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Statement by

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Chair

Board of Governors of the Federal Reserve System

before the

Committee on Banking, Housing, and Urban Affairs

U.S. Senate

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Chairman Brown, Ranking Member Toomey, and other members of the Committee, thank you for the opportunity to discuss the measures we have taken to address the hardship wrought by the pandemic. Our health-care professionals continue to deliver our most important response, and we remain grateful for their service. Progress on vaccinations and unprecedented fiscal policy actions are also providing strong support to the recovery.

Since we last met, the economy has continued to strengthen. Real gross domestic product rose at a robust pace in the first half of the year, and growth is widely expected to continue at a strong pace in the second half. The sectors most adversely affected by the pandemic have improved in recent months, but the rise in COVID-19 cases has slowed their recovery. Household spending rose at an especially rapid pace over the first half of the year but flattened out in July and August as spending softened in COVID-sensitive sectors. Additionally, in some industries, near-term supply constraints are restraining activity.

As with overall economic activity, conditions in the labor market have continued to improve. Demand for labor is very strong, and job gains averaged 750,000 per month over the past three months. In August, however, gains slowed markedly, with the slowdown concentrated in sectors most sensitive to the pandemic. The unemployment rate was 5.2 percent in August, and this figure understates the shortfall in employment, particularly as participation in the labor market has not moved up from the low rates that have prevailed for most of the past year. Factors related to the pandemic, such as caregiving needs and ongoing fears of the virus, appear to be weighing on employment growth. These factors should diminish with progress on containing the virus.

The economic downturn has not fallen equally on all Americans, and those least able to shoulder the burden have been the hardest hit. In particular, despite progress, joblessness continues to fall disproportionately on lower-wage workers in the service sector and on African Americans and Hispanics.

Inflation is elevated and will likely remain so in coming months before moderating. As the economy continues to reopen and spending rebounds, we are seeing upward pressure on prices, particularly due to supply bottlenecks in some sectors. These effects have been larger and longer lasting than anticipated, but they will abate, and as they do, inflation is expected to drop back toward our longer-run 2 percent goal.

The process of reopening the economy is unprecedented, as was the shutdown. As reopening continues, bottlenecks, hiring difficulties, and other constraints could again prove to be greater and more enduring than anticipated, posing upside risks to inflation. If sustained higher inflation were to become a serious concern, we would certainly respond and use our tools to ensure that inflation runs at levels that are consistent with our goal.

The path of the economy continues to depend on the course of the virus, and risks to the outlook remain. The Delta variant has led to a surge in cases, causing significant human suffering and slowing the economic recovery. Continued progress on vaccinations would help support a return to more normal economic conditions.

The Fed's policy actions are guided by our dual mandate to promote maximum employment and stable prices for the American people, along with our responsibilities to promote the stability of the financial system. In response to the crisis, we took broad and forceful measures to support the flow of credit in the economy and to promote the stability of the financial system at the onset of the pandemic. Our actions, taken together, helped unlock more than $2 trillion of funding to support businesses large and small, nonprofits, and state and local governments between April and December of 2020. This, in turn, helped keep organizations from shuttering and put employers in a better position to keep workers on and to hire them back as the recovery continues.

These programs have served as a backstop to key credit markets and helped to restore the flow of credit from private lenders through normal channels. We have deployed these lending tools to an unprecedented extent. Our emergency lending tools require the approval of the Treasury and are available only in unusual and exigent circumstances, such as those brought on by the crisis.

Many of these programs were supported by funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Those facilities provided essential support through a very difficult year and are now closed.

The Federal Reserve completed its sales of assets from the Secondary Market Corporate Credit Facility on August 31. We were able to wind down the facility rapidly and efficiently, with no adverse impact on credit conditions. The Federal Reserve also recently closed the Paycheck Protection Program Liquidity Facility to new lending, and the facility is now in runoff mode. Similarly, we are managing the paydown of assets in our other CARES Act facilities as they wind down over time. We continue to analyze the facilities' efficacy and to review the lessons learned.

To conclude, our actions affect communities, families, and businesses across the country. Everything we do is in service to our public mission. We at the Fed will do all we can to support the economy for as long as it takes to complete the recovery. Thank you. I look forward to your questions.

Summary of Section 13(3) Facilities Using CARES Act Funding

(Billions of dollars)

Facility	Announced	Closed	Maximum capacity[1]	Peak amount of assets[2]	Current amount of assets[2]	Treasury equity remaining[3]
Corporate Credit Facilities[4]	Mar. 23, 2020	Dec. 31, 2020	750	14.3	0	0[4]
Main Street Lending Program	Apr. 9, 2020	Jan. 8, 2021	600	16.6	13.4	16.6
Municipal Liquidity Facility	Apr. 9, 2020	Dec. 31, 2020	500	6.4	4.4	6.3
TALF	Mar. 23, 2020	Dec. 31, 2020	100	4.1	1.5	3.5

Note: The data are current as of September 22, 2021.

1. The maximum authorized amount of facility asset purchases.
2. Current and peak outstanding amounts of facility asset purchases.
    - For the Corporate Credit Facilities (consisting of the Primary Market Corporate Credit Facility and the Secondary Market Corporate Credit Facility), includes exchange-traded funds at fair value and corporate bonds at book value. Asset balances from trading activity are reported with a one-day lag after the transaction date.
    - For the Main Street Lending Program, includes loan participations at principal amount outstanding, net of an allowance for loan losses, updated as of June 30, 2021.
    - For the Municipal Liquidity Facility, includes municipal notes at book value.
    - For the TALF (Term Asset-Backed Securities Loan Facility), includes loans to holders of eligible asset-backed securities at book value.
3. The amount of the Treasury contribution to the credit facilities.

    Source: For the amount of assets and Treasury equity remaining, see Federal Reserve Board (2021), Statistical Release H.4.1, "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks" (September 23), https://www.federalreserve.gov/releases/h41; the peak amounts of assets for each facility are based on the H.4.1 from the start of the corresponding facility until September 22.
4. Treasury preferred equity of $13.9 billion was returned to the Treasury on September 24, 2021, as reflected in notices available on the Federal Reserve Bank of New York's public website at https://www.newyorkfed.org/markets/secondary-market-corporate-credit-facility. This transaction will be reflected in the H.4.1 statistical release published on September 30, 2021.