on that, as I—as I mentioned. People generally think that we're at or near that and, and think it's not likely that we will hike, although they don't take that possibility off the table. So that's—when you get to that question, and that's your answer, there's a natural—naturally, it begins to be the next question, which is when it will become appropriate to begin dialing back the amount of policy restraint that's in place.

So that's really the next question, and that's what people are thinking about and, and talking about. And I would just say this. We are seeing, you know, strong growth that is—that appears to be moderating; we're seeing a labor market that is coming back into balance by so many measures; and we're seeing inflation making real progress. These are the things we've been wanting to see. We can't know. We still have a ways to go. No one is declaring victory. That would be premature. And we can't be guaranteed of this progress [continuing]. So we're, we're moving carefully in making that assessment of whether we need to do more or not. And that's, that's really the question that we're on. But, of course, the other question, the question of when will it become appropriate to begin dialing back the amount of policy restraint in place, that, that begins to come into view and is clearly a discussion—topic of discussion out in the world and also a discussion for us at our meeting today.

STEVE LIESMAN. Can you give some color as to the nature of that discussion today? Thank you.

CHAIR POWELL. Sure. So it, it comes up in this way today. Everybody wrote down an SEP forecast. So many people mentioned what their—what their rate forecast was. And there was no back-and-forth, no attempt to sort of reach agreement like, "This is what I wrote down; this is what I think," that kind of thing, and a preliminary kind of a discussion like that. Not everybody did that, but many people did. And then, and I would say, there's a general expectation that this will be—this will be a topic for us, looking ahead. That, that's really what happened in today's meeting. I can't do the head count for you in real time. But that's generally what happened today.

STEVE LIESMAN. Thank you.

MICHELLE SMITH. Let's go to Rachel.

RACHEL SIEGEL. Hi, Chair Powell. Rachel Siegel from the *Washington Post*. Thanks for taking our questions. At this point, can you confidently say that the economy has avoided a recession and isn't heading for one now? And if the answer is "no," I'm curious about what you'd still be looking for. Thanks.

CHAIR POWELL. I think you can say that there's little basis for thinking that the economy is in a recession now. I would say that.

I think there's, there's always a probability that, that there will be a recession in the next year, and it's a meaningful probability no matter what the economy is doing. So it's always a real possibility. The question is, is it—so it's a possibility here. I have always felt, since the beginning, that there was a possibility, because of the unusual situation, that the economy could cool off in a way that enabled inflation to come down without the kind of large job losses that have often been associated with high inflation and tightening cycles. So far, that's what we're seeing. That's what many forecasters, on and off the Committee, are seeing. This result is not guaranteed. It is—it is far too early to declare victory. And there are certainly risks. It's certainly possible that, that the economy will behave in an unexpected way. It has done that repeatedly through the post—in the post-pandemic period. Nonetheless, where we are is, is we see the things that I—that I mentioned.

RACHEL SIEGEL. I'm curious, if you're looking back on the past year, you talked about "navigating by the stars under cloudy skies." Can you talk about some of the ways in which the economy surprised you most this year, where you thought it would behave in one way and had to pivot to respond? Thanks.

CHAIR POWELL. So I think forecasters generally, if you go back a year, were very broadly forecasting a recession for this year, for 2023. And not only did that not happen—that includes Fed forecasters and really, essentially, all forecasters; a very high proportion of forecasters predicted very weak growth or a recession—not only did that not happen, we actually had a very strong year, and that was a combination of, of strong demand but also of real gains on the supply side.

So this was the year when labor force participation picked up, where immigration picked up, where the distortions to supply and demand from the pandemic—you know, the shortages and the bottlenecks—really began to unwind. So we had significant supply-side gains with strong demand, and we got what looks like a 2½ percent-plus, or a little more than that, growth year at a time when potential growth this year might even have been higher than that, just because of the healing on the supply side. So that was a surprise to just about everybody.

I think the inflation forecast is roughly, roughly what people wrote down a year ago, but in a very different setting. And I would say the labor market, because of the stronger growth, has also been significantly better. If you look back at the SEP from a year ago, there was a significant increase in, in unemployment. It didn't really happen. We're still at 3.7 percent. So we've seen, you know, strong growth, still a tight labor market but one that's coming back into balance with the—with support from the supply side, a greater supply of labor. It's a—you know, that's, that's what we see, and I think that combination was, was not anticipated broadly.

MICHELLE SMITH. Howard.

HOWARD SCHNEIDER. Thanks. Howard Schneider with Reuters, and thanks for taking the questions. I, I wonder if you could give a little more color or detail on what—on what motivates the lower rates next year, whether it's a coincidence, for example, that the spread between PCE inflation, core inflation, and the federal funds rate stays constant over the year. Are you simply calibrating against the fall in prices, in the price level that you're expecting, in the rate of inflation that you're expecting as opposed to supporting the economy?

CHAIR POWELL. Nothing quite that mechanical is happening. The SEP really is, is a bottoms-up—built from the bottom up, right? So I think people are looking at what's happening in the economy. And I think if you look at the big difference from September in the SEP, [it is that] the expectations for inflation this year, both headline and core, have come down, you know, really significantly in three months. That's a big piece of, of this. At the same time, [real GDP] growth has turned out to be very strong in the third quarter. [Now it] is slowing, we believe, as, as appropriate. And we've got—we've had several labor market reports, which suggest, again, significant progress toward greater balance across a very—a broad range of indicators. You're seeing so many of the indicators coming back to normal, not all of them. But so I think that people look at that, and they write down their—basically, each individual writes down a forecast and a rate forecast that goes with that forecast. We tabulate them and, and publish it. And so it's not—it isn't—you ask about real rates, I take it?

HOWARD SCHNEIDER. Yes.

CHAIR POWELL. You know, that's—that is—that is something that we're very conscious of, and aware of, and monitor, and it's certainly a big part of—it's a part of how we think about things. But, really, it's broader financial conditions that matter. And, as you well know, it's so hard to know exactly, you know, what the—what the real rate is or exactly how tight policy is at any given time. So you couldn't follow that like it was a rule and think that you would get the right answer all the time, but it's certainly something that we're focused on. And, indeed, if you look at the projections, I think the expectation would be that the real rate is declining as we—as we move forward.

HOWARD SCHNEIDER. It sounds like the discussion—if I could follow up—has, has already kind of begun. I'm wondering, just related to, to Steve's question, how the—how the tactics of this play out given the slowing of inflation and the fact that the deeper you get into 2024, the closer you get to a presidential election. Do you want to front-load this, in other words?

CHAIR POWELL. Yeah. No, we—we're—we don't think about political events. We don't think about politics. We think about what's the right thing to do for the economy. The minute we start thinking about those things—you know, we just can't do that. We have to think, what's the right thing? We'll do the things that we think are right for the economy at the time we—when we think is the right time. That's what we'll always do.

So I mentioned we're moving carefully. One of the things we're moving carefully about is that decision over—that assessment, really—over whether, whether we've done enough, really. And you see that people are not writing down rate hikes. That's, that's us thinking that we have done enough but not, not feeling that really strongly, confidently and not wanting to take the possibility of a rate hike off the table. Nonetheless, it's not the base case anymore, obviously, as it was, you know, 60, 90 days ago. So that's, that's how we're—that's how we're approaching things. And, and, you know, as I mentioned, we wrote down this SEP, and it talks about—people have individual assessments of when it will be appropriate to, you know, to start to dial back on, on the tight policy we have in place, and that's a discussion we'll be having going forward. But that's another assessment that we're going to make very carefully, so as time goes forward.

MICHELLE SMITH. Nick.

NICK TIMIRAOS. Nick Timiraos of the *Wall Street Journal*. Chair Powell, you've argued over the last year that policy tightening started before you actually lifted off because the market anticipated your moves and tightened on your behalf. The market is now easing policy on your behalf by anticipating a funds rate by next September that's a full point below the current level, with cuts beginning around March. Is this something that you are broadly comfortable with?

CHAIR POWELL. So this last year has been remarkable for the, the sort of seesaw thing, the back-and-forth we've had over the course of the year of markets moving away and moving back and that kind of thing. So, and what I would just say is that we, we focus on what we have to do and how we need to use our tools to achieve our goals, and that's what we really focus on. And people are going to have different forecasts about the economy, and they're going to—those are going to show up in market conditions, or they won't, you know. But in any case, we have to do what we think is right.

And, you know, in the long run, it's important that financial conditions become aligned or are aligned with what we're trying to accomplish, and, in the long run, they will be, of course, because we will do what it takes to get to our goals. And, ultimately, that will mean that financial conditions will, will come along. But in the meantime, there can be back-and-forth, and, you know, I'm just focused on what's the right thing for us to do. And my colleagues are focused on that, too.

NICK TIMIRAOS. The markets seem to think inflation is coming down credibly. Do you believe we're at the point where inflation is coming down credibly?

CHAIR POWELL. Listen, I welcome the progress. I think it's, it's really good to see the progress that we're making. I think if you look at the 12-month—look at the 6-month measures, you see very low numbers. If you look at 12-month measures, you're still well above 2 percent. You're actually above 3 percent on core, through November, PCE [inflation]. That isn't to say—I'm not, you know, calling into question the progress. It's great. We just need to see more. We need to see, you know, continued further, further progress toward getting back to 2 percent. That's, that's what we need to see.

So, you know, our—it's our job to restore price stability. And that—it's one of our two jobs, along with maximum employment, and they're equal. So we're very focused on, on, you know, doing that. As I mentioned, we're moving carefully at this point. We're pleased with the progress, but, but we see the need for further progress, and I think—I think it's fair to say there is a lot of uncertainty about going forward. We've seen the economy move in surprising directions, so we're just going to need to see more further progress.

MICHELLE SMITH. Jeanna.

JEANNA SMIALEK. Jeanna Smialek, *New York Times.* Thanks for taking our questions. In the SEP from today, [real GDP] growth is notably below potential in 2024. If growth were to surprise us again in the way that it has for years now by being stronger than expected next year, would it still be possible to cut rates? Or, put another way, is below-trend growth necessary to cut rates, or would continued progress on inflation alone be sufficient?

CHAIR POWELL. So we'll, we'll look at the totality of the data. Growth is one thing, so is inflation, so is labor market data. So we'd, we'd look at the totality. As we—as we make decisions about policy changes going forward, we're going to be looking at all those things and, particularly, about the—as they affect the outlook. So it's ultimately all about the outlook and the balance of risks as well. So that's what—that's what we'd be looking for.

If we have stronger growth, you know, that'll be good for people. That'll be good for the labor market. It might actually mean that it takes a little longer to get inflation down to 2 percent. We will get it down to 2 percent, but, you know, if we see stronger growth, we'll—we will set policy according to what we actually see. And, and so that's how I would answer.

JEANNA SMIALEK. I guess the—I guess the question I'm asking, if you don't mind a quick follow-up, I guess the question I'm asking is, is above-trend growth itself a problem?

CHAIR POWELL. It's only a problem inso—it's not itself a problem. It's only a problem insofar as it makes it more difficult for us to achieve our goals. And, you know, if you have—if you have growth that's robust, what that will mean is probably it will keep the labor market very strong. It probably will, will place some upward pressure on inflation. That could mean that it takes longer to get to 2 percent inflation. That could mean we need to keep rates higher for longer. It could even mean, ultimately, that we would need to hike again. It just is—it's the way, the way our policy works.

MICHELLE SMITH. Let's go to Neil.

NEIL IRWIN. Hi, Chair Powell. Neil Irwin with Axios. How do you interpret the state of the labor market right now? And, in particular, you've referred even today to evidence that it's coming into better balance. What would you need to see to conclude that it has reached that balance?

CHAIR POWELL. So on, on the better-balance side, there are just a lot of things. It's—you see—you see job growth still strong but moving back down to more sustainable levels, given population growth and labor force participation. The things that are not quite—but let me go on with that list. You know, claims are low. If you look at surveys of businesses, they're, they're—sort of the era of this frantic labor shortage, [those kinds of worker shortages] are behind us, and they're seeing a shortage of labor as being significantly alleviated. If you look at shortages of workers, whereas they thought job, job availability was the highest that it'd ever been or close to it, that's now down to more normal levels by so many measures—participation, unemployment—so many measures: the unemployment—job openings, quits, all of those things.

So wages are still running a bit above what would be consistent with 2 percent inflation over a long period of time. They've been gradually cooling off. But if wages are running around 4 percent, that's still a bit above, I would say. And I guess there, there are just a couple of other—the unemployment rate is very, very low. And these are—but, but I would just say, overall, the development of the labor market has been very positive. It's been a good time for workers to find jobs and get solid wage increases.

MICHELLE SMITH. Claire.

CLAIRE JONES. Claire Jones, *Financial Times*. You know, I'd say the mood among economists at the moment seems to be one of cautious optimism, which is somewhat corroborated by your forecast by the sense that we are going to have a soft landing. Yet when we—when we hear from the general public, there's a lot of discord about economic conditions. What do you think explains this disconnect, and does it matter for policymakers?

CHAIR POWELL. It may be. A common theme is that, while inflation is coming down, and that's very good news, the price level is not coming down. Prices of some, some goods and services are coming down. But overall, in the aggregate, the price level is not. So people are still living with high prices, and that's, that's not—that is something that people don't like. And, you know, so what will happen with that is, wages are now—[changes in] real wages are now positive. So [nominal] wages are now moving up more than inflation, as inflation comes down. And so that might help improve the mood of people.

But we do see those—we see those public opinion surveys. The thing that we can do is to do our jobs, which is to use our tools to foster price stability, which has such great benefits over such long periods of time, and which is the thing that really enables us to work for and achieve an extended period of high employment, which is so beneficial for, you know, families and, and companies around the country.

MICHELLE SMITH. Victoria.

VICTORIA GUIDA. Hi. Victoria Guida with Politico. I wanted to ask, you know, on, on the flip side of if things start to deteriorate rapidly, if we do fall into a recession, if we do start to see unemployment rise, at sort of the levels of inflation that we're seeing now, how would you all think about that in terms of rate cuts? Would that be a sign that you've, you've done your job demand-wise?

CHAIR POWELL. Sorry—if?

VICTORIA GUIDA. If, if the economy starts to—looks like it's starting to fall into a recession; if, if the jobless rate starts to rise.

CHAIR POWELL. That's not something we're hoping to see. Obviously, we're hoping to, to see something very different—which is a continuation of what we have seen, which is the labor market coming into better balance without a significant increase in unemployment, inflation coming down without a significant increase in unemployment, and growth moderating without a significant increase in unemployment. That's what we're, we're trying very much to achieve and not something that we're looking to see.

VICTORIA GUIDA. But, but would you take that as a signal that you should cut rates?

CHAIR POWELL. You know, obviously, what we'll do is we'll look at the totality of the data, as I've mentioned a couple times, and, certainly, the labor data would be important in that. And, you know, if you—if you can describe a situation like that where if, if there were the beginning of a recession or something like that, then, yes, that would certainly weigh heavily on that decision.

MICHELLE SMITH. Michael McKee.

MICHAEL MCKEE. Michael McKee from Bloomberg Television and Radio. Mr. Chairman, you were, by your own admission, behind the curve in starting to raise rates to fight inflation, and you said earlier, again, "the full effects of our tightening (cycle) have not yet been felt." How will you decide when to cut rates, and how will you ensure you're not behind the curve there?

CHAIR POWELL. So we're, we're aware of the risk that we would hang on too long. You know, we know that that's a risk, and we're very focused on not making that mistake. And we do regard the two—you know, we've come back into a better balance between the risk of overdoing it and the risk of underdoing it. Not only that, we were able to focus hard on the—on the price-stability mandate. And we're getting back to the point where—which is what you do when you're very far from, from one of them, one of the two mandates—you're getting now back to the point where both mandates are important, and they're, they're more in balance, too. So I think we'll be—we'll be very much keeping that in mind, as we make policy going forward.

And the things we'll be looking at, I've already described. You know, we're, we're obviously looking hard at what's happening with demand, and what we see? We see the same thing other people see, which is a strong economy, which really put up quite a performance in 2023. We see good evidence and good reason to believe that growth will come in lower next year. And you see what the forecasts are. I think the median growth—median participant wrote down 1.4 percent growth, but, you know, we'll have to see. It's very hard to predict. We'll also be looking to see progress on inflation and, you know, the labor market remaining strong but, but ideally, without seeing the kind of large increase in unemployment that happens sometimes.

MICHAEL MCKEE. If I could follow up: When you begin the cutting cycle, will it be essentially run the same way you do it now with raising rates, where you basically do trial and error, cut and see what happens, or will you tie it to some particular measure of progress?

CHAIR POWELL. We haven't typically tried to articulate, with one exception, really specific target levels, which was if you—some of you will remember the thresholds that we used in, I guess, 2013. I don't—the answer is, these are things that we haven't, you know, really worked out yet. We're sort of just at the beginning of, of that discussion.

MICHELLE SMITH. Edward.

EDWARD LAWRENCE. Thank you, Mr. Chairman. Edward Lawrence of Fox Business. So if the Fed cuts rates as the dot plot is, is showing, about 75 basis points, does that signal that there's a belief of weakness next year in the economy?

CHAIR POWELL. It wouldn't, if that were to—first of all, let me just say, that isn't a plan. That's, that's just cumulating what people wrote down. So that's not something—you know this, but allow me to say it again: We don't debate or discuss what the right, you know, whose SEP is right. We just say what they are, and we tabulate them and publish them. So and it's, you know, it's important for people to know that. But it wouldn't need to be a sign of—it could just be a sign that the economy is normalizing, and it doesn't need the tight policy. It depends on—the economy can evolve in many different ways, right? So but, but it could be more of what I just described.

EDWARD LAWRENCE. And you focused on core inflation, we've heard from—in other meetings. How sticky is core inflation right now?

CHAIR POWELL. Well, that's what we're finding out, and we've, you know, we've seen real progress in, in core inflation. It has been sticky, and famously, the service sector is thought to be stickier, but we've actually seen reasonable progress in nonhousing services, which was the area where, where you would expect to see less progress. We are seeing some progress there, though. And, in fact, all three of the categories of core [prices] are now contributing: goods, housing services, nonhousing services. They're all contributing in different—at different levels, you know, meeting by meeting—or, rather, report by report. So, yeah.

MICHELLE SMITH. Okay. Let's go to Catarina.

CATARINA SARAIVA. Catarina Saraiva of Bloomberg News. Thanks for taking our questions. I just wanted to ask a little bit about, you know, we had some pretty positive data this, you know, this morning and yesterday. I'm assuming those were not incorporated into the forecast we see today, but I just wanted to ask, you know, how that kind of adds to your thinking, you know, on the inflation outlook.

CHAIR POWELL. Right. So we got—we got CPI the morning of the first day, and we got PPI the next day, which informs the, you know, the translation into PCE [inflation]. So it's very late in the game, you know, to—but nonetheless, participants are allowed to, encouraged to update their SEP forecast until probably midmorning today. After that, so staff has to—has to cumulate all of that and create the documents that you see. So until about midmorning, a little, maybe late morning, it's okay to update, and I believe some people did update their forecast based on what we saw today.

CATARINA SARAIVA. Okay. And do you see—I mean, how are you, when you think about, you know, starting to think about the rate cuts next year or whenever they come, how do you, you know, how do you think about the economy we're in now kind of post-pandemic? Do you think that there's been significant structural shifts, and is that going to change how you look at a rate cut path?

CHAIR POWELL. The question of whether there have been fundamental structural shifts is, is really hard to know the answer and a very interesting one right now. The one that would affect—the one that comes to mind, though, is just the question of where the neutral rate of interest is. And so, for example, if it's risen, and I'm not saying that it has, but if it were to have risen, that would mean that, that interest rates would need to be a little bit higher to convey the same level of restriction. The thing is, we're not really going to know that. You know, people will be writing papers about that 10 years from now and still fighting about it. So it's just that it's going to be uncertain.

So we're going to be making policy in this, you know, difficult, uncertain, really unprecedented environment. Some—someone once said that you know the—you know the natural rate of interest by its works, and that's really right, but that's very difficult because policy operates with a lag. So that's one of the reasons why we slowed down this year. We started slowing down at this meeting last year, reducing the pace at which we were adding restriction. And, over the course of this year, we really slowed down a lot to give those lags time to work.

In terms of demand, has demand shifted more away from services into goods? There's—you can make a case for that, that the shift back into services has not been complete, and it doesn't look like it's ongoing, but I don't know if that's right. Maybe people just bought so much stuff that they temporarily don't want any more stuff. They haven't got anyplace to put it. [Laughter]

MICHELLE SMITH. Let's go to Jennifer.

JENNIFER SCHONBERGER. Thank you, Chair Powell. Jennifer Schonberger with Yahoo Finance. You said back in July that you needed to start cutting rates before getting to 2 percent inflation. As you mentioned, PCE inflation is now running at 3½ on core. On a six-month annual basis, core PCE is running at 2½ percent, though when you look at supercore and shelter, they are, of course, stickier. So when looking in the different components of the data, how much closer do you have to get to 2 percent before you consider cutting rates?

CHAIR POWELL. I mean, the reason you wouldn't wait to get to 2 percent to cut rates is that policy would be, it would be too late. I mean, you'd want to be reducing restriction on the economy well before 2 percent because—or before you get to 2 percent so you don't overshoot, if we think, think of restrictive policy as weighing on economic activity. You know, it takes—it takes a while for policy to get into the economy, affect economic activity, and affect inflation. So I can't give you a precise answer. But if you look at what's in the—in the SEP, and, you know, I think you'll see a reasonable estimate of the time lags and things like that that it would take.

JENNIFER SCHONBERGER. Do think below 3 percent would be reasonable?

CHAIR POWELL. I wouldn't want to—I wouldn't want to identify any one precise point, because I would be able to look back then and probably find out that it turned out not to be right. But we'll be looking at it and, and looking at the broad collection of factors.

MICHELLE SMITH. Let's go to Jean Yung.

JEAN YUNG. Hi, Chair Powell. Jean Yung with Market News. I wanted to go back to the stickiness-of-inflation question. Over the past couple of years, a lot of central bankers have talked about the more difficult last mile of getting inflation back down to 2 percent, yet it's also been surprising how fast inflation has come down this year. I'm curious, do you think something has changed in our understanding of inflation, or do you subscribe to this notion still? Or is it something different about the U.S. economy? Thank you.

CHAIR POWELL. I think—I think this. You know, we felt since the beginning that it would be a combination of two factors. The first factor is just the unwinding of, of what happened in the pandemic: the distortions of supply and demand. And the second thing would be our policy, which was weighing on aggregate demand and actually making it easier for the supply side to recover because of lower demand. We thought those two things were going to be necessary. Sorry, say your—say the last part of your question again.

JEAN YUNG. If there was something different about the U.S. economy.

CHAIR POWELL. Yeah. So it's not that—it may or may not be about "different," the U.S. economy being different. I think that this inflation was not the classic demand overload, pot-boiling-over, kind of inflation that we [typically] think about. It was a combination of very strong demand, without question, and unusual supply-side restrictions, both on the goods side but also on the labor side, because we had a—we had a participation shock. So this is just very unusual.

And, you know, we had the view—my colleagues and I broadly had the view—that we could get a lot of—you know, you had essentially a vertical supply curve, because you ran into the limits of, of capacity at very low levels, because there weren't workers and because people couldn't—the supply chains were all broken. So we, we had the view that you could come straight down that vertical supply curve to the extent demand [was] lowered, reduced. And, you know, something like that has happened. It happened so far. The question is, you know, once, once that part of it runs out—and we think it has a ways to run; we definitely think that the sort of supply chain and shortages side has some, some ways to run—does labor force participation have much more to run? It might. Immigration could help, but it may be that, at some point—at some point, you will run out of supply-side help, and then it gets down to demand, and it gets harder. That's, that's very possible. But to say with certainty that the last mile is going to be different, I'd be reluctant to, you know, to suggest that we have any certainty around that. We just don't know. I mean, inflation keeps coming down. The labor market keeps getting back into balance. And it's so far, so good—although we kind of assume that it will get harder from here. But so far, it hasn't.

MICHELLE SMITH. Okay. We'll go to Megan for the last question.

MEGAN CASSELLA. Hi, Chair Powell. Thanks for taking our questions. Megan Cassella with *Barron's*. I want to ask about the balance sheet given the Fed's focus now on proceeding carefully and considering rate cuts. And can you talk us through what the latest thinking is, and has there been any consideration of altering the pace of quantitative tightening at all?

CHAIR POWELL. We're, we're not talking about altering the pace of QT right now, just to get that out of the way.

So the balance sheet seems to be working pretty much as expected. What we've been seeing is, you know, that we're allowing runoff each month. That's adding up. I think we're down—we're close to 1.2 trillion [dollars]. That's showing up. The reverse repo facility [take-up] has been coming down quickly, and reserves have been either moving up or—as a result—or holding steady. At a certain point, you know, there won't be any more to come out of, or there'll be a level where [take-up at] the reverse repo facility levels out. And, at that point, reserves will start to come down.

You know, we still have—you know that we intend to reduce our securities holdings until we judge that the quantity of reserve balances has reached a level somewhat above that consistent with ample reserves, and we also intend to slow and then stop the decline in size of the balance sheet when reserve balances are somewhat above the level judged to be consistent with ample reserves. We're not at those levels, you know, with, with reserves close to 3.5 trillion [dollars]. We're not—we don't think we're at those [levels judged consistent with ample] reserves. There isn't a lot of evidence of that. We're watching it carefully. And, you know, so far—so far, it's working pretty much as expected, we think.

MEGAN CASSELLA. Do you anticipate adjusting that thinking at all by the time you're, you're considering or moving forward with rate cuts? Is that time to rethink, or are you still going to follow that thinking?

CHAIR POWELL. So I think they're, they're on independent tracks. You're asking, though, the question, I guess you're implying the question of can you continue with QT at such time—QT, which is a tightening action—at such time as policy is still tight? And the answer is, it depends on the reason. You know, if you're—if you're—if you're cutting rates because you're going back to normal, that's one thing, [and distinct from] if you're cutting them because the economy is really weak. So you can imagine, you'd have to know what the reason is to know whether it would be appropriate to do those two things at the same time.

MICHELLE SMITH. Thank you.

CHAIR POWELL. Thanks very much.

Transcript of Chair Powell's Press Conference
January 31, 2024

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. The economy has made good progress toward our dual-mandate objectives. Inflation has eased from its highs without a significant increase in unemployment. That's very good news. But inflation is still too high, ongoing progress in bringing it down is not assured, and the path forward is uncertain. I want to assure the American people that we're fully committed to returning inflation to our 2 percent goal. Restoring price stability is essential to achieve a sustained period of strong labor market conditions that benefit all.

Today, the FOMC decided to leave our policy interest rate unchanged and to continue to reduce our securities holdings. Over the past two years, we've significantly tightened the stance of monetary policy. Our strong actions have moved our policy rate well into restrictive territory, and we've been seeing the effects on economic activity and inflation. As labor market tightness has eased and progress on inflation has continued, the risks to achieving our employment and inflation goals are moving into better balance. I will have more to say about monetary policy—about monetary policy, after briefly reviewing economic developments.

Recent indicators suggest that economic activity has been expanding at a solid pace. GDP growth in the fourth quarter of last year came in at 3.3 percent. For 2023 as a whole, GDP expanded at 3.1 percent, bolstered by strong consumer demand as well as improving supply conditions. Activity in the housing sector was subdued over the past year, largely reflecting high mortgage rates. High interest rates also appear to have been weighing on business fixed investment.

The labor market remains tight, but supply and demand conditions continue to come into better balance. Over the past three months, payroll job gains averaged 165,000 jobs per month, a pace that is well below that seen a year ago but still strong. The unemployment rate remains low at 3.7 percent. Strong job creation has been accompanied by an increase in the supply of workers. The labor force participation rate has moved up, on balance, over the past year, particularly for individuals aged 25 to 54 years, and immigration has returned to pre-pandemic levels. Nominal wage growth has been easing, and job vacancies have declined. Although the jobs-to-workers gap has narrowed, labor demand still exceeds the supply of available workers.

Inflation has eased notably over the past year but remains above our longer-run goal of 2 percent. Total PCE prices rose 2.6 percent over the 12 months ending in December; excluding the volatile food and energy categories, core PCE prices rose 2.9 percent. The lower inflation readings over the second half of last year are welcome. But we will need to see continuing evidence to build confidence that inflation is moving down sustainably toward our goal. 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're highly attentive to the risks that high inflation poses to both sides of our mandate, and we're strongly committed to returning inflation to our 2 percent objective.

Over the past two years, we have raised our policy rate by 5¼ percentage points, and we've decreased our securities holdings by more than $1.3 trillion. Our restrictive stance of monetary policy is putting downward pressure on economic activity and inflation. The Committee decided at today's meeting to maintain the target range for the federal funds rate at 5¼ to 5½ percent and to continue the process of significantly reducing our securities holdings.

We believe that our policy rate is likely at its peak for this tightening cycle and that, if the economy evolves broadly as expected, it will likely be appropriate to begin dialing back policy restraint at some point this year. But the economy has surprised forecasters in many ways since the pandemic, and ongoing progress toward our 2 percent inflation objective is not assured. The economic outlook is uncertain, and we remain highly attentive to inflation risks. We're prepared to maintain the current target range for the federal funds rate for longer if appropriate.

As labor market tightness has eased and progress on inflation has continued, the risks to achieving our employment and inflation goals are moving into better balance. We know that reducing policy restraint too soon or too much could result in a reversal of the progress we've seen on inflation and ultimately require even tighter policy to get inflation back to 2 percent. At the same time, reducing policy restraint too late or too little could unduly weaken economic activity and employment. In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess the incoming data, the evolving outlook, and the balance of risks. The Committee does not expect that it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent. We will continue to make our decisions meeting by meeting.

We remain committed to bringing inflation back down to our 2 percent goal and to keeping longer-run—longer-term inflation expectations well anchored. 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. I look forward to our questions.

MICHELLE SMITH. Jeanna.

JEANNA SMIALEK. Jeanna Smialek from the *New York Times*. Thanks for taking our questions. Obviously, in the statement and just in your remarks there, you note that you don't want to cut interest rates without greater confidence that inflation is coming—coming down fully. I wonder—what do you need to see at this point to gain that confidence? And as you make those decisions, how are you weighing recent strong growth in consumer spending data against the sort of solid inflation progress you've been seeing?

CHAIR POWELL. Sorry—say that last part again.

JEANNA SMIALEK. How are—how are you weighing the growth data and consumption data, which have been surprisingly strong, against inflation data?

CHAIR POWELL. Okay. So, what are we looking for to get greater confidence? Let me say that we have confidence. We're—we're looking for greater confidence that inflation is moving sustainably down to 2 percent. Implicitly, we do have confidence, and it has been increasing, but we want to get greater confidence. What do we want to see? We want to see more good data. It's not that we're looking for better data. It's—we're looking at continuation of the good data that we've been seeing, and a good example is inflation. So we have six months of good inflation data. The question really is, that six months of good inflation data—is it sending us a true signal that we are, in fact, on a path—a sustainable path down to 2 percent inflation? That's the question. And the answer will come from some more data that's also good data. It doesn't—it's not that the six-month data isn't—isn't low enough. It is. It's just a question of, can we take that with confidence that we're moving sustainably down to 2 percent? That's really what we're thinking about.

In terms of, of growth, we've had strong growth. I mean, if you take a step back, we've had strong growth—very strong growth [in real GDP] last year—going right into the fourth quarter. And yet we've had a very strong labor market, and we've had inflation coming down. So I think—whereas a year ago, we, we were thinking that we needed to see some softening in economic activity—that hasn't been the case. So I think we, we look at—we look at stronger growth. We don't look at it as a problem. I think, at this point, we want to see strong growth. We want to see a strong labor market. We're not looking for a weaker labor market. We're looking for inflation to continue to come down, as it has been coming down for the last six months.

JEANNA SMIALEK. And I'm sorry. If I could just follow up very quickly, the—when, when you say that you want to make sure that it's a true signal, is there anything that you're seeing in the data that makes you doubt that it's a true signal at this stage?

CHAIR POWELL. No, I think it's—I, I would say it, it seems—it seems to be the likely case that, that we will achieve that confidence, but we have to achieve it, and we haven't yet. And so—I mean, it's a good story. We have six months of good inflation [readings]. But you can—and you know this—you can look behind those numbers, and you can see that a lot of it's been coming from goods inflation, for example, and goods inflation running significantly negative. It's a reasonable assumption that, over time, goods inflation will flatten out—probably approximate zero. That would mean the services sectors would have to contribute more. So, in other words, what we care about is the aggregate number—not so much the composition. But we, we just need to see more. That's where we are, as a Committee. We need to see more evidence that sort of confirms what we think we're seeing and that tells us that we are on—gives us confidence that we're on, on a path to—a sustainable path down to 2 percent inflation.

MICHELLE SMITH. Nick.

NICK TIMIRAOS. Nick Timiraos of the *Wall Street Journal*. Chair Powell, it seems to me you raised rates rapidly over the last two years for two reasons. One was the risk of a wage–price spiral. Two, there were risks of inflation expectations becoming unanchored. This morning's ECI report for the fourth quarter shows private-sector payroll growth running at a sub–4 percent pace. Inflation expectations are very close to where they were before the inflation emergency of the last three years. And, given that you appear to have substantially cut off these two tail risks and that you've judged here today current policy as well into restrictive territory, what good reason is there to keep policy rates above 5 percent? Are you really going to learn more waiting six weeks versus three months from now that you have avoided those two risks?

CHAIR POWELL. So, as you know, almost every participant on the Committee does believe that it will be appropriate to reduce rates and for, for—partly for the reasons that you say. You know, we, we feel like inflation is coming down. Growth has been strong. The labor market is strong. We're—what we're trying to do is identify a place where we're really confident about inflation getting back down to 2 percent so that we can then begin the process of dialing back the restrictive level. So, overall, I think—I think people do believe—and, as you know, the median participant wrote down three rate cuts this year. But I think to get to that place where we feel comfortable starting the process, we need some confirmation that inflation is, in fact, coming down sustainably to 2 percent.

NICK TIMIRAOS. If I could ask differently: If, if you hold rates high as inflation moderates, as it—as it has been, target rates will exceed the prescriptions of the Taylor rule or its variants. What would be the reasoning for holding rates higher than the levels recommended by those rules in the current instance?

CHAIR POWELL. Well, I—look, I think, as you know, we consult the range of Taylor rules and, and non-Taylor kind of rules. We consult them regularly. They're in our, our Tealbook, and, and they're in all the materials that we look at. But, you know, I don't think we've ever been at a—at a place where we were—where we were setting policy by them. And there—depending on the rule, it will tell you different things. There are many different formulations. Another way to think about it is, implicitly, is—so, in theory, of course, real rates go up if—holding all else equal—as inflation comes down. But that doesn't mean we can mechanically adjust policy as real rates—sorry—as inflation comes down. It doesn't mean that at all, because, for one thing, we, we don't know—we, we look at more than just the fed funds rate. We look at—broadly—financial conditions.

But, in addition, we don't know with great confidence where the neutral rate of interest is at any given time. But that also doesn't mean that we wait around for—to see, you know, the economy turn down, because that would be too late. So we're really in a risk-management mode: of managing the risk—as I mentioned in my opening remarks—managing the risk that we move too soon and move too late. And I think to move, which is—which is where almost everyone on the Committee is—is in favor of, of moving rates down this year—but the timing of that is going to be linked to our gaining confidence that inflation is on a sustainable path down to 2 percent.

MICHELLE SMITH. Howard.

HOWARD SCHNEIDER. Hi. Thanks, Chair Powell. I'd like you to, to key in on the use of the word in, in the statement that inflation still "remains elevated." You've pledged to cut rates before inflation reached 2 percent. So that implies that there's some sort of intermediate step here on, on inflation and that a, a cut would be consequent with a change in the statement language that inflation "remains elevated." What's the step-down from there?

CHAIR POWELL. Yeah, I, I don't know that we've worked out the particulars—statement language and that kind of thing. I would just say, if you look at—you know, look at where, where 12-month inflation is, and it's, you know, it's still well above—core is 2.9 percent, for example—12-month—which is way down from where it was. Very, very positive development—very fast decline—and, and, you know, the, the case is likely that it will continue to come down. So, so that's where—that's where it is. But we're, you know, we're wanting to see, you know, more data.

HOWARD SCHNEIDER. So, if I—if I could follow up on that, the statement allows that you want greater confidence on inflation falling before you cut, but it doesn't mention the other side of the mandate—a slide in employment. Would a slide in employment also bring you to the point of, of cutting rates?

CHAIR POWELL. Yes. So let me say that we're not looking for that. That's not something we're looking for. But, yes, if you think about, you know—in, in the base case, the economy is performing well—the labor market remains strong. If we saw an unexpected weakening in, in—certainly in the labor market, that would certainly weigh on cutting sooner. Absolutely. And if we saw inflation being stickier or higher or those sorts of things—would argue for moving later. In the base case, though, where, where the economy is healthy and we have, you know, we have ongoing growth—solid growth—we have a strong labor market—we have inflation coming down—that's what people are writing their SEP [submissions] around. And in that case, what we're saying is, based on that, we think we can and should take advantage of that and, and be careful as we approach that question of when to begin to dial back restriction.

MICHELLE SMITH. Claire.

CLAIRE JONES. Claire Jones, *Financial Times*. Just to circle back to the "greater confidence" aspect of the statement, there's been a lot of unanimity in recent meetings. I'm just wondering, going forward, when it comes to all needing greater confidence, is there unanimity or, at least, consensus among FOMC members about what the threshold for that greater confidence is? And if not, could you maybe tell us a little bit about the discussion today on, you know, what the variations between FOMC members was on what constitutes enough confidence to cut rates and also if there was any variation on how quickly that "greater confidence" threshold could be reached? Thank you.

CHAIR POWELL. So we're not—we're not really at that stage. You know, we're—we're—there was no proposal to cut rates. Some people did, you know, talk about their view of the rate path. I would point you to the [December 2023] SEP as, as, you know, as good evidence of where people are, although it is—it is [now] one [FOMC meeting] cycle later. So, you know, we're not—we're not at a place of, of really working out those kinds of details, because we weren't actively considering, you know, a—moving, moving the federal funds rate down. I will say, there is a—there is a wide disparity—a healthy disparity—of views, and you see that in public, public statements, in the minutes, and the transcripts when they're released every five years. So we do have a healthy set of differences, and I think that's actually essential for making good policy. We're also able to reach agreement, generally, because we listen to each other—

we, we compromise. And even though not everybody loves what we do, they're able to—for the most part—able to join in. To me, that's a well-functioning public institution.

MICHELLE SMITH. Rachel.

RACHEL SIEGEL. Hi, Chair Powell. Rachel Siegel from the *Washington Post*. Thanks for taking our questions. So, over the past few years, there have been all these real-time indicators that helped us gain a sharper understanding of where the economy was, like OpenTable data or office attendance. You've talked about vacancies in the past. And I'm wondering, at the start of this year, what might be on that dashboard for you that's giving you the clearest picture of the economy—including on rents—if you could touch on that.

CHAIR POWELL. Including?

RACHEL SIEGEL. Rent. Rent costs.

CHAIR POWELL. Yeah. Well, so we're not—you know, it's not the pandemic, so we can actually rely on more, more traditional forms. People are working. They're getting wages, and, and the economy has largely reopened and is broadly normalizing, as you see. So I wouldn't say we're looking at that, that sort of more innovative data as much. You know, you point to rents. So, of course, we follow the, the components of inflation very carefully. Which would be: Goods inflation—I talked about that a little bit; you mentioned housing inflation. So the question is, when will these lower market rents find their way into measured rents, as measured, measured in PCE inflation?

And we think that's coming, and we know it's coming. It's just a question of when and, and how big it'll be. So—but that's in, in everyone's forecast, I would say. So that will—that will help. But at the same time, we think goods inflation will probably—it's been giving a lot of disinflation to the effort—and probably that declines over time, but it may well have some, some more time to run. You know, these—the supply chains are not perfectly back to where they were. In addition, it takes time for the, the healing process to get into prices. So there may be still a tailwind. We'll find out with, with that. So we look at the things that relate to our mandate very carefully, and—as you would imagine.

RACHEL SIEGEL. I guess, just as a quick follow-up—do you feel comfortable at this point saying the economy has reached a soft landing, or is that part of looking for more confidence?

CHAIR POWELL. No, I wouldn't—I wouldn't say we've achieved that. And I, I think we have—we have a ways to go. Inflation is still—you know, core inflation is still well above target on a 12-month basis. Twelve months is our, our target, certainly. I'm encouraged, and we're encouraged by the progress. But, you know, we're, we're not—we're not declaring victory at all at this point. We think we have a ways to go.

MICHELLE SMITH. Steve.

STEVE LIESMAN. Thank you, Mr. Chairman. You've said that you would know the neutral rate by its works. So I'm wondering what you could tell me—how do you believe the neutral rate is working or telling you right now that growth is stronger? In other words, how much is the economy really being restrained right now by the current funds rate? And how much restraint does it really need, additionally, if inflation is still coming down?

CHAIR POWELL. So it's—I think you, you do see in the interest-sensitive parts of the economy—you do see, for example, housing. You see the effects. You do. Your, your second question, though, really, I think, is important, and that is, a lot of this has come through—a lot of the disinflationary process has come through the healing of supply chains and also of the labor market. So you've seen the—you know, that other set of factors is really different from other cycles and has brought that working with tighter, tighter policy, which has enabled the supply side to recover—I think is that, that mixture has been behind what has enabled this. So, no—we really do think that we're having an effect broadly across the economy. I would point to the interest-sensitive parts of the economy as well as spending, generally. But it's a—it's a joint story. It's a complicated story.

STEVE LIESMAN. But, but how much restraint are you actually imparting to the economy, would you say, relative to the neutral rate?

CHAIR POWELL. It's—so I think it's, it's—of course, you know that it's not something you can identify with any precision. But if you—a standard approach would be to take the nominal rate—5.3 percent, let's say—and subtract sort of a, a forward measure of inflation. If you do that—and there are many, many ways to calculate the neutral rate—but that's one I like to do. And, you know, you're going to get to something that is materially above mainstream estimates of neutrality—of the neutral rate—you will. And—but at the same time, you look at the economy, and you say, "This is an economy that grew 3.1 percent last year." And, and you say, "What does that tell you about the neutral rate?" What's happening, though, is, the supply side has been recovering in the middle of this. So that, that won't go on forever. So a lot of the growth we're seeing is not—is—it isn't just a tug of war between, between interest rates and demand. You're getting, you know, more activity because of the—of labor market healing and supply chains healing. So I think the question is, when that peters out, I think the, the, you know, the, the restriction will show up probably more, more sharply.

MICHELLE SMITH. Rich.

RICH MILLER. Thank you—sorry. Thanks for taking the question, Mr. Chairman. You mentioned earlier we're not seeking a weaker labor market, I think you, you said. Can you talk a little bit more about that? Do you—do you think the labor market now is back to quote, unquote, "normal" and that the—we can achieve the inflation target without wage gains coming back down to what they were pre-pandemic? Even with today's ECI levels, they were still above those pre-pandemic levels.

CHAIR POWELL. I, I think the labor market by many measures is at or nearing normal—but not totally back to normal. And you pointed to one or more of them. So I think, you know, job openings are not quite back to where they were. Wages—wage increases, rather, are not quite back to where they—to where they would need to be in the longer run. I, I would look at it this way, though. The, the economy is broadly normalizing, and so is the labor market. And that process will probably take some time. So wage setting is something that happens—it's, it's—you know, probably will take a couple of years to get all the way back. And that's okay. That's okay. But we do see—you saw today's ECI reading—you know, the evidence is that, that wage increases are still at a healthy level—very healthy level—but they're gradually moving back to levels that would be more associated—given, given assumptions about productivity, are more typically associated with 2 percent inflation. It's, it's an ongoing process—a healthy one—and, and, you know, I think we're, we're moving in the right direction.

RICH MILLER. So that process can continue without a weakening of the labor market, basically, you're saying?

CHAIR POWELL. I think the, the labor market is—it—I don't know if I'd—it's rebalancing. Clearly, that the—there was a fairly severe imbalance between demand for workers and supply at the beginning of the pandemic. So we lost several million workers at the beginning of the pandemic from people dropping out of the labor force. And then when the economy reopened—you remember 2021—you had a severe labor shortage, and it was just—it was everywhere—panic on the part of businesses—couldn't, couldn't find people. So, what's happened is—we expected labor—the labor supply—labor market to come back quickly, and it didn't. And 2022 was a disappointing year, and, you know, we were kind of thinking, "Well, maybe we won't get it back." And then 2023, we did, as you know—so labor force participation came back strongly in '23, and so did immigration. Immigration came to a halt during the pandemic.

So—and so those two forces have significantly lowered the temperature in the labor market to what is still a very strong labor market. It's still a good labor market for wages and for finding a job, but it's getting back into balance, and that's what we want to see. And, you know, one great way to look at that is what's happening with, with wage increases. And you see it now across the, the major things that we—that we track. It isn't every quarter, but, overall, there's a clear trend—still at high levels, but back down to where—what would be consistent with, with where we were before the pandemic and with 2 percent inflation.

MICHELLE SMITH. Chris.

CHRISTOPHER RUGABER. Hi, Chris Rugaber at Associated Press. Thank you. I wanted to follow up on Rich's question. It sounded like you suggested that you're not worried about faster growth so much—so wanted to see if you're seeing anything that suggests that inflation could reaccelerate from here. And it sounds like you're saying you're not worried that solid growth from here on out poses any risk to inflation. Thank you.

CHAIR POWELL. No, I think that that is a risk—the risk that inflation would, would reaccelerate. I think the, the greater risk is that it would—that it would stabilize at a level meaningfully above 2 percent. That's, that's, to me, more likely. Of course, if—if inflation were to surprise by moving back up, that would—we would have to respond to that, and that would—

that would be a surprise at this point. But I have to tell you, that's why we keep our options open here and why we're not, you know, rushing. So I, I think both of those are risks, but I think the more likely risk is the one that I mentioned, which is, you've had six good months—very good months—but what, what's really going to "shake out" here? You know, where—what will—when we look back, what will we see? Will, will inflation have dipped and then come back up? Are the last six months flattered by factors that are—that are one-off factors that won't repeat themselves? We don't think so. We don't—you know, that's not what we think, but that's the question we are asking. We have to ask [that], and we want to get comfort on that.

CHRISTOPHER RUGABER. And just one quick follow-up—Governor Waller had mentioned the revisions that are coming on February 9th for the CPI data. Is that something you're watching as well? And if, if we see those revisions fairly minor, is that going to give you more confidence where things are going?

CHAIR POWELL. We'll just have to see. Yeah. We'll—we look at those. Last year was a—was a, a surprise.

MICHELLE SMITH. Mike.

MICHAEL MCKEE. Michael McKee, Bloomberg Radio and Television. If you don't want to use the term "soft landing," would you say, at least, that, from your point of view now, the other scenario of a hard landing caused by the Fed is off the table or the risks have diminished very much? And you mentioned below–2 percent inflation for—on a three-month basis, core PCE has been running at 1½ percent. And there are those on Wall Street who think that if you maintain the level of restriction you have right now, you could end up with inflation running below your target. How do you see that?

CHAIR POWELL. So, how to—your first question—how to describe where we are? So I guess I would just say this—executive summary would be that growth is solid to strong over the course of last year. The labor market—3.7 percent unemployment indicates that the labor market is strong. We've had just about two years now of, of unemployment under 4 percent. That hasn't happened in 50 years. So it's a good labor market. And we've seen inflation come down. We've talked about that. So we've got six months of good inflation data and an expectation that there's more to come. So this is a—this is a good situation. Let's be honest. This is a—this is a good economy.

But what's the outlook? That's looking in the rearview—the outlook—we do expect growth to moderate. Of course, we have expected it for some time, and it hasn't happened, but we do expect that it will moderate as supply chain and labor market normalization runs its course. The labor market is rebalancing, as, as I mentioned. Job creation has slowed. The base of job growth has narrowed. And, of course, 12-month inflation is, is above target and getting, you know, getting down closer to target. It's not guaranteed, but we do seem to be getting on track for that. So those are the risks and, and questions we have to answer. But, overall, this is a pretty good picture. It, it is a good picture. Your second question was—sorry.

MICHAEL MCKEE. Could you get inflation that is below target—end up with inflation below target, and you have to do something about that?

CHAIR POWELL. So we—the thing is, we're not looking for inflation to tap the 2 percent base once. We're looking for it to settle out over time at 2 percent. And the same thing is true if we have a month or two of lower—and we have that now—of, of inflation that's annualized at a—at a lower level—that wouldn't be good. We're not—you know, we're not looking to have inflation anchor below 2 percent. We're looking to have it anchor at 2 percent.

So if we do face those circumstances, then we'll have to deal with that. I think—I think as of now, you know, the, the question, which—we want to take advantage of this situation and finish the job on inflation while keeping the labor market strong.

MICHELLE SMITH. Edward.

EDWARD LAWRENCE. Edward Lawrence from Fox Business. Thank you, Mr. Chairman, for taking this. So, as I've—as I've heard from some District Fed presidents, is it, in your view, a little premature to think that rate cuts are right around the corner? And then when we do see that first rate cut, is that—should we interpret that as the beginning of a rate-cut cycle, or is it a one-off?

CHAIR POWELL. So I'll point you to that language on your first question. We, we included that language in the statement to signal clearly that—with strong growth, strong labor market, inflation coming down—the Committee intends to move carefully as we consider when to begin to dial back the restrictive stance that we have in place. So if you take that to the current context—current context, we're going to be data dependent. We're going to be looking at this meeting by meeting. Based on the meeting today, I would tell you that I don't think it's likely that the Committee will reach a level of confidence by the time of the March meeting to identify March as the time to do that. But that's, that's to be seen. So I wouldn't call—you know, when you say—when you ask me about "in the near term," I'm hearing that as March. I would say I don't think that's—that's, that's probably not the most likely case or what we would call the base case. And your second question is—

EDWARD LAWRENCE. On, on the—is this the start of a—when we see a cut, is it the start of a cutting cycle, or is it—could it just be a one-off?

CHAIR POWELL. You know, that's going to depend on the data. The whole thing is, this is going to depend on the data. We're going to be looking at the economic data as it affects the outlook and the balance of risks. And we're going to make our decisions based on that. And it could wind up—you know, we'll, we'll have another SEP at the March meeting, and, and people will write down what they think. But, in the end, it's really going to depend on how the economy evolves. We talked about, there are risks that would cause us to go slower—for example, stronger inflation—more, more persistent inflation. There are risks that would cause us to—if they happen—that would cause us to go faster or—and sooner. And that would be a weakening in the labor market or, for that matter, very, very persuasive lower inflation. Those are the kinds of things. So we're just—we're just going to be reacting to the data. That's the—that's really the only way we can do this.

MICHELLE SMITH. Victoria.

VICTORIA GUIDA. Hi. Victoria Guida with Politico. Could you talk a little bit more about productivity growth? You know, you've mentioned multiple times about, you know, the level of wage growth that's consistent with 2 percent inflation. We've obviously seen, you know—you were talking about ECI this morning, in which it's cooled a little bit but still sort of above what you wanted to see. Growth has been very strong. How much of those numbers do you attribute to productivity? And do you see that productivity as sort of just temporary because of the factors—the labor and supply chain factors you were talking about—or do you think that productivity growth will, will fade over time?

CHAIR POWELL. So this is a really interesting question. And I think—my, my own view is—I think if you look, look back to the pandemic, you, you saw a spike in productivity as workers were laid off, and, and activity didn't decline as fast. And then you saw a deep trough of productivity. And then, over the last—you saw high productivity last year, in '23. I think we're, we're basically in the throes of getting through the pandemic economy. And the question will be, what, what is it that has changed the—you know, the productivity tends to be based on, you know, fundamental aspects of our economy. Is there—is there a case—will it be the case that we come out of this more productive on a sustained basis? And I don't know. I don't know. What would it take? It would take—you know, people talk about AI, but I would—my guess is that we may shake out and be back where we were, because I don't—I'm not sure I see—work from home doesn't seem like it's a big productivity increase. Or AI, artificial intelligence—generative it may be, but probably not in the short run—probably, maybe in the longer run. So I'm not—I'm not seeing why it would, but, you know, right—you know, right now I would say that productivity is kind of what falls out of the, the broader forces that are driving people in and out of the labor force and, and activity returning and supply chains getting fixed.

VICTORIA GUIDA. Right. So would that be behind why we've seen such strong growth, but we've also seen inflation fall—that maybe there's just a higher level of productivity?

CHAIR POWELL. That's one way to look at it. Yeah.

MICHELLE SMITH. Nancy.

NANCY MARSHALL-GENZER. Hi, Chair Powell. Nancy Marshall-Genzer with Marketplace. I want to ask a little bit more about housing. I'm wondering—how closely are you watching rent and housing prices as you evaluate whether and when to cut rates? And it seems like housing prices are not coming down as quickly as you expected.

CHAIR POWELL. So when we think about, you know—our, our statutory goals are maximum employment and price stability, and that's what we're targeting. We're not targeting housing price inflation, the cost of housing, or any of those things. Those are very important things for people's lives. But they're not—you know, those are not the things we're targeting. We're also well aware that when we cut rates at the beginning of the pandemic, for example, the housing, housing industry was helped more than any other industry. And when we raise rates, the housing industry can be hurt, because it's a very interest-sensitive sector.

On top of that, we have longer-run problems with the availability of housing. You know, we have a, a built-up set of cities, and, and, you know, people are moving further and further out. So there's—there hasn't been enough housing built. And these are not—these are not things that we have any tools to address. But, you know, where it comes into play very specifically in our work is inflation, which is a combination. It's, it's really rental inflation. You're taking owners' equivalent rent and then actual rent paid by tenants. And you're, you're running that through the CPI calculation. Or the PCE [inflation] calculation—the one we look at. And what that's telling you is that market rents are increasing at a much lower rate or even being flat and that that will show up in inflation over time. It has to as long as that remains the case.

NANCY MARSHALL-GENZER. And just real quick—what is your response to the letter that was sent to you by some members of Congress asking the Fed to lower interest rates to make housing more affordable?

CHAIR POWELL. My response is what I started with, which is that our, our job—the job Congress has given us is price stability and maximum employment. Price stability is absolutely essential for people's lives, most importantly for—well, not most importantly—most, mostly for people at the lower end of the income spectrum who are living at the edges—at the margins. And so someone—for someone like that, high inflation in the—in the necessities of life—right away, you're in trouble, whereas even middle-class people have some, you know, some scope to absorb higher costs. So we have to get—it's our job. It's what society has asked us to do, is to get inflation down, and the tools that we use to do it are interest rates. So that's how we think about that.

MICHELLE SMITH. Courtenay.

COURTENAY BROWN. Courtenay Brown from Axios. Can you give us some insight into whether the Committee discussed the possibility of slowing balance sheet runoff in the months ahead?

CHAIR POWELL. Yes. So I would start by saying that balance sheet runoff so far has gone very well. And as the process has continued, you know, we're getting to that time where questions are beginning to come into greater focus about the pace of runoff and all that. So at this meeting, we did have some discussion of the balance sheet, and we're planning to begin in-depth discussions of balance sheet issues at our next meeting in March. So those, those questions are all coming into scope now, and we're focusing on them. But we're, we're at the beginning of that process, I would say.

COURTENAY BROWN. Quick follow-up—is it the case that the Fed would decide to lower rates and make adjustments to the balance sheet runoff in tandem?

CHAIR POWELL. Yes, we do—we see those as independent tools. And so they don't—for example, if you're—if you're normalizing policy, you might be reducing rates but continuing to run off the balance sheet. In both cases, that's normalization, but from a strict monetary policy standpoint, you could say we're loosening along with tightening. So that, that could happen. It's not something we're planning or thinking about, but right now, we're thinking about getting to a place where—we're going to see the balance sheet runoff to continue. We're watching it carefully, and, as I said, we'll—we'll be looking into that as a Committee starting in March.

COURTENAY BROWN. Thanks.

MICHELLE SMITH. Simon.

SIMON RABINOVITCH. Simon Rabinovitch with the *Economist.* Thank you, Chair Powell. You've mentioned six good months of inflation data, but that not being enough to build up confidence. Based on your previous response that your base case is you probably wouldn't start easing yet in March, the implication is that eight good months might not be enough, either. Roughly how many months do you think you might need of, of good inflation data to be—to be confident?

CHAIR POWELL. I'm, I'm not in a position to put a number on it. I'm just going to say—and it's not that we don't have any confidence. We, we have growing confidence, but not to the point where we—where we feel like—it's a highly consequential decision to start the process of, of dialing back on restriction. And we want to get that right, and we feel like the strong economy, strong labor market, inflation coming down—it gives us the ability to do that. We think that's the best way we can serve the public, because, ultimately, we, we've made a lot of progress on inflation. We just want to make sure that we do get the job done in a sustainable way. That's how we're thinking about it. In terms of when that'll be, you know, that, that'll all come out of our communications, and, you know, we won't—we won't keep that a secret.

MICHELLE SMITH. Evan.

EVAN RYSER. Hi, Chair Powell. Evan Ryser with MNI Market News. Can you explain a little bit more on what you're considering when tapering QT? Do you need to see the overnight reverse repo facility all the way down to zero, or is it something that you can start with a couple hundred billion dollars there?

CHAIR POWELL. Not a decision that we've made, but I, I wouldn't think we'd, we'd be—we wouldn't be taking a position that it's got to go to zero. I mean, if it—if it were to stabilize at a different level—but that's, that's not a decision that we've made. That's, that's what we'll be talking about at the March meeting. A whole range of issues will be briefed up, and the Committee will get into—get into all of the issues that will be arising over the course of the next, let's say, year or so.

MICHELLE SMITH. Greg.

GREG ROBB. Thanks. Greg Robb from MarketWatch. Chair Powell, I want to change gears a little bit. In the presidential primary campaign that's been going on for the last nine months or so, your name has come up often, and many Republican candidates had said that they probably wouldn't want to give you a third term. So I wanted to give you a chance to talk about that. Do you want another term—you've had—on the Fed? What, what's your stance on that?

CHAIR POWELL. I don't have a stance on that. It's not something I'm focused on. [We're] focused on doing our jobs. We have—this year is going to be a highly consequential year for, for the Fed and for monetary policy. And we're, all of us, very buckled down, focused on doing our jobs.

MICHELLE SMITH. Jennifer.

JENNIFER SCHONBERGER. Thank you, Chair Powell. Jennifer Schonberger with Yahoo Finance. As you mentioned, core PCE [inflation] has been running at 1.9 percent over the past six months. And you guys are actually expecting core inflation higher this year, at 2.4 percent, compared to that six-month measure. Given that forecast and that the median is for three rate cuts this year, what happens if inflation stays where it's been over the last six months for the next six months?

CHAIR POWELL. So I—you know, we're going to do—we'll update our, our inflation forecasts at the next meeting. You referred to the December meeting. That's, that's, you know, three months old [by March], so it might be lower now, given the data we've gotten. So, look, as I mentioned, we're going to be reacting to the data. If, if we get—if we get very strong inflation data and it, it kicks back up, then it'll—then we'll go slower or later or both. If we got really good inflation data soon, that would matter for both the—that, that would tell us that, that we could go sooner and perhaps go faster. So we're just going to be—but, of course, we'll weigh that with all the other factors. We're setting policy based on the totality of, of the data.

JENNIFER SCHONBERGER. But just to follow—if inflation stays where it is currently, that would probably mean that the real interest rate becomes more restrictive. Would that mean you'd have to trim more, perhaps, than you already have factored in?

CHAIR POWELL. Well, I think if we—if we came to the view that, that inflation were—that the six-month inflation numbers, which are very close to 2 [percent], were, in "PCE world"—if we came to—if that's—if we thought that is really where we're going to be, then, yes, our policy would be in a different place. It would. But, you know, that's the whole point is, we're trying to get comfortable and gain confidence that that is where—that inflation is on a sustainable path down to 2 percent or toward 2 percent.

MICHELLE SMITH. Daniel.

DANIEL AVIS. Hi, Chair Powell. Daniel Avis, Agence France-Presse. I just wondered if I could get your comment on the recent consumer confidence data. It seems to suggest that consumers are sort of moving towards a much more optimistic view of the economy. I just wonder—is it fair to say that they're moving towards where the Fed appears to have been in recent months? And, you know, do you think that inflation and falling inflation perhaps has played a role in that? And what challenges do you see, going forward? Thank you.

CHAIR POWELL. Yeah, so it's been—it's been interesting that confidence surveys have been weak, at a time when unemployment has been low—very low, historically low—for a couple of years. And—but, nonetheless, that's been the case. And we've asked ourselves why that is. And, you know, one obvious answer—we don't pretend to have perfect wisdom on this—is—but one obvious answer is that the *price level* is high. So prices went up much more than 2 percent for year—per year for a couple of years. And people are going to the store, and they're paying much more for the basics of life than they were two years ago—three years ago. And they're not happy about it. And it's fine that inflation is coming down, but the price—the prices they're paying are still high.

So that, that is what—that, that has to be some part of why people are unhappy. And they're, they're right to be unhappy. You know, this is why we need to keep price stability. It's why we need to do our jobs—so that people don't have to deal with things like this.

In terms of [surveys]—you're right. In, in recent, recent surveys, a couple of—you've seen a couple of significant increases in, in consumer confidence or, or happiness with the economy. I guess that's a good thing. That can—that can support spending—can support economic activity. There's some evidence of that. But it is—it is a fact that we have seen, you know, a meaningful increase. I think levels of confidence are still maybe not as high as they've been at various times. But it's—they certainly have come up.

MICHELLE SMITH. Bryan.

BRYAN MENA. Thank you for taking our questions. Bryan Mena, CNN Business. Committee members have said they'd like to meet with business leaders and stakeholders in person to learn more about the economy in real time, given that some data is subject to large revisions, the issue of seasonal adjustments being thrown off balance, and many readings of the economy being quarterly. So did any members say they've learned anything not reflected in the data? Or have you yourself learned anything through anecdotal evidence that hasn't been captured in the data yet?

CHAIR POWELL. Well, yes. I'm, I'm a big believer that—yes. So we, we do meet with outside groups who come from all different parts of the economy. And I always feel like you—I mean, I spent most of my life in the private sector looking at companies—individual companies—individual management teams—and then building out from that. And so, starting with GDP data is—and working into what's actually affecting people's lives is—is challenging. It's very hard. So I, I really like anecdotal data. In addition, as you know, the 12 Reserve Banks have really the best network of anyone. In all their Districts, they're talking to, you know, not just the business community, but the educational, medical, all, all—you know, nonprofit community. They have arms into all of that. And so when they come back—that's what goes into the Beige Book. But they come back, and what each Reserve Bank president does is, during the outlook go-around, they'll say, "In my District . . ." And they'll talk about 100 conversations they—not—they won't talk—they, they will give you input, based on 100 conversations that they've had with people of all different walks. And it's—I personally find it very helpful in understanding what's going on. And also, I think you hear things before they show up in the data sometimes.

BRYAN MENA. Did any of them—did any of them notice slowing economy based on what they've heard from, like, their District?

CHAIR POWELL. Yes. I mean, if you—if you look back at the last—not this Beige Book, but the one before, it was more—there was a lot of "slower activity." I think that, that what you're hearing now is, is, things are picking up a bit. You're hearing—not, not in every District and not every, every person that we talk to, but you're—overall, it feels like you're hearing things picking up at the margin. So that's what comes through.

MICHELLE SMITH. Let's go to Jeff Cox for the last question.

JEFF COX. Thank you, sir. Jeff Cox from CNBC.com. Just kind of looking to put it all together: You talked about basically the, the economy looking strong with 3.3 percent annualized growth in the fourth quarter. Does the strength of the economy speak more loudly to you now than any inflation threat might? That, you know—you're in a position, in other words, to keep rates elevated as long as the economy stays strong, and you're more—you're more tilted towards that. And also, perhaps, are you worried at all that the economy is maybe a little too strong right now and that inflation could come back at some point?

CHAIR POWELL. I'm not so worried about that. You know, it's—again, we've had inflation come down without a slow economy and without, you know, important increases in, in unemployment, and there's no reason why we should want to get in the way of that process, if it's going to continue. So I, I am—you know, I think—I think declining inflation—continued declines in inflation are, are really the main thing we're looking at. Of course, we want the labor market to remain strong, too.

We don't have a growth mandate. We've got a, a maximum-employment mandate and a, a price-stability mandate, and those are the two things we look at. Growth only matters to the extent it influences our achievement of those two—of those two mandates.

Thank you very much.

ECONOMY

The U.S. economy grew at blistering 3.3% pace in Q4 while inflation pulled back

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KEY POINTS

- GDP, a measure of all the goods and services produced, increased at a 3.3% annualized rate in the fourth quarter of 2023. Wall Street had been looking for a 2% gain.

- The U.S. economy for all of 2023 accelerated at a 2.5% annualized pace, well ahead of the Wall Street outlook at the beginning of the year for few if any gains and better than the 1.9% increase in 2022.

There also was progress on inflation. Core prices for personal consumption expenditures rose 2% for the period, while the headline rate was 1.7%.

VIDEO 03:45

The U.S. economy grew at a 3.3% pace in the fourth quarter, much better than expected

HCC RFP02-04 -- 33_Cox US Economy Grew at Blistering - CNBC 01.25.2024
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SOAH DOCKET NO. 473-24-13232
PUC Docket No. 56211

forecasters had thought was inevitable, the Commerce Department reported Thursday.

Gross domestic product, a measure of all the goods and services produced, increased at a 3.3% annualized rate in the fourth quarter of 2023, according to data adjusted seasonally and for inflation.

That compared with the Wall Street consensus estimate for a gain of 2% in the final three months of the year. The third quarter grew at a 4.9% pace.

In addition to the better than expected GDP move, there also was some progress on inflation.

Core prices for personal consumption expenditures, which the Federal Reserve prefers as a longer-term inflation measure, rose 2% for the period, while the headline rate was 1.7%.

On an annual basis, the PCE price index rose 2.7%, down from 5.9% a year ago, while the core figure excluding food and energy posted a 3.2% increase annually, compared with 5.1%.

a lot of recreation spending as well as taking trips. We've been expecting a soft landing for some time. This is just one step in that direction."

The U.S. economy for all of 2023 accelerated at a 2.5% annualized pace, well ahead of the Wall Street outlook at the beginning of the year for few if any gains and better than the 1.9% increase in 2022.

As had been the case through the year, a strong pace of consumer spending helped drive the expansion. Personal consumption expenditures increased 2.8% for the quarter, down just slightly from the previous period.

State and local government spending also contributed, up 3.7%, as did a 2.5% increase in federal government expenditures. Gross private domestic investment rose 2.1%, another significant factor for the robust quarter.

The chain-weighted price index, which accounts for prices as well as changes in consumer behavior, increased 1.5% for the quarter, down sharply from 3.3% in the previous period and below the Wall Street estimate for a 2.5% acceleration.

"This year has been like Rock 'Em Sock 'Em Robots, and the economy is knocking the blocks off the economists, always outperforming," said Dan North, senior economist with Allianz Trade Americas. Fed Chair Jerome Powell "has got to have

Markets showed only a modest reaction to the report. Stock futures gained slightly while Treasury yields moved lower. Futures markets continued to reflect the likelihood that the Fed will enact its first rate cut in May, though the CME Group's FedWatch gauge put the odds of a March cut at 47.4% around 10 a.m. ET.

"It was a great report, but you didn't see the market move much because GDP is backward-looking. It told us what happened in October and November and December," North said. "It's great for historical patterns, but it doesn't really tell us much about where we're headed."

In other economic news Thursday, initial jobless claims totaled 214,000, an increase of 25,000 from the previous week and ahead of the estimate for 199,000, according to the Labor Department. Continuing claims rose to 1.833 million, an increase of 27,000.

The GDP report wraps up a year in which most economists were almost certain the U.S. would enter at least a shallow recession. Even the Fed had predicted a mild contraction due to banking industry stress last March.

However, a resilient consumer and a powerful labor market helped propel the economy through the year, which also featured an ongoing pullback in manufacturing and a Fed that kept raising interest rates in its battle to bring down inflation.

Concerns remain, however, that the economy faces more challenges ahead.

Some of the worries center around the lagged effects of monetary policy, specifically the 11 interest rate hikes totaling 5.25 percentage points that the Fed approved between March 2022 and July 2023. Conventional economic wisdom is that it can take as long as two years for such policy tightening to make its way through the system, so that could contribute to slowness ahead.

Other angst centers around how long consumers can keep spending as savings dwindle and high-interest debt loads accrue. Finally, there's the nature of what is driving the boom beyond the consumer: Government deficit spending has been a significant contributor to growth, with the total federal IOU at $34 trillion and counting. The budget deficit has totaled more than half a trillion dollars for the first three months of fiscal 2024.

There also are political worries as the U.S. enters the heart of the presidential election campaign, and geopolitical fears with violence in the Middle East and the continuing bloody Ukraine war.

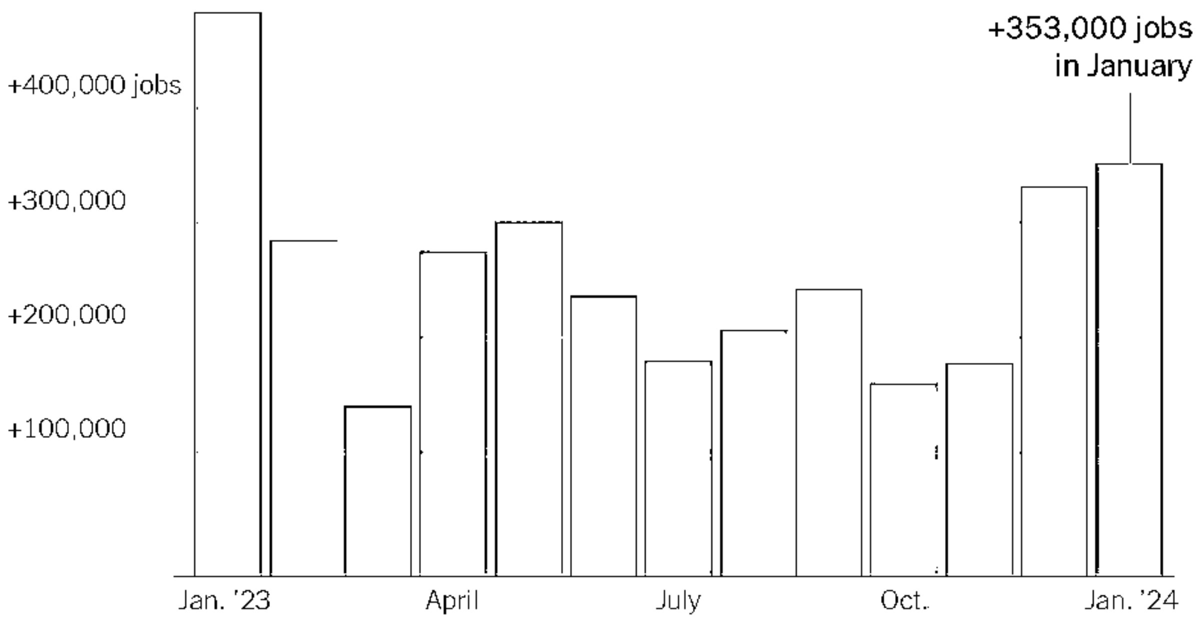
Correction: The price index for personal consumption expenditures rose 2.7% on an annual basis, down from 5.9% a year ago. An earlier version mischaracterized the figures.

- *The early winner in the bitcoin ETF race has raked in $1 billion*
- *Goldman Sachs names its top stocks for 2024, including this solar company*
- *CD rates are coming down. Here's where you can lock in yields of nearly 5% for 2 years*
- *Buy the dip in these bitcoin mining stocks over the next two months, Bernstein says*

Job Market Starts 2024 With a Bang

U.S. employers added 353,000 jobs in January, far exceeding forecasts, and revised figures showed last year was even stronger than previously reported.

Monthly change in jobs



Note: Data is seasonally adjusted. • Source: Bureau of Labor Statistics • By Ella Koeze

By Lydia DePillis

Feb. 2, 2024

The United States produced an unexpectedly sizable batch of jobs last month, a boon for American workers that shows the labor market retains remarkable strength after three years of expansion.

Employers added 353,000 jobs in January on a seasonally adjusted basis, the Labor Department reported on Friday, and the unemployment rate remained at 3.7 percent.

The report also put an even shinier gloss on job growth for 2023, including revisions that added more than 100,000 to the figure previously tallied for December. All told, employers added 3.1 million jobs last year, more than the 2.7 million initially reported.

After the loss of 14 percent of the nation's jobs early in the Covid-19 pandemic, the labor market's endurance despite aggressive interest rate increases has caught economists off guard.

"I think everyone is surprised at the strength," said Sara Rutledge, an independent economics consultant. "It's almost like a 'pinch me' scenario."

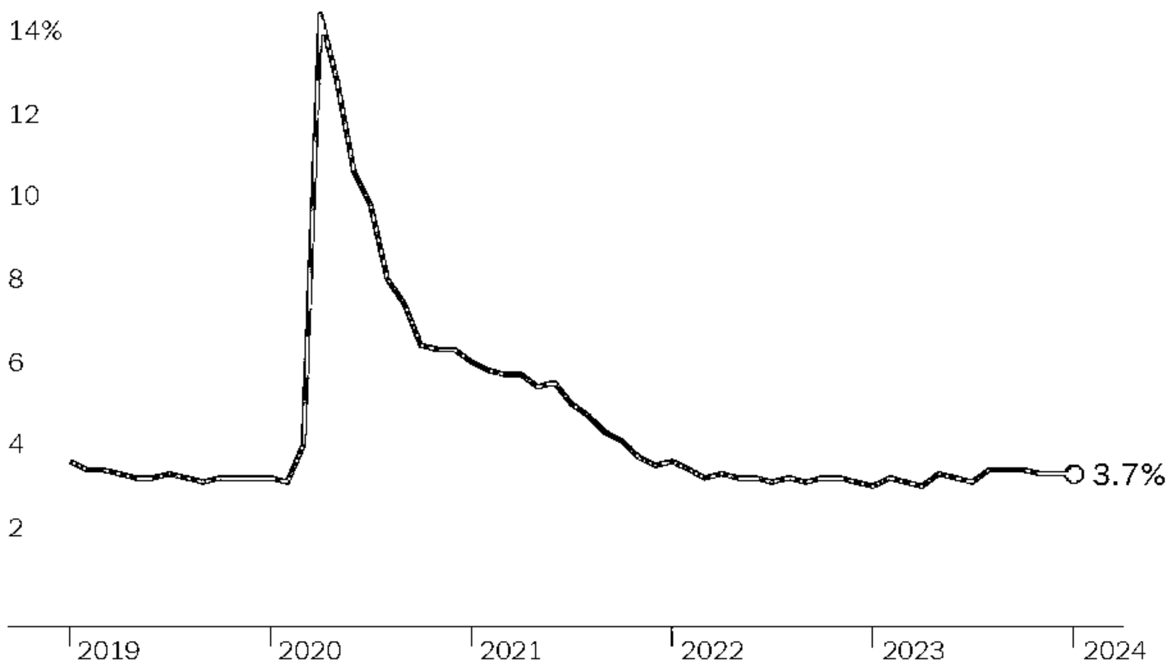
Ms. Rutledge helped tabulate the National Association for Business Economics' latest member survey, which found rising optimism that the country would avoid a recession — matching a turnaround in measures of consumer sentiment as inflation has eased.

January's crop of added jobs, nearly twice what forecasters had expected, mirrors the similarly surprising strength in gross domestic product measurements for the fourth quarter of 2023. It is also likely to reinforce the Federal Reserve's patient approach on interest rates, given the risk that increased wages might push prices up faster.

Jerome H. Powell, the Fed chair, signaled this week that rate cuts would not begin until at least May, citing a desire to see more evidence that inflation is falling back to its target.

Unemployment has been under 4 percent for 24 months

Unemployment rate



Note: Data is seasonally adjusted. • Source: Bureau of Labor Statistics • By Ella Koeze

The latest job data prompted a victory lap from Biden administration officials, who highlighted an unemployment rate only a few ticks above a 70-year low.

"The fact that that's been below 4 percent for two years running now is just a very clear and reliable signal that this is not just a tight labor market, but a reliably and persistently tight labor market," said Jared Bernstein, chair of the White House Council of Economic Advisers.

January's gains were also broader than has been the case in other recent reports: Professional and business services accelerated to pile on 74,000 jobs, while health care added 70,000. The only major sector to cut workers was mining and logging.

Average hourly earnings also grew swiftly, at 0.6 percent from December.

Still, analysts cautioned against reading too much into the month's overall gain, given recent volatility in initial survey estimates. Last January, for example, was much stronger than the full-year average. And the latest report contains a few oddities, as well.

The survey window was interrupted by bone-chilling cold and snowstorms, possibly shortening the workweek and raising hourly wages. Also, the addition of so many relatively well-paid white-collar workers may have pulled up the average. Hotels and restaurants, where pay is lower, shed a few thousand jobs.

Agron Nicaj, a U.S. economist at the banking and financial services firm MUFG, noted that job postings had been elevated in professional and business services for the past few months. That may mean January's surge will be short-lived, especially given the latest report from outplacement firm Challenger, Gray & Christmas that found layoff announcements surged last month after a quiet quarter.

"I wouldn't expect a reacceleration because of the relationship with the industries that grew this month and the openings," Mr. Nicaj said. "I think this month reflects a refilling of jobs that they couldn't fill."

Wage growth sped up in January

Year-over-year percentage change in earnings vs. inflation

Note: Earnings data is seasonally adjusted. • Source: Bureau of Labor Statistics • By Ella Koeze

And yet it's clear that the new year dawned on what has been an exceptionally good economy for many workers. Wages have been growing faster than their historical rates, and a strong increase in productivity over the last three quarters has helped keep those fatter paychecks from fueling higher prices. The number of open jobs still exceeds the stock of people looking for positions, even as new immigrants and women have joined or rejoined the work force in unexpected numbers.

That trend may continue if higher wages keep bringing people off the sidelines. The number of people not in the labor force who want a job has surged in recent months, to 5.8 million, suggesting that they could jump back in if pay outweighed the cost of child care or a long commute.

Over the past year, most gains have been powered by sectors that either took longer to recover from the pandemic — including hospitality and local governments — or have outsize momentum because of structural factors, such as aging demographics and pent-up demand for housing. Construction firms have kept hiring even in the face of high interest rates, because homeowners with low-rate mortgages are generally staying put, leaving new homes as the only option for would-be buyers.

The education and health sector leads in job gains

Change in jobs in January 2024, by sector

Education and health	+112,000 jobs
Business services	+74,000
Retail	+45,200
Government	+36,000
Manufacturing	+23,000
Leisure and hospitality	+11,000
Construction	+11,000

Note: Data is seasonally adjusted. • Source: Bureau of Labor Statistics • By Ella Koeze

Other categories that experienced supersize growth during 2021 and 2022, including transportation, warehousing and information technology, have been falling back to their prepandemic trends. Another handful of sectors, such as retail, have been largely flat.

One of those who jumped from a shrinking sector into a more stable one is Galvin Moore, 33, who worked in information technology for a freight broker until last fall, when he noticed the trucking sector contracting around him.

“It’s not just job security — it’s also the fear that you own career growth becomes limited by the industry,” said Mr. Moore, who is married with three children in a Houston suburb. He left for a position at an oil and gas services firm that is moving into technologies like geothermal energy and carbon capture. “They’re in growth mode, too,” Mr. Moore added, “It’s just a different phase of the cycle.”

The new gig also came with a 40 percent pay increase, which has allowed him to start paying down debt and think about buying a new house. “It’s like night and day,” Mr. Moore said.

Despite the prominent announcements of layoffs at companies like UPS, Google and Microsoft, most employers have been loath to part with workers, worried about being short-staffed if business picks up again. Although the share of workers quitting their jobs has fallen back to normal levels after a surge in 2022, Americans seem comfortable enough with their financial futures to keep spending money.

That has led to splurges on services like travel agencies, which saw their revenues sink almost to zero during the worst of the pandemic. While still a few thousand employees shy of 2019 levels, the American Society of Travel Advisors says the Bureau of Labor Statistics data does not reflect a surge of workers who have joined the industry as independent contractors, often working part time to supplement other jobs.

Kareem George, who runs a 10-person agency near Detroit that designs custom vacations, said his bookings were 20 percent above 2019 levels, with clients increasingly asking for luxury experiences like high-end dinners and private tours.

“I think there’s more confidence that they can plan longer term,” said Mr. George, who expects to hire two more people in the year ahead. “So they’re not thinking so much of, ‘I deserve it, I need to do it now,’ but also

‘I can also think about next year and the year after.’”

In the coming months, economists had expected the labor market to become more like its prepandemic self, without the giant job growth that followed the pandemic lockdowns. The latest numbers may call that assessment into question.

Even manufacturing, which has been in a mild recession for about a year, added 23,000 positions. That reflects optimism in the latest purchasing managers index for manufacturing, which jumped unexpectedly last month. Timothy Fiore, the chair of the Institute for Supply Management committee that oversees the survey, said it seemed like the beginning of a turnaround, even if a slow one.

“Now we’re starting to gain altitude,” Mr. Fiore said. “It’s not a fighter pilot gain; it’s a cargo plane gain.”

Jim Tankersley contributed reporting.

Lydia DePillis reports on the American economy. She has been a journalist since 2009, and can be reached at lydia.depillis@nytimes.com. More about Lydia DePillis

A version of this article appears in print on , Section A, Page 1 of the New York edition with the headline: Labor Market Starts the Year With Big Gains

Policy Tools

Open Market Operations

Open market operations (OMOs)--the purchase and sale of securities in the open market by a central bank--are a key tool used by the Federal Reserve in the implementation of monetary policy. The short-term objective for open market operations is specified by the Federal Open Market Committee (FOMC). Before the global financial crisis, the Federal Reserve used OMOs to adjust the supply of reserve balances so as to keep the federal funds rate--the interest rate at which depository institutions lend reserve balances to other depository institutions overnight--around the target established by the FOMC.

The Federal Reserve's approach to the implementation of monetary policy has evolved considerably since the financial crisis, and particularly so since late 2008 when the FOMC established a near-zero target range for the federal funds rate. From the end of 2008 through October 2014, the Federal Reserve greatly expanded its holding of longer-term securities through open market purchases with the goal of putting downward pressure on longer-term interest rates and thus supporting economic activity and job creation by making financial conditions more accommodative.

During the policy normalization process that commenced in December 2015, the Federal Reserve first used overnight reverse repurchase agreements (ON RRPs)--a type of OMO--as a supplementary policy tool, as necessary, to help control the federal funds rate and keep it in the target range set by the FOMC.

In September 2019, the Federal Reserve used term and overnight repurchase agreements (repo) to ensure that the supply of reserves remain ample even during periods of sharp increases in non-reserve liabilities, and to mitigate the risk of money market pressures that could adversely affect policy implementation. The Federal Reserve continued to offer overnight repos and, amid the COVID-related stress around March 2020, term and overnight repos played an important role in ensuring that the supply of reserves remained ample and supporting the smooth functioning of short-term U.S. dollar funding markets.

In the Statement Regarding Repurchase Agreement Arrangements released on July 28, 2021, the Federal Reserve announced the establishment of a domestic standing repo facility (SRF). Under the SRF, the Federal Reserve conducts daily overnight repo operations against eligible securities. The SRF serves as a backstop in money markets to support the effective implementation of monetary policy and smooth market functioning.

For additional information, see:
http://www.federalreserve.gov/monetarypolicy/bst_openmarketops.htm

The Federal Reserve Bank of New York publishes a detailed explanation of OMOs each year in its Annual Report . For a description of open market operations during the 1990s, see the article in the Federal Reserve Bulletin (102 KB PDF).

For additional information on how the Federal Reserve will use ON RRPs during the policy normalization process, see: http://www.federalreserve.gov/monetarypolicy/overnight-reverse-repurchase-agreements.htm

FOMC's target federal funds rate or range, change (basis points) and level

2023 | 2022 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | Historical Archive

2023

Date	Increase	Decrease	Level (%)
July 27	25	0	5.25-5.50
May 4	25	0	5.00-5.25
March 23	25	0	4.75-5.00
February 2	25	0	4.50-4.75

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2022

Date	Increase	Decrease	Level (%)
December 15	50	0	4.25-4.50
November 3	75	0	3.75-4.00
September 22	75	0	3.00-3.25
July 28	75	0	2.25-2.50
June 16	75	0	1.50-1.75
May 5	50	0	0.75-1.00
March 17	25	0	0.25-0.50

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2020

Date	Increase	Decrease	Level (%)
March 16	0	100	0-0.25
March 3	0	50	1.00-1.25

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2019

Date	Increase	Decrease	Level (%)
October 31	0	25	1.50-1.75
September 19	0	25	1.75-2.00
August 1	0	25	2.00-2.25

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2018

Date	Increase	Decrease	Level (%)
December 20	25	0	2.25-2.50
September 27	25	0	2.00-2.25
June 14	25	0	1.75-2.00
March 22	25	0	1.50-1.75

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2017

Date	Increase	Decrease	Level (%)
December 14	25	0	1.25-1.50
June 15	25	0	1.00-1.25
March 16	25	0	0.75-1.00

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2016

Date	Increase	Decrease	Level (%)
December 15	25	0	0.50-0.75

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2015

Date	Increase	Decrease	Level (%)
December 17	25	0	0.25-0.50

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2008

Date	Increase	Decrease	Level (%)
December 16	...	75-100	0-0.25
October 29	...	50	1.00
October 8	...	50	1.50
April 30	...	25	2.00
March 18	...	75	2.25
January 30	...	50	3.00
January 22	...	75	3.50

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2007

Date	Increase	Decrease	Level (%)
December 11	...	25	4.25
October 31	...	25	4.50
September 18	...	50	4.75

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2006

Date	Increase	Decrease	Level (%)
June 29	25	...	5.25
May 10	25	...	5.00
March 28	25	...	4.75
January 31	25	...	4.50

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2005

Date	Increase	Decrease	Level (%)
December 13	25	...	4.25
November 1	25	...	4.00
September 20	25	...	3.75
August 9	25	...	3.50
June 30	25	...	3.25
May 3	25	...	3.00
March 22	25	...	2.75
February 2	25	...	2.50

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2004

Date	Increase	Decrease	Level (%)
December 14	25	...	2.25
November 10	25	...	2.00
September 21	25	...	1.75
August 10	25	...	1.50
June 30	25	...	1.25

Back to year navigation

2003

Date	Increase	Decrease	Level (%)
June 25	...	25	1.00

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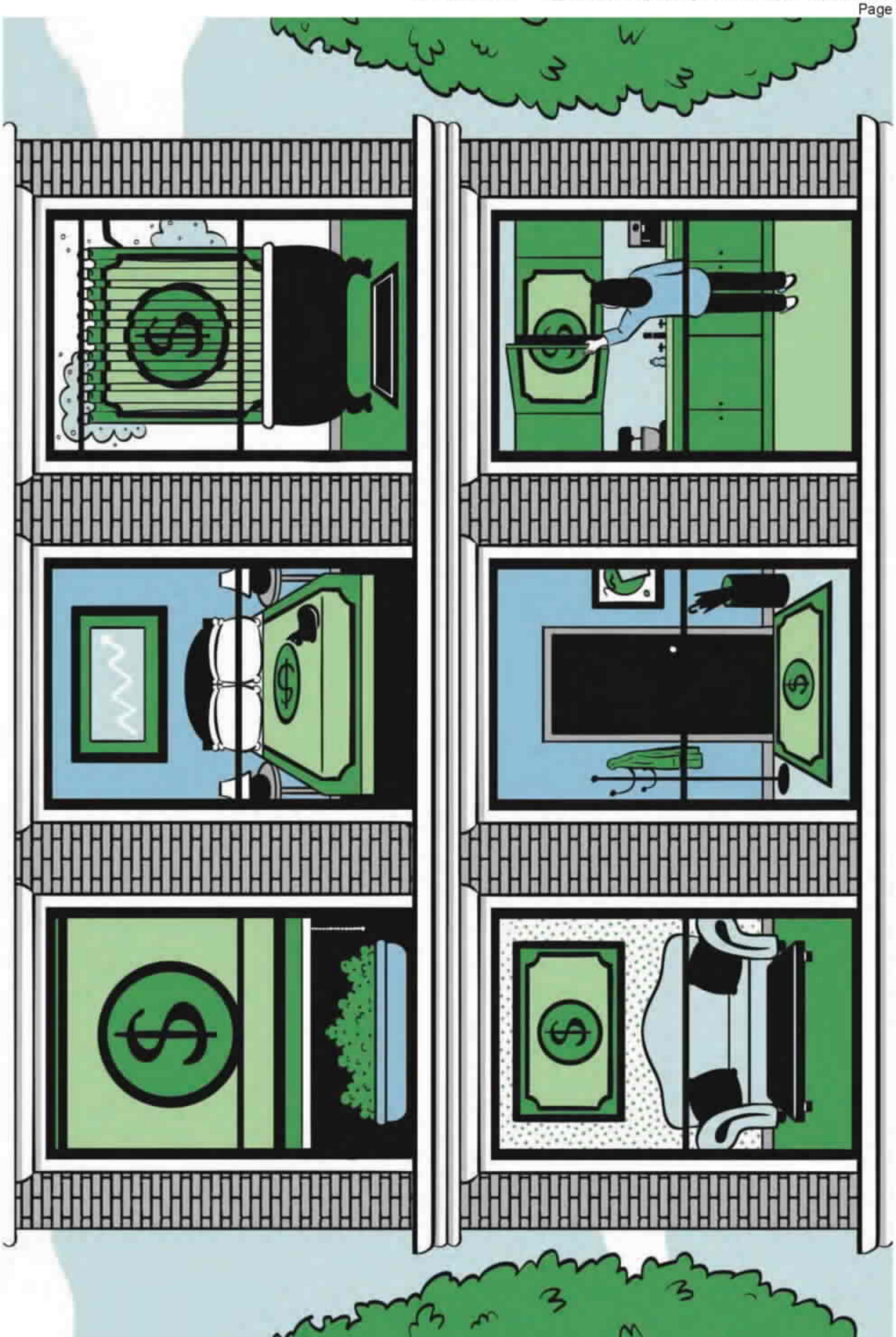
Basis points: 1/100 percentage point Return to Text

Last Update: July 26, 2023



EXCLUSIVE

ILLUSTRATION BY MELANIE LAMBRICK

Big Money Pros Are Split on the Outlook for Stocks. But They Are Fans of Bonds.

Nearly half of poll respondents consider the U.S. stock market overvalued at current levels.

By Nicholas Jasinski Follow

Updated October 27, 2023 / Original October 27, 2023

This year has posed an unusual array of challenges for investors, and more could be in store. The major stock market indexes are still up in 2023, powered by a narrow slice of technology stocks, but have been losing ground rapidly. Bond yields have risen sharply, topping 5% on some government debt. The economic outlook is uncertain, the U.S. government has been in turmoil, and wars and conflict are spreading across the globe.

"Rarely have I seen such disarray in the world, with financial markets, politically, and otherwise," says William Priest, executive chairman and co-chief investment officer at Epoch Investment Partners in New York, and a respondent to our fall 2023 Big Money poll.

This fall, there is no predominant mood among the professional money managers surveyed by *Barron's*. Some 38% of Big Money respondents say they are bullish about the prospects for equities in the next 12 months. That compares with 38% in the neutral camp, and 24% who call themselves bears.

The bulls see a 14% rise for the S&P 500 index by the end of 2024, and a 12% gain by the Dow Jones Industrial Average. The bears forecast losses of 3% for the S&P 500 and 2% for the Dow.

Based on their mean forecasts, the bulls project a 15% gain by the end of 2024 for the Nasdaq Composite, while the bears expect the tech-heavy Nasdaq to decline 4%.

The latest Big Money Poll closed on Oct. 13 and elicited responses from more than 100 professional investors from across the country. *Barron's* conducted the poll with the help of Erdos Media Research in Ramsey, N.J. (Complete results are at the bottom of this article.)

High-quality bonds and value stocks have the most fans in our survey. Investors expect a tough year ahead for the more growth-oriented areas of the stock market. Nearly half of poll respondents consider the U.S. stock market overvalued at current levels.

One reason is the recent ramp-up in bond yields, which raises the competition for equities. The Federal Reserve's policy committee has increased its interest-rate target by more than five percentage points in the past 19 months to cool the economy and bring down inflation, while market forces have pushed up yields on long-term bonds. The yield on the benchmark 10-year U.S. Treasury note approached 5% this month, up from a paltry 0.5% at its pandemic-era low.

Yields along the Treasury curve are at their highest levels since before the global financial crisis of 2008-09. It's a return to the pre-2008 world as far as investors are concerned—not the low-growth, low-interest-rate, low-inflation, growth-stock-dominated decade that ended in 2022, two years after the start of the Covid-19 pandemic.

"The single most important variable in investing is interest rates," says Priest, a member of the *Barron's* Roundtable, whose firm manages about $28 billion. "Earnings may be fine next year and beyond, but it's the present value of those numbers that's going to be the problem."

Two-thirds of Big Money respondents say value investing will outperform growth-stock investing in the next 12 months.

And a majority of Big Money investors predict bonds will provide a higher return than stocks in the coming 12 months. While bonds have become cheaper this year (prices move inversely to yields), stocks remain relatively expensive: The S&P 500 trades for 17 times analysts'

2024 consensus earnings estimate.

On average, Big Money respondents have allocated about 20% of their portfolios to fixed income today. “We like bonds, especially when looking at equities that are trading at above-average [valuation] multiples,” says Matt Dmytryszyn, chief investment officer at Telemus Capital, with $3.5 billion in assets under management. “It has been a while since we’ve been able to get this excited about bonds.”

Fixed income might be in greater favor now, but few money managers expect a lost half-decade for U.S. stocks. Indeed, 95% expect to reap a higher return from stocks than bonds in the next five years.

Among fixed-income categories, 40% of managers prefer U.S. Treasuries. They have little credit risk, and yields are at 16-year highs. Another 24% like U.S. investment-grade corporate bonds. Spreads—or the premium yield on riskier bonds over Treasuries or another benchmark—are narrow, given the potential for a recession in 2024, which argues for favoring higher credit quality.

Big Money managers don’t have much duration risk in their portfolios, or sensitivity to changing interest rates. An average of 61% of their fixed-income exposure is in short-term securities maturing in less than three years, and just 8% is in bonds maturing in more than 10 years.

"We're not sticking our neck out too much on a duration basis," says Zach Jonson, CIO at Stack Financial Management in Whitefish, Mont. "An inflation spike or some kind of stagflation can happen, and you just have to be more careful than you normally would with duration."

It's hard to argue with yields pushing 5.6% on T-bills or 5.1% on the two-year U.S. Treasury note. As for where to park cash, short-term U.S. government bonds and money-market funds are best, according to the survey results.

Nearly two-thirds of Big Money respondents expect the 10-year Treasury note to yield at least 4.5% a year from now, versus a recent 4.8%. The yield still might rise a bit more before trending lower, some respondents say, while noting that it is at, or close to, levels at which locking in yields for the longer term makes sense.

"If we can get a Treasury yielding 5% or above for a decade, that's pretty darn attractive," says Jack DeGan, CIO at Harbor Advisory in Portsmouth, N.H. "We haven't seen that opportunity in portfolios for a long time."

There is also value in longer-term bonds as a hedge against broader market declines. A broad flight to safety among investors would push bond prices up and yields down.

Investors are split on the odds of a recession in 2024. Some give the

Federal Reserve ample credit for managing inflation down without sacrificing the economy, and see a so-called soft landing next year. Others are less sanguine, however, arguing that the impact of higher interest rates has yet to fully hit the real economy and that a recession is a question of when, not if.

Forty-six percent of respondents expect the economy to enter a recession in the next 12 months. But it needn't be a crisis-level downturn: Just 6% of investors expect U.S. real gross domestic product to contract by 2% or more next year.

"It's really hard to generate a big recession when there's that much money flowing into the economy," says Harbor's DeGan, pointing to pandemic-era stimulus spending and newer government programs such as the Infrastructure Investment and Jobs Act. "The Fed has raised interest rates dramatically, but our economy is less interest-rate sensitive than it has been in my 40 years in business."

Both consumers' and businesses' balance sheets are in good shape, he says, supporting spending but adding to the upward pressure on inflation. Only 15% of Big Money respondents expect inflation, as measured by the consumer price index, to come in at or below the Fed's 2% target in 2024. Most see the CPI hanging around 4% this year and slipping to 3% in 2024.

David Poarch, of Native American Fund Advisors in Tulsa, Okla., is concerned about sticky or potentially reaccelerating inflation, noting the trillions of dollars of monetary and fiscal stimulus pumped into the economy during and since the Covid pandemic. That flood of money is still working its way through the real economy, he says, despite the Fed's rate hikes over the past year and a half. "It's like the python that ate the pig—the economy needs some time to digest it," Poarch says.

Stack Financial's Jonson points to several long-term trends that are inherently inflationary, including the so-called reshoring of supply chains, the costly transition to renewable energy, and aging demographics that are leading to a shortage of labor in many developed markets.

What is the biggest risk facing the stock market? Twenty-eight percent of managers worry most about a potential recession, 26% point to the possibility of higher interest rates, and 16% cite resurgent inflation. This highlights the delicacy of the Federal Reserve's balancing act. The central bank must tap the brakes on the economy enough to ease the upward pressure on inflation, but not so much as to break things and cause a significant recession.

"The Fed is right to be proactive and [keep rates] higher for longer, so that inflation doesn't come back," says Dmytryszyn of Telemus

Capital, headquartered in Southfield, Mich.

Most Big Money managers approve of the Fed's moves to date, with 62% saying its current policy stance is just right. But half that percentage thinks the Fed has tightened too much and risks pushing the economy into a recession.

Nearly all survey respondents think the Fed is just about done raising interest rates, and that rate cuts could be coming next year. More than 80% predict that Fed officials will lower the current federal-funds target range of 5.25% to 5.50% next year by at least a quarter of a percentage point, while 35% expect rate cuts of more than half a point.

Joe Frohna, founding principal and portfolio manager at 1492 Capital Management, based in Milwaukee, notes that the Fed's first rate decrease of a cycle historically has followed the central bank's last hike by an average of 7.5 months. That pattern implies a rate cut sometime around the middle of next year.

"For the stock and bond markets to work in 2024, you're going to need the Fed to step out of the way," says Frohna. "At a minimum, that means they say they're pausing, if not [cutting] outright."

Broader participation in the market beyond the largest stocks would help to extend any rally. The S&P 500's 9% gain year to date is almost entirely due to advances in a handful of megacap tech stocks including Apple (ticker: AAPL), Nvidia (NVDA), Microsoft (MSFT), and Alphabet (GOOGL).

"It's hard to get excited about a rally when it's being led by such a narrow group," says Todd Jones, CIO of Gratus Capital in Atlanta, with about $3 billion in assets. "The valuations of the top 10 companies in the S&P 500 are super-elevated versus bottom 490."

About 60% of Big Money respondents expect small- or mid-cap stocks to outperform large-caps over the next 12 months. The iShares Core S&P Small-Cap exchange-traded fund (IJR) and the SPDR S&P MidCap 400 ETF (MDY) are ways to play the market's smaller stocks.

Weatherly Asset Management's Carolyn Taylor is sticking with Big Tech stocks for now, and waiting for better opportunities to present themselves. These companies have pristine balance sheets and wide competitive moats, and generate a ton of free cash flow, she notes. Should rates fall, however, more-speculative areas in the technology sector could become more attractive, namely shares of the fast-growing but richly valued companies expected to generate the bulk of their profits far in the future.

"We have dry powder in the form of cash and short-term fixed income and are a bit lighter than usual on equities," says Taylor, whose Del

Mar, Calif.–based firm manages about $1.2 billion. “So, if we do have a recession and the Fed starts to cut interest rates, we have the ability to shift.”

Epoch’s Priest is also bullish on Microsoft and Alphabet, both plays on 2023’s hottest investing theme: artificial intelligence. “They’re going to win with AI,” he says. “From a long-term investment perspective, you want to be exposed to those.”

Nvidia stock has rallied more than 175% this year, also fueled by enthusiasm for AI. But the stock isn’t so popular with the Big Money crowd: 29% of managers call it the market’s most overvalued stock. Nvidia sports a price/earnings ratio of 27 times the next year’s estimated earnings.

Energy stocks are Big Money investors’ favorite sector for the year ahead, designated as such by 33% of respondents. They like the sector for its relatively discounted valuation, high cash-flow yields, and generous dividend and share-buyback policies. Exposure to a potential spike in oil and gas prices also makes energy a defensive play.

Poll respondents see West Texas Intermediate, the U.S. benchmark oil price, rising to $91 a barrel in a year from the mid-$80s today. “Energy is both cheap and attractive as a hedge,” says Jonson, whose firm has about $1.8 billion in assets under management.

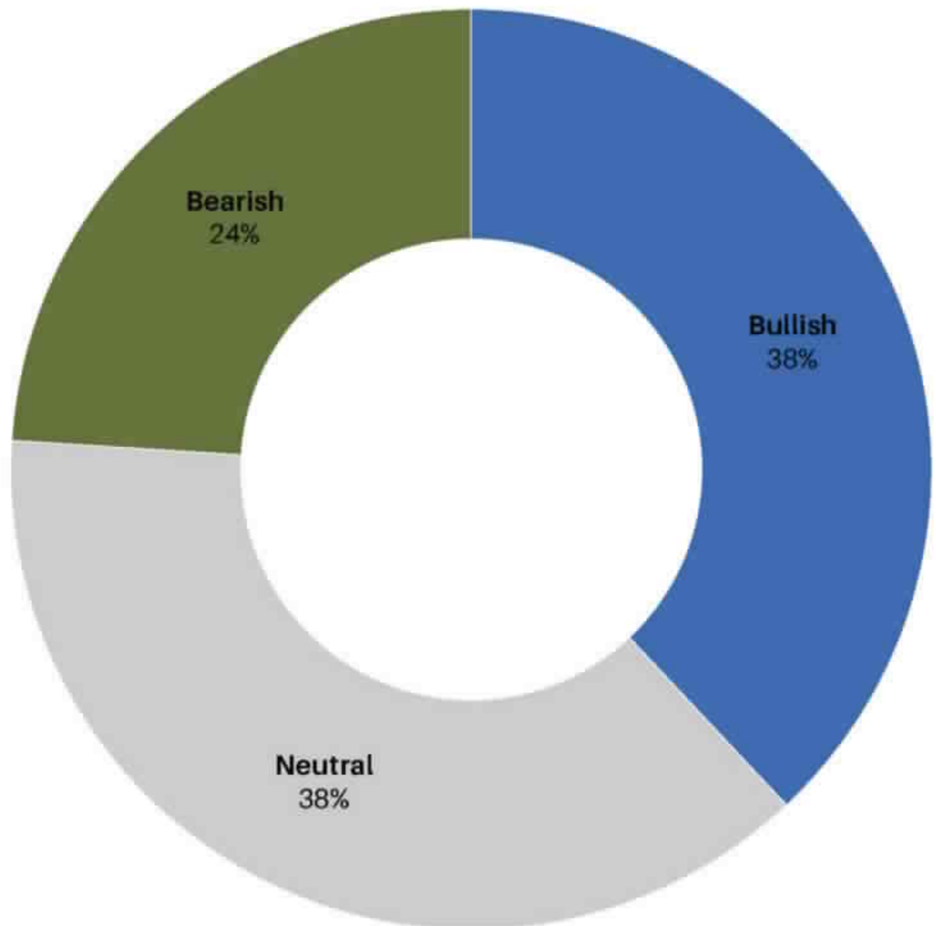
Gratus' Jones also likes midstream energy companies for their dividends and contractual cash flows tied to the volume of oil and natural gas that flows through their pipelines. Midstream companies include Williams Cos. (WMB), which yields 5.2%; Oneok (OKE), yielding 5.7%; and Kinder Morgan (KMI), yielding 6.7%.

Higher interest rates and bond yields have weighed on other income-generating assets, including dividend stocks. DeGan sees opportunities in the shares of quality companies with durable businesses that have seen their valuations fall and dividend yields rise this year. He points to Brookfield Infrastructure Partners (BIP), with a 6.7% yield; Pfizer (PFE), paying 5.4%; and NextEra Energy (NEE), yielding 3.4%.

Plenty could go wrong for the markets and world in the next year. For investors in stocks and bonds, a focus on attractive yields and undervalued assets seems like a sensible game plan.

The Markets

Describe your investment outlook for U.S. equities in the next 12 months.

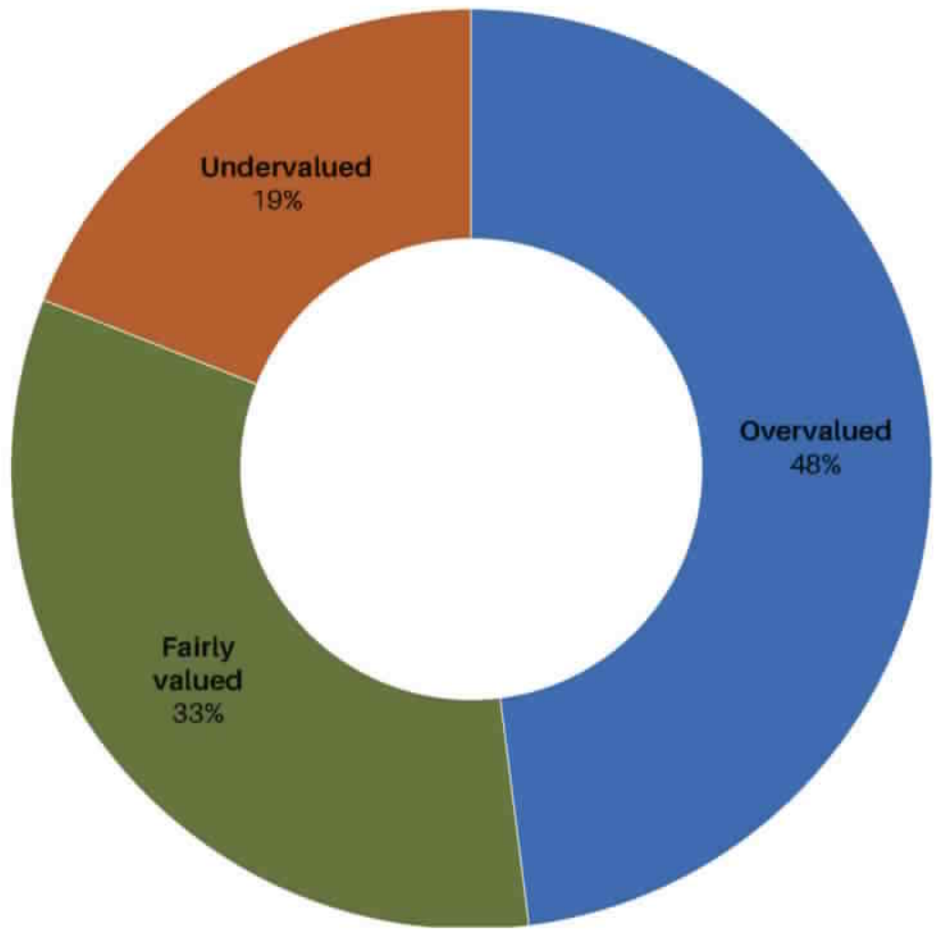


Where do you expect the following market measures to trade as of June 30, 2024, and Dec. 31, 2024?

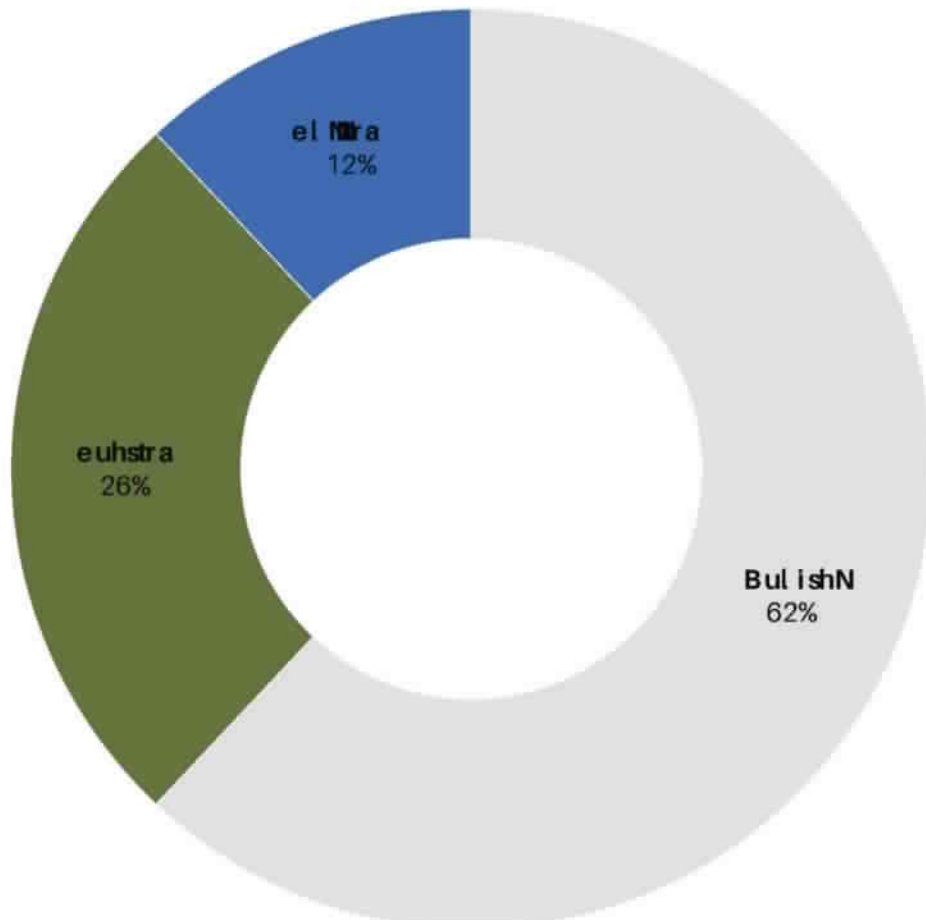
BULLISH	6/30/2024	12/31/2024
DJIA	35,563	36,923
S&P 500	4583	4760
Nasdaq	13,944	14,521

BEARISH	6/30/24	12/31/24
DJIA	31,300	32,179
S&P 500	3949	4037
Nasdaq	11,741	12,123

Is the U.S. stock market overvalued, undervalued, or fairly valued at current levels?



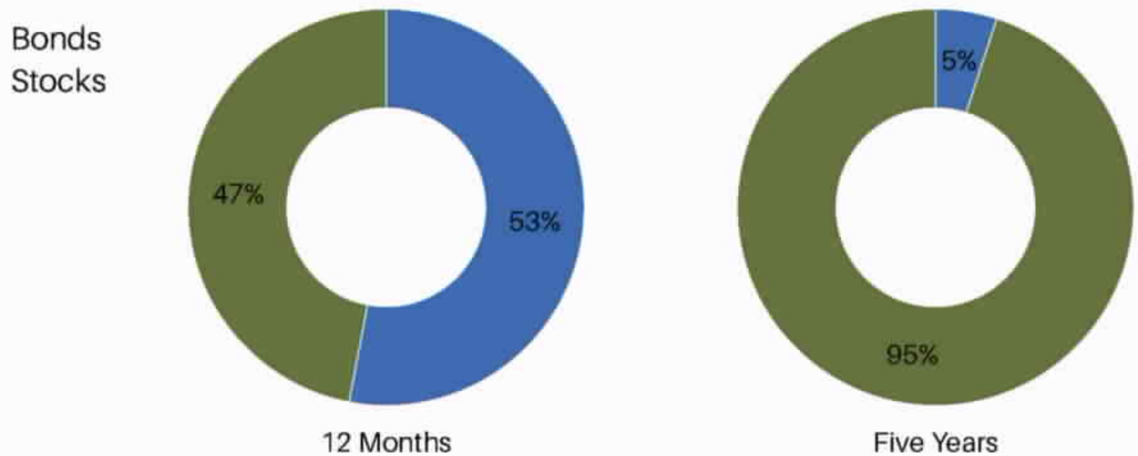
Are your clients bullish, bearish, or neutral about U.S. stocks?



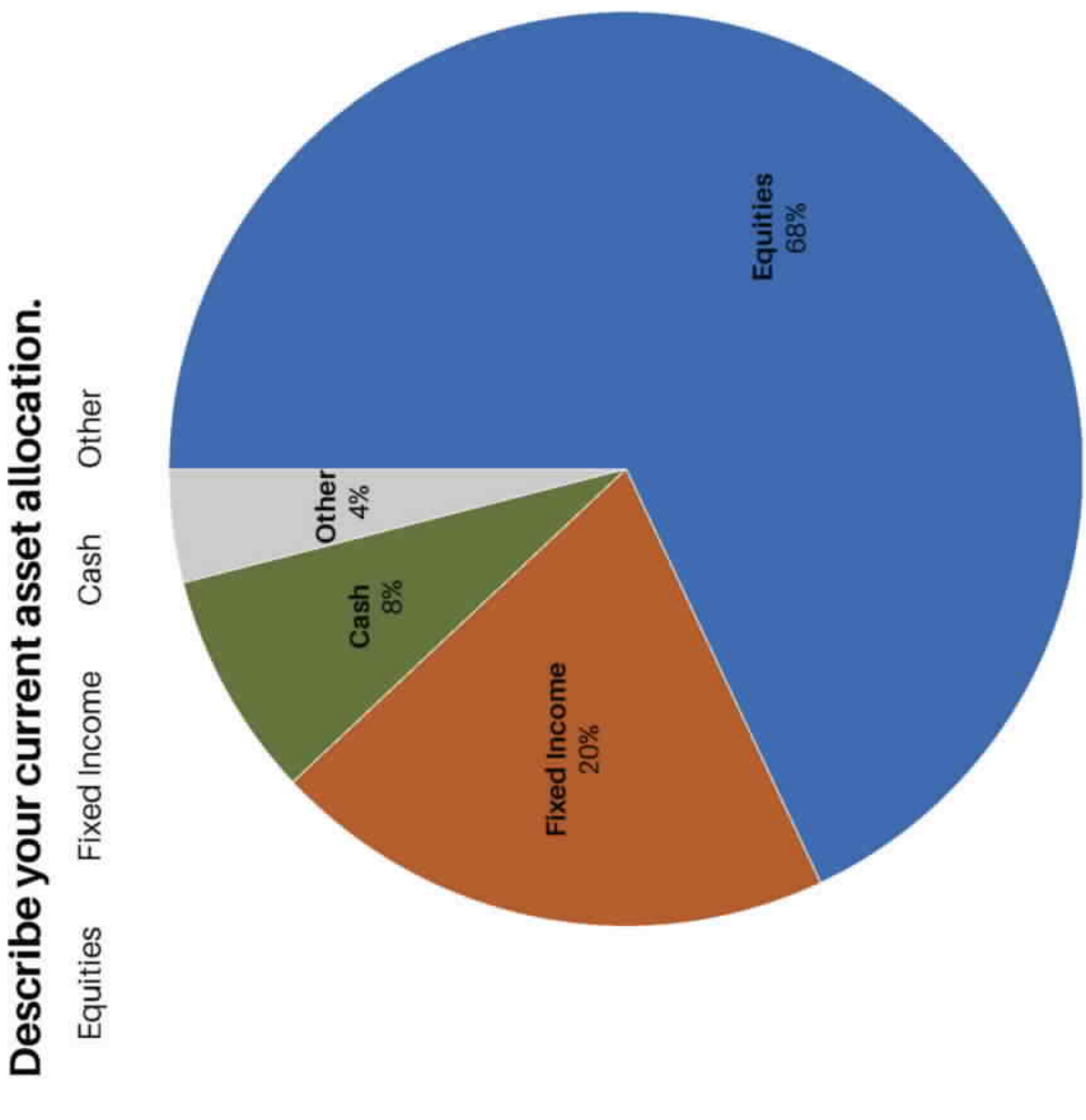
What is the biggest risk the stock market will face in the next six months?

Economic slowdown / recession	28%
Higher interest rates	26%
Resurgent inflation	16%
Systemic financial problems	7%
Geopolitical turmoil	6%
Other	17%

Which asset class will provide a higher return in the next 12 months? The next five years?



Investing


Describe your current asset allocation.
Equities
Fixed Income
Cash
Other
Equities
68%
Fixed Income
20%
Cash
8%
Other
4%