For release at
8:30 a.m. EDT
July 10, 2024

Statement by

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Chair

Board of Governors of the Federal Reserve System

before the

Committee on Financial Services

U.S. House of Representatives

July 10, 2024

Chairman McHenry, Ranking Member Waters, and other members of the Committee, I appreciate the opportunity to present the Federal Reserve's semiannual *Monetary Policy Report.*

The Federal Reserve remains squarely focused on our dual mandate to promote maximum employment and stable prices for the benefit of the American people. Over the past two years, the economy has made considerable progress toward the Federal Reserve's 2 percent inflation goal, and labor market conditions have cooled while remaining strong. Reflecting these developments, the risks to achieving our employment and inflation goals are coming into better balance.

I will review the current economic situation before turning to monetary policy.

Current Economic Situation and Outlook

Recent indicators suggest that the U.S. economy continues to expand at a solid pace. Gross domestic product growth appears to have moderated in the first half of this year following impressive strength in the second half of last year. Private domestic demand remains robust, however, with slower but still-solid increases in consumer spending. We have also seen moderate growth in capital spending and a pickup in residential investment so far this year. Improving supply conditions have supported resilient demand and the strong performance of the U.S. economy over the past year.

In the labor market, a broad set of indicators suggests that conditions have returned to about where they stood on the eve of the pandemic: strong, but not overheated. The unemployment rate has moved higher but was still at a low level of 4.1 percent in June. Payroll job gains averaged 222,000 jobs per month in the first half of the year. Strong job creation over the past couple of years has been accompanied by an increase in the supply of workers, reflecting increases in labor force participation among individuals aged 25 to 54 and a strong pace of immigration. As a result, the jobs-to-workers gap is well down from its peak and now stands just a bit above its 2019 level. Nominal wage growth has eased over the past year. The strong labor market has helped narrow long-standing disparities in employment and earnings across demographic groups.[1]

Inflation has eased notably over the past couple of years but remains above the Committee's longer-run goal of 2 percent. Total personal consumption expenditures (PCE) prices rose 2.6 percent over the 12 months ending in May. Core PCE prices, which exclude the volatile food and energy categories, also increased 2.6 percent. After a lack of progress toward our 2 percent inflation objective in the early part of this year, the most recent monthly readings have shown modest further progress. 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.

Monetary Policy

Our monetary policy actions are guided by our dual mandate to promote maximum employment and stable prices for the American people. In support of these goals, the Committee has maintained the target range for the federal funds rate at 5-1/4 to 5-1/2 percent since last July, after having tightened the stance of monetary policy significantly over the previous year and a half. We have also continued to reduce our securities holdings. At our May meeting, we decided to slow the pace of balance sheet runoff starting in June, consistent with the plans released previously. Our restrictive monetary policy stance is helping to bring demand and supply conditions into better balance and to put downward pressure on inflation.

The Committee has stated that we do not expect it will be appropriate to reduce the target range for the federal funds rate until we have gained greater confidence that inflation is moving

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[1] A box in our latest *Monetary Policy Report*, "Employment and Earnings across Demographic Groups," discusses differences in labor market outcomes among segments of the population.

sustainably toward 2 percent. Incoming data for the first quarter of this year did not support such greater confidence. The most recent inflation readings, however, have shown some modest further progress, and more good data would strengthen our confidence that inflation is moving sustainably toward 2 percent.

We continue to make decisions meeting by meeting. We know that reducing policy restraint too soon or too much could stall or even reverse the progress we have seen on inflation. At the same time, in light of the progress made both in lowering inflation and in cooling the labor market over the past two years, elevated inflation is not the only risk we face. Reducing policy restraint too late or too little could unduly weaken economic activity and employment. In considering adjustments to the target range for the federal funds rate, the Committee will continue its practice of carefully assessing incoming data and their implications for the evolving outlook, the balance of risks, and the appropriate path of monetary policy.

Congress has entrusted the Federal Reserve with the operational independence that is needed to take a longer-term perspective in the pursuit of our dual mandate of maximum employment and stable prices. 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 achieving maximum employment and stable prices over the long run. Our success in delivering on these goals matters to all Americans.

Let me conclude by emphasizing that we understand that our actions affect communities, families, and businesses across the country. Everything we do is in service to our public mission.

Thank you. I am happy to take your questions.