

Highlights From Federal Reserve Chairman Jerome Powell Speech

Jackson Hole Economic Policy Symposium, August 27, 2021

Strong policy support has fueled a vigorous but uneven recovery—one that is, in many respects, historically anomalous. In a reversal of typical patterns in a downturn, aggregate personal income rose rather than fell, and households massively shifted their spending from services to manufactured goods. Booming demand for goods and the strength and speed of the reopening have led to shortages and bottlenecks, leaving the COVID-constrained supply side unable to keep up. The result has been elevated inflation in durable goods—a sector that has experienced an annual inflation rate well below zero over the past quarter century.

Labor market conditions are improving but turbulent, and the pandemic continues to threaten not only health and life, but also economic activity.

As the pandemic struck, restaurant meals fell 45 percent, air travel 95 percent, and dentist visits 65 percent. Even today, with overall gross domestic product and consumption spending more than fully recovered, services spending remains about 7 percent below trend. Total employment is now 6 million below its February 2020 level, and 5 million of that shortfall is in the still-depressed service sector. In contrast, spending on durable goods has boomed since the start of the recovery and is now running about 20 percent above the pre-pandemic level. With demand outstripping pandemic-afflicted supply, rising durables prices are a principal factor lifting inflation well above our 2 percent objective.

The rapid reopening of the economy has brought a sharp run-up in inflation. Over the 12 months through July, measures of headline and core personal consumption expenditures inflation have run at 4.2 percent and 3.6 percent, respectively—well above our 2 percent longer-run objective.

Businesses and consumers widely report upward pressure on prices and wages. Inflation at these levels is, of course, a cause for concern. But that concern is tempered by a number of factors that suggest that these elevated readings are likely to prove temporary. This assessment is a critical and ongoing one, and we are carefully monitoring incoming data.

Some prices—for example, for hotel rooms and airplane tickets—declined sharply during the recession and have now moved back up close to pre-pandemic levels.

The 12-month window we use in computing inflation now captures the rebound in prices but not the initial decline, temporarily elevating reported inflation.

Used car prices, for example, appear to have stabilized; indeed, some price indicators are beginning to fall. If that continues, as many analysts predict, then used car prices will soon be pulling measured inflation down, as they did for much of the past decade.

Wages (are) moving up at a pace that appears consistent with our longer-term inflation objective (of 2%).

We have said that we would continue our asset purchases at the current pace until we see substantial further progress toward our maximum employment and price stability goals, measured since last December, when we first articulated this guidance. My view is that the “substantial further progress” test has been met for inflation.

There has also been clear progress toward maximum employment. At the FOMC's recent July meeting, I was of the view, as were most participants, that if the economy evolved broadly as anticipated, it could be appropriate to start reducing the pace of asset purchases this year.

The intervening month has brought more progress in the form of a strong employment report for July, but also the further spread of the Delta variant. We will be carefully assessing incoming data and the evolving risks. Even after our asset purchases end, our elevated holdings of longer-term securities will continue to support accommodative financial conditions.

Before the pandemic, we all saw the extraordinary benefits that a strong labor market can deliver to our society. Despite today's challenges, the economy is on a path to just such a labor market, with high levels of employment and participation, broadly shared wage gains, and inflation running close to our price stability goal.