Congress of the United States
Washington, DC 20515

June 10, 2024

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

Dear Chair Powell,

We write today to express concern regarding the harmful effects of the Federal Reserve's prolonged high interest rate policy. The Federal Reserve should begin easing interest rates as soon as your June 2024 Federal Open Market Committee Meeting. Excessively tight monetary policy may jeopardize the strong job market that the U.S. has enjoyed over the last several years. The U.S. economy has achieved an apparent soft landing with inflation falling sharply and continued steady job growth. Lowering rates now will ensure that we do not cause unnecessary and harmful economic damage.

Inflation has declined rapidly from its peak level in June 2022 when the Consumer Price Index (CPI) was over 9 percent. The latest reading of the CPI is above 3 percent; however, it may be overstated as it is likely not accurately capturing the true cost of housing. Because the CPI measures mortgage costs as the equivalent rental cost if the mortgage holder were renting, it is likely grossly overstating the actual cost of housing that homeowners face. This problem is particularly pronounced under the current conditions of the housing market, where many homeowners enjoy low mortgage rates. The composition of the rental market is also very different from the composition of owner-occupied units and therefore not an apples–to–apples comparison. Additionally, the CPI heavily weights housing, with shelter costs making up more than one-third of the market basket, meaning that overstating the growth of housing costs can substantially skew the total CPI reading.

Further, the Federal Reserve's favored inflation metric, the Personal Consumption Expenditure price index (PCE), has moderated as well, declining from a peak of 7.1 percent in June 2022 to 2.7 percent this April. Moreover, "core PCE Services ex-Housing" —a measure you have said "may be the most important category for understanding the future evolution of core inflation"—has similarly cooled in recent months. Recent disinflationary trends have proven persistent.

America is also currently facing a housing supply crisis, with the gap between single-family home construction and household formation reaching 7.2 million units in 2024. High interest rates exacerbate this supply crisis by increasing the costs to develop new housing while discouraging existing homeowners from upgrading to larger homes—shrinking the supply of starter homes available to the next generation of homebuyers. Thirty-year mortgage rates remain around 7 percent, having risen from below 3 percent in 2021. Because of low rates during the pandemic and many households choosing to refinance, a near record number of homeowners are currently locked into rates below 5 percent. As a result, this lock-in has driven 1.3 million fewer home sales during the spring of 2022 through the end of 2023 than might have otherwise been expected, which “restricts mobility, results in people not living in homes they would prefer, inflates prices, and worsens affordability,” according to economists at the Federal Housing Finance Agency. Not only are high rental costs overstating inflation numbers, keeping rates higher for longer will do nothing to solve the housing crisis, and instead may be exacerbating it by increasing the cost of new housing construction, restricting the supply of listings, and making it more expensive for families to buy new homes.

While inflation has fallen and is well within a reasonable range, we face grave risks from holding interest rates too high for too long. Though the labor market has remained strong, there are signs that it could begin to cool. The unemployment rate has been on a steady upward trend from the low of 3.4 percent in April 2023 to 4 percent in May 2024. Some sectors, like information services, have shown uneven-to-negative job growth over the last few months, and others like leisure and hospitality have barely recovered to their February 2020 peak. We must not allow holding rates too high for too long to jeopardize this progress, especially given the lag time it takes for changes in monetary policy to flow through the economy.

Last week, the Bank of Canada became the first member of the Group of 7 economies to begin lowering—trimming rates from 5 percent to 4.75 percent, and the European Central Bank cut rates for the first time since 2019, lowering their key interest rate from 4 percent to 3.75 percent. This follows similar moves by the Swiss National Bank and other European economies, which have likewise begun easing monetary policy. As major foreign economies and trading partners lower rates, the value of the dollar is likely to increase—further tightening economic conditions domestically unless we follow suit.

We believe that the Federal Reserve must begin to cut rates as soon as the next Federal Open Market Committee meeting. Doing so is warranted by the data, will preserve the economic progress that was so hard fought, and will allow workers and families to enjoy the benefits of a strong economy. We look forward to your response and welcome further discussion on this important matter.

Sincerely,

Brendan F. Boyle
Ranking Member
House Committee on the Budget

Sheldon Whitehouse
Chairman
Senate Committee on the Budget