

# Congress of the United States

Washington, DC 20515

October 31, 2022

The Honorable Jerome Powell  
Chair  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue NW  
Washington, DC 20551

Dear Chair Powell:

We are writing to express concern and request additional information about the implications of the Federal Reserve's (Fed's) most recent economic projections, its intention to continue raising interest rates at an alarming pace, and your disturbing warning to American families that they should expect "pain" over the coming months as the Fed takes "forceful and rapid steps" to "get supply and demand back into alignment...by slowing the economy."<sup>1</sup>

On September 21, 2022, the Fed's Federal Open Market Committee (FOMC) announced it would raise its target range for the federal funds rate by 75 basis points for the third consecutive time this year and that it anticipated that "ongoing increases in the target range will be appropriate" as "supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures" continue to stoke inflation.<sup>2</sup> The Fed has raised interest rates by 3 percentage points since March, "the fastest increase of that size since 1982,"<sup>3</sup> which is already estimated to "have put about 800,000 job losses in the pipeline."<sup>4</sup> The FOMC's Summary of Economic Projections indicated that the federal funds rate will rise by another 1.25 percentage points before the end of the year, and by another 25 basis points in 2023.<sup>5</sup>

Consistent with its plan to raise interest rates into next year and weaken economic growth, the Fed projects that unemployment will rise sharply from 3.7% today to 4.4% in 2023 and 2024, implying "an additional 1.2 million people losing their jobs."<sup>6</sup> In your September 21 press conference, you noted that "we need to have softer labor market conditions" and that families should expect "pain" in the form of "[h]igher interest rates, slower growth, and a softening labor

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<sup>1</sup> Board of Governors of the Federal Reserve System, "Chair Powell's Press Conference," press conference, September 21, 2022, <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20220921.pdf>.

<sup>2</sup> Board of Governors of the Federal Reserve System, "Federal Reserve issues FOMC statement," September 21, 2022, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20220921a.htm>.

<sup>3</sup> Washington Post, "Fed unsure of economy's direction as Wall Street meltdown worsens," David J. Lynch, September 24, 2022, <https://www.washingtonpost.com/us-policy/2022/09/24/fed-inflation-recession-wall-street/>.

<sup>4</sup> CBS News, "Buckle up, America: The Fed plans to sharply boost unemployment," Irina Ivanova, September 26, 2022, <https://www.cbsnews.com/news/fed-interest-rates-unemployment-inflation-layoffs/>.

<sup>5</sup> Board of Governors of the Federal Reserve System, "Summary of Economic Projections," September 21, 2022, <https://www.federalreserve.gov/monetarypolicy/files/fomcprojtab120220921.pdf>.

<sup>6</sup> CBS News, "Buckle up, America: The Fed plans to sharply boost unemployment," Irina Ivanova, September 26, 2022, <https://www.cbsnews.com/news/fed-interest-rates-unemployment-inflation-layoffs/>.

market” as the Fed takes “forceful and rapid steps to moderate demand so that it comes into better alignment with supply.”<sup>7</sup> You also reiterated your desire to “get supply and demand back into alignment...by slowing the economy” and promised to “keep at it until we are confident the job is done.”<sup>8</sup> You continued: “I wish there were a painless way to do that,” but “there isn’t.”<sup>9</sup>

These comments and policy actions come amid concerns raised by “a growing group of economists from the left and the right arguing that the Fed is braking the economy too hard.”<sup>10</sup> In contrast to your belief that slower economic growth and higher unemployment are “something that we think we need to have,”<sup>11</sup> “[s]ome economists question whether crushing the job market is necessary to bring inflation to heel,”<sup>12</sup> with one market economist noting, “The Fed clearly wants the labor market to weaken quite sharply. What’s not clear to us is why.”<sup>13</sup>

Others “think the central bank should pause to evaluate the impact of its earlier efforts to slow the economy before implementing further increases”<sup>14</sup> amid fears that the Fed “risks tipping the United States into a recession and causing widespread joblessness.”<sup>15</sup> Moreover, as central banks around the world simultaneously pursue aggressive interest rate hikes “in a precarious economic experiment that has never been tried before,”<sup>16</sup> “[s]ome economists fear they may go too far if they don’t take into account their collective impact on global demand.”<sup>17</sup> Echoing the concerns of other international economic bodies,<sup>18</sup> a United Nations agency recently warned that the “world is headed towards a global recession and prolonged stagnation unless we quickly change the current policy course,” describing the potential for global recession as a “matter of policy choices and political will.”<sup>19</sup>

Several of your colleagues on the FOMC have also begun to raise concerns about the costs of overshooting and, amid “great uncertainty about how restrictive [monetary] policy must actually

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<sup>7</sup> Board of Governors of the Federal Reserve System, “Chair Powell’s Press Conference,” press conference, September 21, 2022, <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20220921.pdf>.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> Washington Post, “As the Fed fights inflation, worries rise that it’s overcorrecting,” Rachel Siegel, October 11, 2022, <https://www.washingtonpost.com/business/2022/10/11/fed-inflation-economy/>.

<sup>11</sup> *Id.*

<sup>12</sup> CBS News, “Buckle up, America: The Fed plans to sharply boost unemployment,” Irina Ivanova, September 26, 2022, <https://www.cbsnews.com/news/fed-interest-rates-unemployment-inflation-layoffs/>.

<sup>13</sup> *Id.*

<sup>14</sup> Washington Post, “Fed unsure of economy’s direction as Wall Street meltdown worsens,” David J. Lynch, September 24, 2022, <https://www.washingtonpost.com/us-policy/2022/09/24/fed-inflation-recession-wall-street/>.

<sup>15</sup> ABC News, “The Fed says unemployment will rise. Here’s who economists say would lose their jobs first,” Max Zahn, September 24, 2022, <https://abcnews.go.com/Business/fed-unemployment-rise-economists-lose-jobs/story?id=90375709>.

<sup>16</sup> Washington Post, “As the Fed fights inflation, worries rise that it’s overcorrecting,” Rachel Siegel, October 11, 2022, <https://www.washingtonpost.com/business/2022/10/11/fed-inflation-economy/>.

<sup>17</sup> Wall Street Journal, “Central Banks May Stoke Risks by Raising Interest Rates Together,” Paul Hannon, September 25, 2022, <https://www.wsj.com/articles/central-banks-may-stoke-risks-by-raising-interest-rates-together-11664110802>.

<sup>18</sup> Washington Post, “As the Fed fights inflation, worries rise that it’s overcorrecting,” Rachel Siegel, October 11, 2022, <https://www.washingtonpost.com/business/2022/10/11/fed-inflation-economy/>.

<sup>19</sup> United Nations Conference on Trade and Development, Trade and Development Report 2022, October 3, 2022, <https://unctad.org/tdr2022>

become,”<sup>20</sup> the importance of pausing to “learn how economic activity, employment, and inflation are adjusting” to the Fed’s interest rate hikes.<sup>21</sup>

Indeed, private forecasters project that your monetary policy path will push the unemployment rate even higher than the Fed’s 4.4% forecast for 2023. Bank of America expects that unemployment will peak at 5.6%, implying a nearly 2 percentage-point jump in the unemployment rate over the next year and the loss of more than 3 million jobs.<sup>22</sup> A recent survey of economists forecasts a 63% probability that the U.S. will enter into a recession in the coming 12 months, with 60% of the forecasters surveyed agreeing that “the Fed will raise interest rates too much and cause unnecessary economic weakness,” up from 46% in July.<sup>23</sup> Bloomberg Economics’ forecast projects that the probability of recession in the next 12 months has grown to 100%.<sup>24</sup> According to a Bank of America analyst, “[t]he market thinks the Fed’s economic forecasts are an unrealistic fantasy.”<sup>25</sup>

Your “overarching focus” on “using [the Fed’s] tools to bring inflation back down to our 2 percent goal” no matter the cost is particularly troubling given the limits of interest rate hikes in addressing key drivers of today’s inflation, including lingering supply chain snarls, corporate price gouging, and the war in Ukraine.<sup>26</sup> As you have previously stated, the Fed’s tools are limited in slowing these and other dynamics:

- In your May 4, 2022 press conference, you said, “So our tools don't really work on supply shocks. Our tools work on demand... [W]e can't affect, really, oil prices or other commodity prices or food prices.”<sup>27</sup>
- In your June 15, 2022 press conference, you said: “I think that what's becoming more clear is that many factors that we don't control are going to play a very significant role in deciding whether [we can maintain a strong labor market while bringing inflation down to 2%]. And there I'm thinking, of course, of commodity prices, the war in Ukraine,

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<sup>20</sup> Charles L. Evans, “Going the Distance on Inflation Redux,” Federal Reserve Bank of Chicago, speech, October 10, 2022, <https://www.chicagofed.org/publications/speeches/2022/october-10-nabe-annual-meeting>.

<sup>21</sup> Lael Brainard, “Restoring Price Stability in an Uncertain Economic Environment,” Board of Governors of the Federal Reserve System, speech, October 10, 2022, <https://www.federalreserve.gov/newsevents/speech/brainard20221010a.htm>.

<sup>22</sup> Washington Post, “Fed unsure of economy’s direction as Wall Street meltdown worsens,” David J. Lynch, September 24, 2022, <https://www.washingtonpost.com/us-policy/2022/09/24/fed-inflation-recession-wall-street/>.

<sup>23</sup> Wall Street Journal, “Economists Now Expect a Recession, Job Losses by Next Year,” Harriet Torry, October 16, 2022, <https://www.wsj.com/articles/economists-now-expect-a-recession-job-losses-by-next-year-11665859869>.

<sup>24</sup> Bloomberg, “Forecast for US Recession Within Year Hits 100% in Blow to Biden,” Josh Wingrove, October 17, 2022, <https://www.bloomberg.com/news/articles/2022-10-17/forecast-for-us-recession-within-year-hits-100-in-blow-to-biden>.

<sup>25</sup> New York Times, “The Fed Appears More Optimistic Than Some Investors. Here’s Why,” Joe Rennison, September 23, 2022, <https://www.nytimes.com/2022/09/23/business/fed-stocks-wall-street.html>.

<sup>26</sup> Board of Governors of the Federal Reserve System, “Chair Powell’s Press Conference,” press conference, September 21, 2022, <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20220921.pdf>; Vox, “Is the cure for inflation worse than the disease,” Rachel M. Cohen, October 26, 2022, <https://www.vox.com/policy-and-politics/2022/10/26/23419373/inflation-recession-interest-rates-economy>.

<sup>27</sup> Board of Governors of the Federal Reserve System, “Chair Powell’s Press Conference,” press conference, May 4, 2022, <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20220504.pdf>.

supply chain [developments], things like that, where...the monetary policy stance doesn't affect those things."<sup>28</sup>

- You also noted in your June 15, 2022 press conference that, “There are many things we can’t affect, and those would be, you know...the commodity price issues that we’re having around the world due to the war in Ukraine and the fallout from that, and also just all of the supply-side things that are still pushing upward on inflation.”<sup>29</sup>
- You also noted in your June 15, 2022 press conference that the Fed “can’t affect, really—I mean, the energy prices are set by global commodity prices. And most of food—not all of it, but most food prices are pretty heavily influenced by global commodity prices, too...So we can’t really have much of an effect.”<sup>30</sup>
- In response to Senator Warren’s questions at a June 22, 2022 hearing of the Senate Banking, Housing, and Urban Affairs Committee about whether the Fed’s interest rate increases would bring down gas or food prices, you said, “I wouldn’t say so, no.”<sup>31</sup>

As one economist noted, the Fed can’t “click its heels three times, raise rates and have inflation drop. There’s a myriad of factors going on now, and it’s a mistake to think the Fed controls any more than a handful of those.”<sup>32</sup> Nevertheless, you continue to double down on your commitment to “act aggressively” with interest rate hikes and “keep at it until it’s done,” even if “[n]o one knows whether this process will lead to a recession or if so, how significant that recession would be.”<sup>33</sup> These statements reflect an apparent disregard for the livelihoods of millions of working Americans, and we are deeply concerned that your interest rate hikes risk slowing the economy to a crawl while failing to slow rising prices that continue to harm families.

To obtain more information about the consequences of your policy decisions and the Fed’s latest economic projections, we request that you respond to the following questions by November 14, 2022:

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<sup>28</sup> Board of Governors of the Federal Reserve System, “Chair Powell’s Press Conference,” press conference, June 15, 2022, <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20220615.pdf>.

<sup>29</sup> *Id.*

<sup>30</sup> *Id.*

<sup>31</sup> Office of Senator Elizabeth Warren, “At Hearing, Senator Warren Calls out Chair Powell for Fed’s Interest Rate Increases that Won’t Address Key Drivers of Inflation and Risk Driving Economy into Recession,” press release, June 22, 2022, <https://www.warren.senate.gov/newsroom/press-releases/at-hearing-senator-warren-calls-out-chair-powell-for-feds-interest-rate-increases-that-wont-address-key-drivers-of-inflation-and-risk-driving-economy-into-recession>.

<sup>32</sup> CNN, “The Fed’s fight against inflation could cost the US 1.2 million jobs,” Alicia Wallace, September 23, 2022, <https://www.cnn.com/2022/09/23/economy/powell-fed-labor-market/index.html>.

<sup>33</sup> Board of Governors of the Federal Reserve System, “Chair Powell’s Press Conference,” press conference, September 21, 2022, <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20220921.pdf>.

1. The Fed's September 2022 Summary of Economic Projections forecasts that unemployment will rise to 4.4% in 2023, up from 3.7% in August 2022.<sup>34</sup> According to the Fed's estimates, how many job losses, in millions, would that forecast imply?
2. The Fed's September 2022 Summary of Economic Projections suggests that at least one member of the FOMC projects that unemployment will rise to 5.0% in 2023.<sup>35</sup> According to the Fed's estimates, how many job losses, in millions, would that forecast imply?
3. One private forecaster, Bank of America, projects that the unemployment rate will rise to 5.6% by the end of 2023.<sup>36</sup> According to the Fed's estimates, how many job losses, in millions, would that forecast imply?
4. Under each unemployment forecast described above, please describe the expected distributional impact of job losses by:
  - a. Wage quartile;
  - b. Race;
  - c. Sex;
  - d. Educational attainment; and
  - e. Sector.
5. Under each unemployment forecast described above, please describe the expected trends in wage growth for production and nonsupervisory employees by:
  - a. Wage quartile;
  - b. Race;
  - c. Sex;
  - d. Educational attainment; and
  - e. Sector.
6. Former Fed Vice Chair Richard Clarida recently stated that "Until inflation comes down a lot, the Fed's really a single-mandate central bank."<sup>37</sup> Do you agree with that assessment?
7. Has the Fed seen evidence that its monetary policy actions have embedded expectations of recession among market participants and consumers?

Thank you for your attention to this matter.

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<sup>34</sup> Board of Governors of the Federal Reserve System, "Summary of Economic Projections," September 21, 2022, <https://www.federalreserve.gov/monetarypolicy/files/fomcprohtable20220921.pdf>; Bureau of Labor Statistics, "The Employment Situation — August 2022, September 2, 2022," <https://www.bls.gov/news.release/pdf/empsit.pdf>.


<sup>35</sup> Board of Governors of the Federal Reserve System, "Summary of Economic Projections," September 21, 2022, <https://www.federalreserve.gov/monetarypolicy/files/fomcprohtable20220921.pdf>.


<sup>36</sup> Washington Post, "Fed unsure of economy's direction as Wall Street meltdown worsens," David J. Lynch, September 24, 2022, <https://www.washingtonpost.com/us-policy/2022/09/24/fed-inflation-recession-wall-street/>.


<sup>37</sup> CNBC Squawk Box, "Fed will raise interest rates to 4% 'hell or high water,' says former Fed Vice Chair Clarida," September 9, 2022, <https://www.cnbc.com/video/2022/09/09/fed-will-raise-interest-rates-to-4-percent-hell-or-high-water-says-former-fed-vice-chair-clarida.html>.

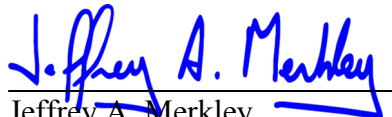
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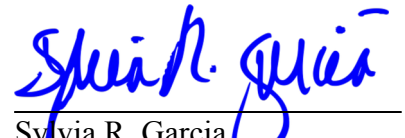
  
Elizabeth Warren  
United States Senator


  
Madeleine Dean  
Member of Congress

  
Sheldon Whitehouse  
United States Senator


  
Jesús G. "Chuy" García  
Member of Congress

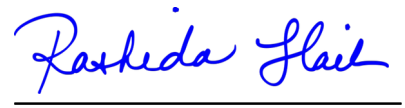
  
Jeffrey A. Merkley  
United States Senator

  
Sylvia R. Garcia  
Member of Congress

  
Bernard Sanders  
United States Senator

  
Katie Porter  
Member of Congress

  
Stephen F. Lynch  
Member of Congress

  
Rashida Tlaib  
Member of Congress



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Jamaal Bowman, Ed.D.  
Member of Congress