Transcript of Chairman Bernanke's Press Conference
December 12, 2012

CHAIRMAN BERNANKE. Good afternoon.

It's been about three and a half years since the economic recovery began. The economy continues to expand at a moderate pace. Unfortunately, however, unemployment remains high. About 5 million people—more than 40 percent of the unemployed—have been without a job for six months or more, and millions more who say they would like full-time work have been able to find only part-time employment or have stopped looking entirely. The conditions now prevailing in the job market represent an enormous waste of human and economic potential. A return to broad-based prosperity will require sustained improvement in the job market, which in turn requires stronger economic growth. Meanwhile, apart from some temporary fluctuations that largely reflected swings in energy prices, inflation has remained tame and appears likely to run at or below the Federal Open Market Committee's (FOMC's) 2 percent objective in coming quarters and over the longer term.

Against a macroeconomic backdrop that includes both high unemployment and subdued inflation, the FOMC will maintain its highly accommodative policy. Today the Committee took several steps. First, it decided to continue its purchases of agency mortgage-backed securities (MBS), initiated at the September meeting, at a pace of $40 billion per month. Second, the Committee decided to purchase longer-term Treasury securities, initially at a pace of $45 billion per month, after its current program to extend the average maturity of its holdings is completed at the end of the year. In continuing its asset purchases, the Committee seeks to maintain downward pressure on longer-term interest rates and to keep financial conditions accommodative, thereby promoting hiring and economic growth while ensuring that inflation over time is close to our 2 percent objective. Finally, the Committee today also modified its guidance about future rate policy to provide more information to the public about how it anticipates it will react to evolving economic conditions. I will return to this change in our communication after discussing our decision to continue asset purchases.

Although the Committee's announcement today specified the initial monthly pace and composition of asset purchases, it did not give specific dates at which the program may be modified or ended. Instead, the pattern of future asset purchases will depend on the Committee's evaluation of incoming information, in two respects.

First, we expect to continue asset purchases until we see a substantial improvement in the outlook for the labor market, in a context of price stability. In assessing the extent of progress, the Committee will be evaluating a range of labor market indicators, including the unemployment rate, payroll employment, hours worked, and labor force participation, among others. Because increases in demand and production are normally precursors to improvements in labor market conditions, we will also be looking carefully at the pace of economic activity more broadly.

Second, the Committee will be monitoring economic and financial developments to assess both the efficacy and possible drawbacks of its asset purchase program. The Federal Reserve's asset purchases over the past few years have provided important support to the economy, for example, by helping to keep mortgage rates historically low. The Committee expects this policy tool to continue to be effective and the costs and risks to remain manageable, but as the program continues, we will be regularly updating those assessments. If future evidence suggests that the program's effectiveness has declined, or if potential unintended side effects or risks become apparent as the balance sheet grows, we will modify the program as appropriate. More generally, the Committee intends to be flexible in varying the pace of securities purchases in response to information bearing on the outlook or on the perceived benefits and costs of the program.

Unlike the explicitly quantitative criteria associated with the Committee's forward guidance about the federal funds rate, which I will discuss in a moment, the criteria the Committee will use to make decisions about the pace and extent of its asset purchase program are qualitative; in particular, continuation of asset purchases is tied to our seeing substantial improvement in the outlook for the labor market. Because we expect to learn more over time about the efficacy and potential costs of asset purchases in the current economic context, we believe that qualitative guidance is more appropriate at this time.

In today's statement, the Committee also recast its forward guidance to clarify how it expects its target for the federal funds rate to depend on future economic developments. Specifically, the Committee anticipates that exceptionally low levels for the federal funds rate are likely to be warranted "at least as long as the unemployment rate remains above 6½ percent, inflation over the period between one and two years ahead is projected to be no more than half a percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored." This formulation is a change from earlier statements in which forward guidance about the federal funds rate was expressed in terms of a date; for example, in the statements following its September and October meetings, the Committee indicated that it anticipated that exceptionally low levels for the federal funds rate are likely to be warranted "at least through mid-2015." The modified formulation makes more explicit the FOMC's intention to maintain accommodation as long as needed to promote a stronger economic recovery in the context of price stability, a strategy that we believe will help support household and business confidence and spending. By tying future monetary policy more explicitly to economic conditions, this formulation of our policy guidance should also make monetary policy more transparent and predictable to the public.

The change in the form of the Committee's forward guidance does not in itself imply any change in the Committee's expectations about the likely future path of the federal funds rate since the October meeting. In particular, the Committee expects that the stated threshold for unemployment will not be reached before mid-2015 and projects that inflation will remain close to 2 percent over that period. Thus, given the Committee's current outlook, the guidance introduced today is consistent with the Committee's earlier statements that "exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015."

Let me emphasize that the 6½ percent threshold for the unemployment rate should not be interpreted as the Committee's longer-term objective for unemployment. Indeed, in the economic projections submitted in conjunction with today's meeting, the central tendency of participants' estimates of the longer-run normal rate of unemployment is 5.2 to 6.0 percent. However, because changes in monetary policy affect the economy with a lag, the Committee believes that it likely will need to begin moving away from a highly accommodative policy stance before the economy reaches maximum employment. Waiting until maximum employment is achieved before beginning the process of removing policy accommodation could lead to an undesirable overshooting of potential output and compromise the FOMC's longer-term inflation objective of 2 percent. As the FOMC statement makes clear, the Committee anticipates that policy under the new guidance will be fully consistent with continued progress against unemployment and with inflation remaining close to the Committee's 2 percent objective over the longer term.

Although the modified guidance should provide greater clarity about how the Committee expects to respond to incoming data, it by no means puts monetary policy on autopilot. In this regard, let me make several points.

First, as the statement notes, the Committee views its current low-rate policy as likely to be appropriate *at least* until the specified thresholds are met. Reaching one of those thresholds, however, will not automatically trigger immediate reduction in policy accommodation. For example, if unemployment were to decline to slightly below 6½ percent at a time when inflation and inflation expectations were subdued and were projected to remain so, the Committee might judge an immediate increase in its target for the federal funds rate to be inappropriate. Ultimately, in deciding when and how quickly to reduce policy accommodation, the Committee will follow a balanced approach in seeking to mitigate deviations of inflation from its longer-run 2 percent goal and deviations of employment from its estimated maximum level.

Second, the Committee recognizes that no single indicator provides a complete assessment of the state of the labor market and therefore will consider changes in the unemployment rate within the broader context of labor market conditions. For example, in evaluating a given decline in the unemployment rate, the Committee will also take into account the extent to which that decline was associated with increases in employment and hours worked, as opposed to, say, increases in the number of discouraged workers and falling labor force participation. The Committee will also consider whether the improvement in the unemployment rate appears sustainable.

Third, the Committee chose to express the inflation threshold in terms of projected inflation between one and two years ahead, rather than in terms of current inflation. The Committee took this approach to make clear that it intends to look through purely transitory fluctuations in inflation, such as those induced by short-term variations in the prices of internationally traded commodities, and to focus instead on the underlying inflation trend. In making its collective judgment about the underlying inflation trend, the Committee will consider a variety of indicators, including measures such as median, trimmed mean, and core inflation; the views of outside forecasters; and the predictions of econometric and statistical models of inflation. Also, the Committee will pay close attention to measures of inflation expectations to ensure that those expectations remain well anchored.

Finally, the Committee will continue to monitor a wide range of information on economic and financial developments to ensure that policy is conducted in a manner consistent with our dual mandate.

It's worth noting that the goals of the FOMC's asset purchases and of its federal funds rate guidance are somewhat different. The goal of the asset purchase program is to increase the near-term momentum of the economy by fostering more-accommodative financial conditions, while the purpose of the rate guidance is to provide information about the future circumstances under which the Committee would contemplate reducing accommodation. I would emphasize that a decision by the Committee to end asset purchases, whenever that point is reached, would not be a turn to tighter policy. While in that circumstance the Committee would no longer be increasing policy accommodation, its policy stance would remain highly supportive of growth. Only at some later point would the Committee begin actually removing accommodation through rate increases. Moreover, as I have discussed today, the decisions to modify the asset purchase program and to undertake rate increases are tied to different criteria.

In conclusion, the FOMC's actions today are part of our ongoing efforts to support economic recovery and job creation while maintaining price stability. As I have often stressed, however, monetary policy has its limits; only the private and public sectors working together can get the U.S. economy fully back on track. In particular, it will be critical that fiscal policymakers come together soon to achieve longer-term fiscal sustainability without adopting policies that could derail the ongoing recovery.

Thank you. I would be happy to answer your questions.

STEVE LIESMAN. Mr. Chairman, Steve Liesman from CNBC. I guess I have a lot of questions but I'll just offer up two here. Why are there different targets for QE and for the funds rate? What does that achieve? Secondly, what good is a target if you have to make reference to calendar dates in the statement itself, which is the thing you got away from. You had to point out in the statement that it's not substantially different from the calendar dates we set back in October. Do you have to keep doing that from now on to make it clear that—and then just thirdly, I guess I know I said two—

CHAIRMAN BERNANKE. I'm going to forget.

STEVE LIESMAN. But then you have another paragraph after that that says it's not just target it's something else. So, it's unclear to me what good these targets are if you have to reference a calendar date, and then you kind of say in the next paragraph it's not really targets.

CHAIRMAN BERNANKE. Well, so first, the—as I said—the asset purchases and the rate increases have different objectives. The asset purchases are about creating some near-term momentum in the economy, trying to strengthen growth and job creation in the near term, and the increases in the federal funds rate target, when they ultimately occur, are about reducing accommodation. Two very different objectives. Secondly, the asset purchases are a less well-understood tool. We have—we'll be learning over time about how efficacious they are, about what costs they may carry with them in terms of unintended consequences that they might create, and we'll be seeing how—what else happens in the economy that can affect, you know, the level of unemployment, for example, that we hope to achieve. And so, for that reason, as I discussed in my opening remarks, we decided to make the criteria for asset purchases qualitative at this time because we have a number of different things that we need to look at as we go forward. Rate increases, by contrast, are well understood, and we understand the relationship between those rate increases and the state of the economy. And so we've been able to give somewhat more quantitative, more specific guidance in that respect. With respect to the date, in the transition today, we wanted to make clear that the change in guidance did not—it happens to be the case that it doesn't change our mid-2015 expectation. Going forward, we'll drop the date and rely on the conditionality, and that has, I think, a very important advantage which is that if news comes in that the economy is stronger or weaker, then financial markets and the public will be able to adjust their expectations for when policy tightening will occur without the Committee having to go through a process of changing its date in a nontransparent way, so I think that's beneficial. Does that cover your—okay.

MARCY GORDON. Mr. Chairman, what prompted the Committee to make the decision at this particular time to specify targets? And, by taking an unemployment rate that is quite low compared to currently, does that shift the balance of priorities in terms of your dual mandate, closer more in the direction of reducing unemployment rather than inflationary pressures?

CHAIRMAN BERNANKE. That's a very good question. We took the change today after a good bit of discussion. We had a very substantial discussion of the threshold approach at our last meeting. And we felt it was ready to go, ready to put out. We—while there are different views on aspects of the threshold approach, there was a lot of agreement that having a more explicit connection between rate policy and the state of the economy was more transparent and more helpful to the markets and to the public than our date-based guidance, and therefore, there was a general view that, at some point at least, that we should switch to that kind of guidance. So we do hope that it'll be more helpful and give markets more information about how we're going to respond going forward. It is not a change in our relative balance, weights, towards inflation and unemployment—by no means. First of all, with respect to inflation, we remain completely committed to our 2 percent longer-run objective. Moreover, we expect our forecast, as you can see from the Summary of Economic Projections; our forecasts are that inflation will actually remain, despite this threshold of 2½, that inflation will actually remain at or below 2 percent going forward. And so—and finally, the thresholds that we have put out are entirely consistent with our long-standing views on what the rate path has to be, what the path of interest rates has to be, in order to achieve improvement in the labor market while keeping inflation close to target. So we—I think both sides of the mandate are well-served here. There is no real change in policy. What it is instead is an attempt to clarify the relationship between policy and economic conditions.

MARCY GORDON. Could I ask, also, given that the—your economic projections are all the more important now that you've specified these targets, is it difficult to put forward these projections now given the uncertainty over the fiscal cliff? How sort of plastic are these?

CHAIRMAN BERNANKE. Are you talking about the SEP projections?

MARCY GORDON. Yes.

CHAIRMAN BERNANKE. Well, clearly the fiscal cliff is having effects on the economy. Even though we've not yet even reached the point of the fiscal cliff potentially kicking in, it's already affecting business investment and hiring decisions by creating uncertainty or creating pessimism. We saw what happened recently to consumer sentiment, which fell, presumably in part because of concerns about the fiscal cliff. So, clearly, this is a major risk factor and a major source of uncertainty about the economy going forward. I would suspect and, although the participants don't all make this explicit, but I would suspect that what they are assuming in their projections is that the fiscal cliff gets resolved in some intermediate way, whereby there is still some fiscal drag but not as much as implied by the entire fiscal cliff. So I think that's probably the underlying assumption that most people took when they made their projections. But as you—you're absolutely right that there is a lot of uncertainty right now and if the fiscal cliff situation turns out to be resolved in a way very different from our expectations, I'm sure you would see changes in the forecast.

ALISTER BULL. Alister Bull from Reuters. Thanks very much, Mr. Chairman. Could you talk about whether the decision to maintain the monthly bond purchases at 85 billion a month represents a ramping up or additional easing to Fed policy, because you're now going to be adding a little bit more to the size of balance sheet? And also, you know, you've talked about maintaining the asset purchases until you see a substantial improvement in the outlook for the labor market, and you've said that you want to take a qualitative approach, but you've also got this 6½ percent inflation threshold out there as well. So, could you talk about what sort of evidence you'd see to sort of make you change the pace or slow the pace of purchases?

CHAIRMAN BERNANKE. The first part of your question was?

ALISTER BULL. Is this an additional stimulus or are you—

CHAIRMAN BERNANKE. No, I think this is really a continuation of what we said in September. You recall in September we expressed dissatisfaction with progress in the labor market. We, at that point, we began the $40 billion per month of MBS purchases and we said that unless we saw substantial improvement in the outlook for the labor market that we would undertake additional asset purchases or other actions. And that's what we've done today is simply follow through on what we said we would do in September. I don't think that we have, relative to last month, I don't think we have significantly added to accommodation. The reason is that, at least in my view and I think many of my colleagues', that what matters primarily is the mix of assets on the balance sheet, on the asset side of the balance sheet. So what's important is the fact that we're acquiring Treasury securities and MBS, taking those out of the market, you know, forcing investors into other closely related assets and that's where the stimulus comes from, not so much in the size of the balance sheet per se. So, in my judgment, the amount of stimulus is more or less the same, it's just being continued. It's a follow-through from what we saw in September. In terms of criteria, again, what we've done is we've announced an initial amount of 85 billion a month of purchases. We are prepared to vary that as new information comes in. For example, if the economy's outlook gets noticeably stronger, we would presumably begin to ramp down the level of purchases. But again, the problem with giving a specific number is that there are multiple criteria on which we make this decision. We'll be looking at the outlook for labor market, which is very important, but we'll also be looking at other factors that may be affecting the outlook for the economy. For example, I hope it won't happen but if the fiscal cliff occurs, as I've said many times, I don't think the Federal Reserve has the tools to offset that event and, in that case, we obviously have to temper our expectations about what we can accomplish. Likewise, as I said, we'll also be looking at the efficacy and costs of our program and if, you know, we find, we expect it to be efficacious but if we find that it's not working as well as we hoped or if the various costs are emerging that we had not anticipated then that would also have to be taken into account as we think about it. So, we thought it was not constructive because we ourselves don't know precisely what would define substantial improvement. But obviously, as long as the costs and other concerns do not emerge, we'll be looking for, you know, something that is substantial in terms of a better job market.

PETER COOK. Peter Cook with Bloomberg Television. Mr. Chairman, if I could follow up just on your last response there. Given the fiscal cliff, is it possible that if the country, if the policy makers were not to agree to some sort of deficit deal by the end of this year and we were to go over the fiscal cliff, that the size of these asset purchases could indeed grow in response to that? And more specifically, you coined the phrase "fiscal cliff," and I wanted to get your take on whether you still feel it's the most appropriate language to describe what would happen at the beginning of the year. There are some Americans who may be alarmed by the language, some economists say it's more of a slope. Do you still feel it's appropriate given the circumstances— the contraction, the fiscal contraction, that would come if there is no deal?

CHAIRMAN BERNANKE. Well, for the first part of your question if the economy actually went off the fiscal cliff, our assessment, the CBO's assessment, outside forecasters, all think that that would have very significant adverse effects on the economy and on the unemployment rate. And so, on the margin, we would try to do what we could. We would perhaps increase a bit. But I just want to, again, be clear that we cannot offset the full impact of the fiscal cliff. It's just too big given the tools that we have available and the limitations on our policy toolkit at this point. On terms of the terminology, well, and people have different preferences about what they want to call things, I think it's a sensible term because I think of the fiscal policies providing support to the economy. If fiscal policy becomes very contractionary, the economy will, I think, go off a cliff. I think that it's reasonable to be concerned about this. I don't buy the idea that a short-term descent off the fiscal cliff would be not costly. I think it would be costly and, in fact, we're already seeing costs. Why is it that consumer confidence dropped so sharply this week? Why is it that small business confidence dropped so sharply? Why is—why are the markets volatile? Why is business investment at among its weakest levels during the recovery? I think all of these things, at least to some extent, can be traced to the anticipation and the concern about the fiscal cliff and I think that, you know, we don't know exactly what would happen but I think there is certainly a risk that it could be serious and, therefore, I think it is very important. The most helpful thing that could—that, I think, Congress, the Administration could do right now is find a resolution that, on the one hand, achieves long-run fiscal sustainability, which is critical, absolutely critical for a healthy economy, but also avoids derailing the recovery which is currently in process.

JON HILSENRATH. Jon Hilsenrath from the *Wall Street Journal*. Mr. Chairman, I just—I want to try to square up some numbers. The threshold that you announced today for when rate hikes might start is 6½ percent. The Committee's assessment of the longer-run unemployment rate is 6 percent, or perhaps a bit lower, and the longer-run equilibrium fed funds rate is around 4 percent according to these projections. It suggests that when the Fed does start raising interest rates down the road, it might have to move fairly quickly to get to some equilibrium fed funds rate. Is that, specifically, is that the case and, more generally, can you talk about what this framework that you set up today says about the exit strategy that you had laid out some time ago and whether that's evolving or changing?

CHAIRMAN BERNANKE. Well, it's a good question. So first of all, we don't have a precise estimate of the long-run sustainable unemployment rate. The estimates that were provided in the Summary of Economic Projections today, as has been the case for a while, is 5.2 to 6.0 percent. So, it could be well less than 6½ percent, so that gives us some time.

My anticipation is that the removal of accommodation after the takeoff point, whenever that occurs, would be relatively gradual. I don't think we're looking at a rapid increase. Of course, that depends on where inflation is and other conditions. But it's—the path that we're basing these numbers on is one that assumes, first of all, as you anticipated, assumes an increase in the funds rate first occurring some time after unemployment goes below 6½ percent, but does not necessarily assume a rapid increase after that. And I—what we said in our statement is that we would take a balanced approach. In other words, you know, once we get to that point, we may or may not raise rates at that point. We'll look at the situation. But assuming that inflation remains well controlled, which I fully anticipate, I think that the rate of increase in rates would be moderate.

This is consistent—the exit strategy that we put out is consistent with our statement today because the exit strategy was primarily about how we would normalize the balance sheet over time. And at this time we have not made any changes in that, and we believe that some increase in the size of our balance sheet is consistent still with that general sequence that we laid out in the minutes a year and a half ago. That being said, if the balance sheet grows by enough, we may have to reconsider the pace or timing of that, but I don't see any changes that would, you know, radically change the time to normalization or the time to exit.

ZACHARY GOLDFARB. Thank you. Zach Goldfarb. I'm going to continue the two question trend and ask—first on the fiscal cliff, it sounds like you would prefer a sensible balance of fiscal consolidation and support for the recovery, but if people in Congress can't do that in the next two weeks, do you think postponing off this whole consolidation is preferable to going over the cliff? And then, on the monetary policy actions today, can you give us a little bit more color on how you set the thresholds at what they were? And what the alternatives were, and how you weighed various alternative but similar policies?

CHAIRMAN BERNANKE. Sure. I'm hoping that the Congress will do the right thing on the fiscal cliff. I—you know, there's a problem with kicking the can down the road. It might avoid some of the short-term impact on the recovery, but it could create concerns about our longer-term fiscal situation and I don't want to see that. So I think for the best—it's in the best interest of the economy to come to a two-part solution, if you will. Part one is to modify fiscal policy in a way that doesn't create enormous headwinds for the recovery in the near term. And part two is to at least take important steps towards achieving a framework, at least, by which, perhaps through further negotiation, the Congress and the Administration can achieve a sustainable path for fiscal policy. That—both of these parts are very important. I don't think that we can consider these negotiations a success unless both of them happen.

[Speaker unknown; inaudible remark]

CHAIRMAN BERNANKE. No. I think they're equally important. On the threshold numbers, this is based—these numbers are based on substantial analysis done by staff, both here and at the Reserve Banks, trying to assess under so-called optimal policy, or in the best policy that we can come up with, what would the interest rate path look like and how would it be connected or correlated with changes in unemployment and inflation. And when we do that analysis, what we find is that the best interest rate path—as best as we can determine it based on our models and analysis, which is obviously imperfect—has rates remaining low until unemployment drops below 6½ percent. And it projects if we put in the two—the half of a percentage point above the 2 percent goal as a kind of protection against any problem with price stability, but our projections, our actual forecast suggests that inflation will not go there. Inflation will stay around 2 percent, which will be consistent with our longer-term objective.

ZACH GOLDFARB. [Inaudible Remark]

CHAIRMAN BERNANKE. If we got important new information about the structure of the economy, it's possible, but I consider it relatively unlikely and this is one of the best—this is one of the advantages of this approach over the date-based approach. If information comes in which says the economy is stronger or weaker than we expected, that would, in principle, require a change in the date. But it doesn't necessarily require a change in the thresholds because that date adjustment can be made by markets just simply by looking at their own forecasts of when unemployment will cross the line and the behavior of inflation.

SCOTT SPOERRY. Scott Spoerry from CNN, sir. When you were appearing on *60 Minutes*, one of the things that happened was that you visited your old hometown, and you talked a little bit about how the economy had affected people that you grew up with and affected the people down there. There are a lot of just regular people like that who are out on the countryside wondering what really happens to them if we do go over the federal cliff. Taxes go up, spending goes down. Do they need to look for a recession? Are employers going to really cut back on the employment, do you think? What do people out there really need to worry about and prepare for when it comes to actually going over that fiscal cliff, if the folks in Washington can't get their act together?

CHAIRMAN BERNANKE. Well, I come from a part of South Carolina which has been economically challenged for quite a long time and remains so. I mean certain parts of South Carolina have developed pretty strongly but the part where I come from—mostly agricultural, it has a little bit of manufacturing—has a very high unemployment rate, a high foreclosure rate, and people are having a hard time there. And I've visited there a few times since I became Chairman.

So, part of the reason that, you know, we are engaging these policies is to try and create a stronger economy—more jobs—so that folks across the country, including places like the one where I grew up, you know, will have more opportunity to have better lives for themselves. So that's extremely important and I think it's very important that we not just look at the numbers. It's easy to look at the unemployment rate and say, well it's one-tenth or two-tenths. Every tenth means, you know, many, many people are represented there. So it is very important to try to keep in mind the reality of unemployment, of foreclosure, of weak wage growth, et cetera, so we always try to do that. And I want to—it's always a delicate balance—you don't want to scare people. And I actually believe that Congress will come up with a solution, and I certainly hope they will.

But as many analysts, not just the Fed, have pointed out, if the fiscal cliff was allowed to occur, and certainly if it were sustained for any period, it could have a very negative effect on hiring, jobs, wages, economic activity, investment. And of course, the consequences of that will be felt by everybody but certainly by those in areas like where I grew up that are relatively weak economically, would no doubt would feel the greater brunt. So, it's exceptionally urgent and important that the Congress and the Administration come to a sensible agreement on this issue.

SCOTT SPOERRY. Okay, sir, I had a follow-up, too. I'm not going to ask you whether we're in a bond bubble. But obviously, the new guidance that you've given in the FOMC statement is going to give a lot more clues to people who own bonds about when they might start lightening up their bond portfolios and changing the composition of what they own. Was concerns about information about bond prices and things happening in a big hurry, in terms of some sort of a bubble popping—was that a consideration in adding this transparency?

CHAIRMAN BERNANKE. I wouldn't say it was an important motivation for adding transparency. I think transparency has a lot of value. But it is the—it is a fact that this greater clarity will help markets better predict how bond yields will behave. As we go forward in time, if the economy continues to strengthen as we hope, as the exit comes closer for the Federal Reserve, then you would expect longer-term bond yields to begin to rise. And the more information we can provide to markets about the conditionality under which the Fed would consider removing accommodation, the better information they'll have about the likely path of bonds and that will allow for a smoother adjustment. So I think that's a positive aspect of this communication. It—I wouldn't say it was the major reason. The major reason is to give the markets and the public more transparency about what's determining our policy, but that is one potential advantage.

ROBIN HARDING. Robin Harding from the *Financial Times*. Mr. Chairman, you said a moment ago that these thresholds are based on an analysis of optimal policy. In the optimal policy path that Vice Chair Yellen laid out in her speech a few weeks ago, it showed the first rise in interest rates occurring in early 2016 and then rates rising very slowly after that. Is that the policy that the Fed is now following? And secondly, if I may, you referred to a number of inflation forecasts in your introductory remarks. In that case, how will we ever know that the inflation threshold has been hit? Thank you.

CHAIRMAN BERNANKE. So, the kind of optimal policy path that Vice Chairman Yellen showed is indicative of the kinds of analysis we've done. I mean, we've run it for a variety of different scenarios, different assumptions about models, and so on, but the general character of that interest rate path, i.e., that it stays low until unemployment is in the vicinity of 6½ or a little lower, and then rises relatively slowly, which goes back to the question that was asked earlier, that it doesn't involve a rapid removal of accommodation after that point is reached. That is consistent with that kind of analysis, and that's the type of analysis that was not the only thing we looked at but was informative in our discussion. You'll note also in that kind of policy path, of the type that she discussed, that inflation stays essentially at 2 or very close to 2.

In terms of inflation forecast, the—what the Committee will do on a regular basis is include in its statement its views of where inflation is likely to be a year from now. For example, currently, we already say that, you know, we expect inflation to run at or below the Committee's objective in a longer term. The intellectual exercise we'll be doing is asking ourselves if we maintain low rates along the lines suggested by this policy, would we expect inflation to cross the threshold or reach that level?

Now, it's very important that the public, the media, the markets find our projections credible, obviously. And so for that reason, you know, we will be referring extensively to publicly available information such as various measures of inflation—I mentioned some in my opening remarks—outside forecasts, the breakevens from inflation protected bonds, et cetera. So, if our outlook deviates in any sense in a significant way from sort of what all these things are saying, at a minimum, it will be incumbent on me and the rest of us to explain that. But my expectation is that our projections will be broadly consistent with public views, public information, and so I think we can manage the credibility issue. But again, just to be clear, the projection that matters for our determination is the one that the Committee collectively comes up with.

BINYAMIN APPLEBAUM. Sir, you've articulated more clearly than ever your commitment to reduce unemployment, but you've also said that you're not actually doing anything more to achieve that goal—that you still expect it to be three years away, that you're disappointed with the pace of progress, and that inflation is not the limiting factor. What is the limiting factor? Why is the Fed not announcing today additional measures to reduce unemployment? What would it take for you to get that?

CHAIRMAN BERNANKE. Well, we took—the question was whether this was something new relative to September, I think September was the date where we did do a substantial increase in accommodation. At that point, we announced our dissatisfaction with the state of the labor market and the outlook for jobs and said we would take further action if the outlook didn't improve. And what we've done today is really just following through what we said. So, I would say that, you know, looking at it from the perspective of September, that we have, in fact, taken significant additional action to provide support for the recovery and for job creation. The reason—one of the considerations though, as I've talked about, is that, you know, given that we are now in the world of unconventional policy that has both uncertain costs and uncertain efficacy or uncertain benefits, you know, that creates a more—somewhat more complicated policy decision than the old style of just changing the federal funds rate. You know, there are concerns that I've talked about in these briefings before that if the balance sheet gets indefinitely large that there would be potential risks in terms of financial stability, in terms of market functioning. And the Committee takes these risks very seriously. And they impose a certain cost on policy that doesn't exist when you're dealing only with the federal funds rate. And so what we're trying to do here is balance the potential benefits, in terms of lower unemployment and inflation at target, against the reality that as the balance sheet gets bigger that there's greater costs that might be associated with that, and those have to be taken to account.

BINYAMIN APPLEBAUM. Sir, if I can just follow, so these forecasts presumably incorporate the actions taken into account, and so given those actions, it will still be three years until you achieve your goals. Is the message to people who are unemployed basically, "We are doing all we can?" Is this the conclusion that, given that balance of factors, this is the most we can expect?

CHAIRMAN BERNANKE. Well, first of all, again, these—the projections that you're looking at are based on each individual—this is not a Committee collective projection. What they are, of course, is 19 separate participants making their own projections based on their own views of optimal policy. So, for example, it includes those folks who think that we shouldn't be doing any more purchases and their forecasts are included in there as well. So, it's not exactly an apples to apples comparison, but it is true that if we could wave a magic wand and get unemployment down to 5 percent tomorrow, obviously we would do that, but there are constraints in terms of the dynamics of the economy, in terms of the power of these tools, and in terms of the fact that we do need to take into account, you know, the possibility of other costs and risks that might be associated with a large expansion of our balance sheet.

DARREN GERSH. To just—Darren Gersh, *Nightly Business Report*. So just following up on that last question, how helpful would it be to see, as part of the fiscal cliff resolution, some near-term stimulus? The President's proposed that. Do you think—how helpful do you think that would be and, I'll ask my follow up now, whatever happened to your southern accent?

CHAIRMAN BERNANKE. Well, on the second one, I'd like to think I'm bilingual. When I go home sometimes I—it comes out pretty strongly, but I won't try to do that here. So, I try to be careful, as you know, not to give views on specific tax and spending programs. I think, of course, obviously those are the province of the Administration and Congress. The attitude I've taken has been that, at a minimum, Congress should try to do no harm, that they should try to avoid policies that significantly slow or derail the recovery at this point. So I think that's the critical thing along with the long-term objective of achieving a sustainable fiscal path. Now, given that basic recommendation, you know, Congress can consider variations. For example, if they believe that they can achieve a strong, credible future path for fiscal policy, that would give them potentially some space to do something a little bit more expansionary in the short term. But, those are judgments I think that Congress has to make about whether they can simultaneously continue supportive fiscal policy in the short term while maintaining the credibility that, in fact, they will be addressing our structural deficit problems in the longer term. And that is I think really a question for them and for their staff.

KRISTINA PETERSON. Kristina Peterson of Dow Jones. Looking over the past year or several years, how would you evaluate the Fed's accuracy making economic forecasts, and how does that affect the ability to make monetary policy decisions, especially as it's connected to the thresholds?

CHAIRMAN BERNANKE. Well, I think it's fair to say that we have overestimated the pace of growth, total output growth, GDP growth, from the beginning of the recovery and we have had therefore—had to continue to scale down our estimates of output growth. But interestingly, at the same time, we have been more accurate, not perfectly accurate by any means, but we've been somewhat more accurate in forecasting unemployment. And how do you reconcile those two things? I talked about this in remarks I gave at the New York Economic Club recently, right before Thanksgiving. And I think the reconciliation is that what we're learning is that, at least temporarily, the financial crisis may have reduced somewhat the underlying potential growth rate of the U.S. economy. It has interfered with business creation, with investment, with technological advances, and so on. And that can account for at least part of the somewhat slower growth. At the same time, though, what—of course, what monetary policy influences is not potential growth, not the underlying structural growth. That's for—many other different kinds of policies affect that. What monetary policy affects, primarily, is the state of the business cycle, the amount of excess unemployment or the extent of recession in the economy. And there, I think we've also perhaps underestimated a bit the recession, but we've been much closer there. And I think therefore that we've been able to address that somewhat more effectively with quite accommodative policies. That being said, of course, we have over time, as we have seen disappointment in growth and job creation, we have obviously, as we did in September, have added accommodation and we've continued—we continue to reassess the outlook. I think it's only fair to say that economic forecasting beyond a few quarters is very, very difficult. And what we basically are trying to do is create a plausible scenario which we think is reasonably likely—base policy on that, but we prepared to adjust as new information comes in and as the outlook changes, and inevitably it will.

GREG IP. Thank you, Mr. Chairman. Greg Ip of the *Economist*. Economists have long believed that central banks cannot affect the unemployment rate in the long run. That's one reason you've seen a move towards central banks being given mandates for low inflation only. Can you explain if the Fed, by tying its monetary policy so explicitly to an unemployment threshold, whether that is consistent or inconsistent with that longstanding view? And, if it's consistent, how is this superior to simply having a threshold for inflation only? And would the approach that you're now taking be possible if the Fed had only a mandate for low inflation?

CHAIRMAN BERNANKE. Well, it's entirely consistent with your view, with the point that you made. So let me just reiterate it. As we stated, in fact, in our January set of principles, the central bank cannot control unemployment in the long run. I'd add a caveat to this. There's a little bit of a caveat here, which is that very extended periods of unemployment can interfere with the workings of the labor market. And so, if the Fed were not to address a large unemployment problem for a long time, it might, in fact, have some influence on the long-term unemployment rate. But as a general rule, as a general rule, and I think this is the right baseline, the long-term unemployment rate is determined by a range of structural features of the economy and a range of economic policies and not by monetary policy. So that being said, what our 6½ percent threshold is is—as I said in my opening remarks, it is not a target—what it is is a guidepost in terms of when the beginning of the reduction of accommodation could begin. It could be later than that, but at least by that time, no earlier than that time. So it's really more like a reaction function or a Taylor rule, if you will. I don't want—I'm—I'll get—I'm ready to get the phone call from John Taylor. It is not a Taylor rule but it has the same feature that it relates policy to observables in the economy, such as unemployment and inflation. So, what it's basically doing is saying how our policy will evolve over time as the economy evolves. It has no implication that we can affect the long-run unemployment rate, which we believe is lower than 6½ percent. We think it's somewhere between 5 and 6 according to our SEP projections. We are a dual mandate central bank and I think that providing information on both sides is more helpful. So, I understand your point but I think that it's—that providing information on unemployment and inflation gives more information to the markets, to the public that allows them to infer how our policy is likely to evolve.

[Speaker unknown; inaudible remark]

CHAIRMAN BERNANKE. Unless—so long as the inflation condition is met. It's correct.

WYATT ANDREWS. Mr. Chairman, Wyatt Andrews, CBS News. I'd like—still like to hear a little bit more about why you made this announcement today specifically tying federal funds and your policy to the 6.5 percent number? I'm sure you have some sort of theory about what you hope changes in the economy as a result of this announcement. If so, what is it?

CHAIRMAN BERNANKE. Well, we think it's a better form of communication. We think it's—by using the thresholds which ties rates to economic conditions, we're more transparent about what's going to determine our policy in the future. The date-based guidance, it served a purpose. But it had the problem that whenever economic outlook changed, the Committee was faced with the question of whether we should change the date-based guidance, and we did change it a couple of times. But that was a nontransparent process. Nobody understood exactly why we made a particular change because we were not providing any kind of fundamental information about how our policy is linked to the underlying outlook. And so, we, I believe, certainly, that this approach is superior. I'm not saying it's the best possible approach, there may be other things we can do in the future. We're always looking to find ways to improve our communication but I do think it's more transparent and will allow the markets to respond quickly and promptly to changes in the outlook by adjusting when they think rate increases will begin, and therefore, it'll act, to some extent, like an automatic stabilizer. So if the outlook worsens and that leads markets to think that the increase in rates is further out in the future, that will tend to lower longer-term rates and that would tend to be supportive of the economy. So that has an automatic stabilizer type effect. It kind of offsets adverse shocks. So it's a better form of communication. As I said, we discussed it quite extensively at the last meeting. And so—and frankly, given that it's a relatively complex change, it seemed like it would be a good idea to do it at a meeting where there was a press conference. So, we decided since we're ready to go why not make the change earlier and get the benefit earlier.

WYATT ANDREWS. As a quick follow-up, are you—did you see a level of uncertainty in the business community that you hope to solve by this announcement?

CHAIRMAN BERNANKE. Well, at the moment, I think that the expectations of the business community and of the Federal Open Market Committee happen to be pretty well aligned. If you look at the financial market indicators, the future federal funds rate path, it's pretty consistent with the mid-2015 date-based guidance that we had been providing. So I'm not saying there was a major inconsistency between what the business community was expecting, the markets were expecting, and what we were expecting. So that wasn't really the issue. The problem is that, looking forward, that what happens if there is a significant change either for the better, or for the worse, in the outlook? Under the date-based guidance, that would require the Committee to determine, you know, what the new date is and to make that change in a nontransparent way. But under this threshold-based guidance, the markets and the business community can make that calculation on their own and adjust that—their estimates of when rates will begin to increase based only on their own forecast and not have to wait for the Federal Open Market Committee to give them a date. So we just think it's a better approach.

JOSH ZUMBRUN. Mr. Chairman, Josh Zumbrun, Bloomberg News. By mid-2015, the recovery is going to be nearly six years old. The average postwar recovery has been a little less than five. We're already banking on a very long expansion. You expect, by mid-2015, the funds rate is going to be at zero percent, your balance sheet is potentially at $4 trillion. If the business cycle runs out of steam and you're still at zero percent interest rates, does the Fed no longer have a forceful response in that situation?

CHAIRMAN BERNANKE. Well, the Fed will always, you know, keep—we've innovated quite a bit in the last few years and it's always possible we could find new ways to provide support for the economy. But it's certainly true, I've—you know, there's no doubt that with interest rates near zero and with the balance sheet already large, that the ability to provide additional accommodation is not unlimited and that that's just a reality and that actually is an argument, I think, for being a little bit more aggressive now. I mean, it's a really good objective to get the economy moving, to get some momentum that protects the economy against unanticipated shocks that might occur, and gets us off the zero bound earlier. So, exactly for those reasons, the kind of risks that arise when the—when policy interest rates are close to zero, and the greater difficulty in providing additional policy support, I think that's an argument for being somewhat more proactive now, when we still have the ability to do that, and to try to get the economy, you know, back to a healthy condition.

DONNA BORAK. Hi, Chairman.

CHAIRMAN BERNANKE. Hi.

DONNA BORAK. Donna Borak with *American Banker*. My question pertains to the Volcker Rule. Regulators, earlier this year, seemed cautiously optimistic that they'd be able to finalize a rule by the end of the year. However, that seems a bit unlikely at this point. And now, as you know, lawmakers are calling for a two-year implementation delay on the rule. Given the fact that it's been such a lengthy process, can you tell us where things stand at this point? How much closer are we to a final rule? Have the agencies been able to work out their differences? And, if you may, a prediction on when we might actually see a rule.

CHAIRMAN BERNANKE. We've made quite a bit of progress. It's a difficult, complex rule, as you know, and we've had, I think I recall, 18,000 comments or something like that. So it's been a lot to look at. There are a lot of concerns that arose even from, you know, foreign commenters about the effects on their bond markets, et cetera. So there's been a lot of work to do. There, I think there is quite a bit of agreement, I wouldn't say a final agreement, but quite a bit of agreement on key points among the regulators, at this juncture. And, of course, if Congress gives us some other instruction, we'll follow that, but so far, we haven't received any different instruction. So it's our intent to try to get this done early in 2013.

PETER BARNES. Peter Barnes, Fox Business, Mr. Chairman. Since your last press conference with us, we've had an election. One of the candidates in that election, Governor Romney, said that he would not reappoint you to a third term as Chairman. President Obama did not weigh in on the issue but he was—he did win reelection. If the President were to call you and say, "Ben, your country needs your continued stewardship at the Federal Reserve. We need you to stay and finish the job, see this through." Would you consider it? Would you do it, and, by chance, have you had any conversations to that effect with the President or anybody on his team? Thank you.

CHAIRMAN BERNANKE. So to answer the last part, no, I haven't had any conversations. I think the President has got quite a few issues he needs to be thinking about, from fiscal cliff to many other appointments and so on. From my own perspective, I just, I really don't have anything to add from the last press conference. I am very much engaged in these difficult issues that we're discussing today, and I have not been spending time thinking about my own future. So I don't really have anything to add there.

KEVIN HALL. Okay, Mr. Chairman. Thank you. The two questions, taking the Goldfarb rule into effect, one having to do with the CPI, there's a lot of debate now with the Boehner plan about this chained CPI. As an econ—not as a Fed Chairman but as an economist—is there a logic in going to that? Do you think it's a move that should be done separate from the politics of it? And again, with your economist hat, the labor market, you talked about the importance, not looking at the 6.5 percent threshold, but the broader conditions. A big debate—Steve Liesman's nemesis talks a lot about people being beamed to Mars. In your mind, what is happening in the job market? Are we creating jobs? Is that why it's coming down or is it because people—the degree of discouraged workers? What is your sense of how quickly it's fallen because of new employment?

CHAIRMAN BERNANKE. So, on the first question, the chained CPI versus the fixed-weight CPI is a technical issue. The chained CPI is technically better, according to most economists, because it allows for changes in the mix of goods and services that people actually consume more effectively. However, whether, you know, whether that's more appropriate for, say, Social Security indexing or not, I think that's ultimately a political decision. I suppose a rejoinder would be that neither the CPI nor the chained CPI may necessarily be a particularly good measure of the cost of living for Social Security recipients. So, those are the kinds of questions that Congress is going to have to deal with. Second part of your question was?

KEVIN HALL. The debate over the extent to which the unemployment rate is falling from—

CHAIRMAN BERNANKE. Ah, yes. Sorry.

KEVIN HALL. New jobs versus people leaving.

CHAIRMAN BERNANKE. Yes. Well, you know, you can see the comparison by looking, for example, at the household survey, which gives estimates of how many people are added to the labor force, how many are added to the employed, how many people are leaving the labor force, and it's true that part of the decline in unemployment—and indeed all of it in the last reading, but over the recovery, part of the decline in unemployment has come from declines in participation rates, that is, people leaving the labor force. Some of that decline in participation appears to be due to longer-run factors, aging and changing patterns of work among women. So those things were probably not directly related to the recession, for example. But beyond that downward trend, there's been some additional decline in labor force participation, and in the ratio of employment to population, which presumably is linked to discouragement about the state of the labor force. So that certainly is part of the issue. That being said, obviously there has been a good bit of job creation. You can see that either in the household survey or in the payroll establishment survey. So I think there's no doubt that the labor market is considerably better today than it was two years ago, there's not any question about that. But it's also the case that many indicators of the labor market remain quite weak, ranging from the number of long-term unemployed to the number of people who have part-time work who would like full-time work. Wage growth obviously is very weak, and I could go on. So, it may be that the labor market is even a bit weaker than the current unemployment rate suggests, but I think that it is nevertheless the case that there has been improvement since the trough a couple of years ago.

CATHERINE HOLLANDER. Mr. Chairman, Catherine Hollander from *National Journal*. How concerned are you that markets will have to tank in order to get lawmakers to reach a deal on the fiscal cliff, and what do you make of their recent complacency? Is there a Wall Street–Washington disconnect?

CHAIRMAN BERNANKE. Interesting question. Well, I certainly hope that markets won't have to tank. I don't—we want to have confidence, not just in markets but in businesses and households as well, and the best way the fiscal policymakers can achieve that is by coming to a solution as quickly as possible. Markets have obviously already responded to some extent, up and down; you can see from day to day how they respond to news about the negotiations. But on the other hand, it's also true, if you look at the experience, I think the very informative experience of the debt limit debate in August of 2011, that both confidence and markets remain pretty sanguine up to pretty close to the point where it looked like there was actually a chance the debt limit would not be raised. And then, of course, there was a pretty sharp shock, particularly to confidence, about the time of the, you know, of the final debates. So it's not unusual to see markets being complacent. Of course, there's from a market point of view, there are sort of risks in both directions. Obviously, things go badly, but perhaps if things go especially well, that would be good news, and maybe right now markets are sort of taking an average of those two possibilities. But again, just to reiterate, I don't think any policymaker, including the Fed, should be responding to markets. What we should be doing is making policy, you know, based on the fundamentals and doing what's best for the economy and I hope that fiscal policymakers will follow that injunction as well.

STEVE BECKNER. Mr. Chairman, Steve Beckner of Market News International. With the federal government borrowing roughly $1 trillion a year and now with the Fed on pace to buy roughly a trillion dollars a year in bonds, are you concerned about a public, and possibly global, perception that the Fed is accommodating not just growth but accommodating federal borrowing needs, and are you concerned about what this might do to the Fed's credibility, and the credibility of U.S. finances in general, and the credibility of the dollar as the world's leading currency?

CHAIRMAN BERNANKE. Well, first of all, just a couple of facts. The—we're buying Treasuries and mortgage-backed securities, about half and half, roughly. So we're buying considerably less than the Treasury is issuing and, moreover, the share of outstanding Treasuries that the Federal Reserve owns is not all that different from what it was before the crisis, because while our holdings have increased, so has the—obviously the stock of Treasuries in public hands. So it's not quite evident that there has been such a radical shift there. You know, we've been increasing our balance sheet now for some time, and we've been very clear that this is a temporary measure. It's a way to provide additional accommodation to an economy which needs support. We've been equally clear that we will normalize the balance sheet, that we will reduce the size of our holdings and—whether by letting them run off or by selling assets in the future. So this is, again, only a temporary step. It would be quite a different matter if we were buying these assets and holding them indefinitely. That would be monetization. We're not doing that. We are very clear about our intentions. And I think up until now, it seems our credibility has been quite good. There is not any sign either of current inflation or of any—there's no strong evidence that there are any increases in inflation expectations for that matter, looking at financial markets, looking at surveys, looking at economic forecasts, and so on. So, this is one of the things that we have to look at. Remember, I talked earlier about the potential costs of a large balance sheet. We want to be sure that there's no misunderstanding, that there's no effect on inflation expectations from the size of our balance sheet. That's one of the things we have to look at, but as to this point, there just really is no evidence that people are taking it that way. And I guess it's worth pointing out—of course we've been very focused on the United States here, but we're not the only central bank that has increased the size of its balance sheet. The Japanese, the Europeans, the British have all done the same, and very much more or less to the same extent in terms of the fraction of GDP, and I think the sophisticated market players and the public understand that this is part of a collective need, a need to provide additional accommodation to weak economies and not an accommodation of fiscal policy.

GREG ROBB. Last but not least, Greg Robb, MarketWatch. There seems to be growing evidence that some of the MBS purchases, the impact of the MBS purchases, are that banks are holding on to some of the gains and not passing them on to the borrowers. Is there anything you can do about that and are you concerned about that? Thank you.

CHAIRMAN BERNANKE. So the question is—just to restate your question—is about the spread between the mortgage rates that the public pays and the yields to mortgage-backed securities that banks may hold, and the question is, is that spread widening so that the full benefit of the reduction in MBS yields is not being passed through, that's the question. Well, I have to make sure everybody heard it, so you could answer. Our analysis suggests that it takes time—two points. The first point is that while we don't expect a hundred percent pass-through of MBS yields to mortgage rates, our empirical and theoretical analysis—and we've had quite a bit of work done on this issue—suggests that over time, the great majority of the decline in MBS yields does get passed through to mortgage rates. So we do anticipate, over time, that the full benefit will, or most of the benefit will, be seen by retail customers. And indeed, we have seen already a pretty significant decline since September in retail mortgage rates. But one thing that's perhaps confusing this issue a little bit is that there are other things happening in the economy which are affecting those spreads. So, for example, there are capacity limitations, which are allowing banks to, you know, to charge higher yields, there's extra costs like concerns about putback risk, for example. There’s higher g-fees. So there’s a number of things happening in the economy which will tend, all else equal, to raise that spread between mortgage rates and MBS yields, so that’s unfortunate. What we can try to do there, of course, is to try to encourage good policy, for example, on putbacks, that will reduce the perceived risk and cost to the banks of making mortgage loans. But again, you know, I think most of those things, like g-fees, for example, are not really in our control, but, again, taking all those issues as constant, it does seem to be the case that, over a period of time, not immediately, but over a period of time, most of the declines in MBS yields do find their way through to mortgage customers and thereby strengthen the housing market.