

Congress of the United States

Washington, DC 20515

March 18, 2024

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

Dear Chairman Powell:

We write to urge the Federal Open Market Committee (FOMC) to seriously consider the harmful economic consequences of maintaining excessively high interest rates for an unnecessarily long period of time. While we understand that you have indicated that the March FOMC meeting will not see the federal funds rate reduced, we ask that you develop a prompt timeline for future rate reductions. With inflation already having come into line with the Federal Reserve's target, today's excessively contractionary monetary policy needlessly worsens housing market imbalances and the unaffordability of home ownership, creates risks for banking stability, and could threaten the achievements of strong employment and wage growth and its attendant reductions in economic and racial inequalities.

As you know, the Federal Reserve's inflation target of a 2-percent average has largely been achieved, [having fallen](#) due to supply-side bottlenecks unwinding and labor force participation increasing. This is demonstrated by the Personal Consumption Expenditure (PCE) price index, the Federal Reserve's preferred measure of inflation, which now stands at [2.4 percent](#) over the past twelve months ending in January 2024. The [PCE index](#) for the last quarter of 2023 rose 1.8 percent compared to the previous quarter in annualized terms. In the last three months for which we have data—November to January—[PCE inflation](#) was just 1.4 percent relative to the preceding three months.

No self-reinforcing mechanism for accelerating inflation appears in recent data. For example, in the labor market, total hours worked, after falling in January, just rose back to their December level in February, and wage growth is close to its pre-pandemic, non-inflationary pace. Unemployment due to voluntary quits, a measure of workers' perception of their ability to find a satisfactory job in the current labor market, fell to [11.0 percent](#)—the lowest level since September of 2021. The data over the last year also provide evidence that we may be on a faster productivity growth path, which will further alleviate inflationary pressures. None of these indicators correspond with an overly strong labor market that could threaten to spike inflation. The more realistic concern in light of these labor-market trends is that the Federal Reserve may wait too long to lower rates and allow tight monetary policy to reduce employment and real wage growth.

Additionally, the housing market is facing major imbalances and making homeownership unaffordable due to persistently high interest rates. New housing starts have fallen almost [20 percent](#) from their April 2022 level. Existing home sales have fallen to a 30-year low, with an [18.7 percent](#) decline from 2022. Too many homeowners otherwise willing to sell are reluctant to give up a 3-percent mortgage for a new, 7-percent mortgage.

In terms of the financial sector, we remind you that the collapse of Silicon Valley Bank one year ago occurred in the context of persistent high interest rates impacting balance sheets for many small and mid-sized banks. And uncertainty about when a rate cut may occur can cause market volatility. With the current federal funds rate set at a contractionary 5.25 percent, its highest level since the business cycle peak of 2007, we believe that articulating a date and percentage-point reduction towards a more neutral rate—particularly with the May

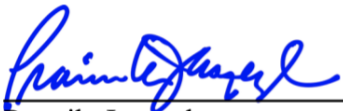
meeting as a reasonable starting point—would provide clearer guidance and reassure financial markets confronting a sustained period of tight monetary policy despite cooling inflation.

Finally, in light of the risks of excessively contractionary policy through sustained high interest rates, we wish to remind you of the benefits of the strong labor market for American families over the past year, which skewed towards workers in the bottom half of the labor market, reversing some of the impact of years of increasing wage inequality. Since the first quarter of 2023, [wage growth has consistently outpaced inflation](#), giving workers, on average, real gains in pay. The [unemployment rate for Black workers](#) has reached its lowest levels in modern history in the past year. The employment-to-population ratio for Black workers [exceeded that of white workers](#) for a brief period last year, the first time in recorded history. The biggest threat to a strong labor market is maintaining interest rates at levels higher than is needed to normalize inflation.

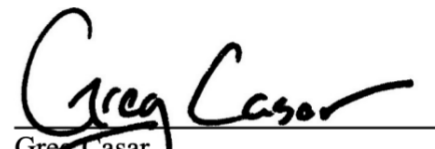
We worry that higher unemployment and a harmful economic slowdown could result from a lagged effect of the prior 11 interest rate hikes since March 2022. Fiscal investments related to the Bipartisan Infrastructure Law, the Inflation Reduction Act, and the CHIPS and Science Act have largely receded. Net interest costs could increase for businesses with fixed-rate contracts that expire, forcing them to roll over debt into higher interest rates. In addition, the Federal Reserve Bank of New York [reported](#) that credit card and auto loan delinquencies have been rising in recent quarters.

In closing, we believe it is critical for the FOMC to present the public with a clear and rapid timetable for reducing interest rates, ideally beginning at the May FOMC meeting in order to ensure a strong labor market and full employment for working Americans. This would allow for the continued reduction in decades of historically high wage inequality, and promote a strong climate for investment. We look forward to your response and welcome further discussion with members of the Congressional Progressive Caucus.


Sincerely,



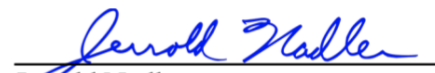
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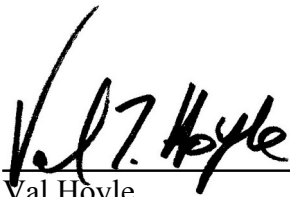
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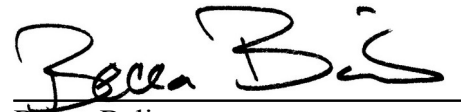
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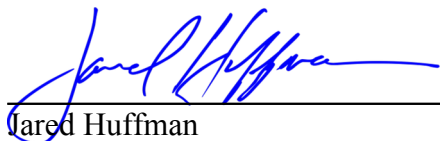
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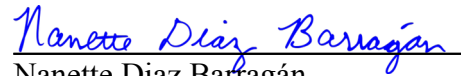
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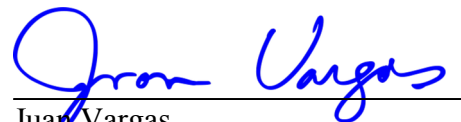
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Member of Congress



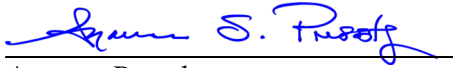
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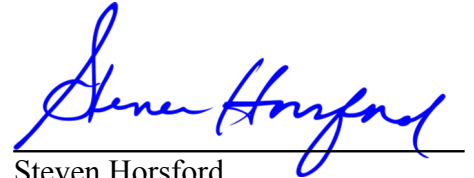
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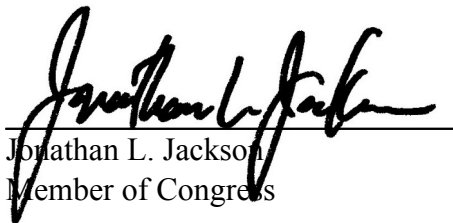
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