FEDERAL RESERVE

Powell says ‘inflation is much too high’ and the Fed will take ‘necessary steps’ to address

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KEY POINTS

- Fed Chairman Jerome Powell vowed tough action on inflation, which he said jeopardizes the recovery.
- Powell said the Fed will continue to hike rates until inflation comes under control, and could get even more aggressive than last week’s increase, which was the first in more than three years.
- He noted those rate rises could go from the traditional 25 basis point moves to more aggressive 50 basis point increases if necessary.

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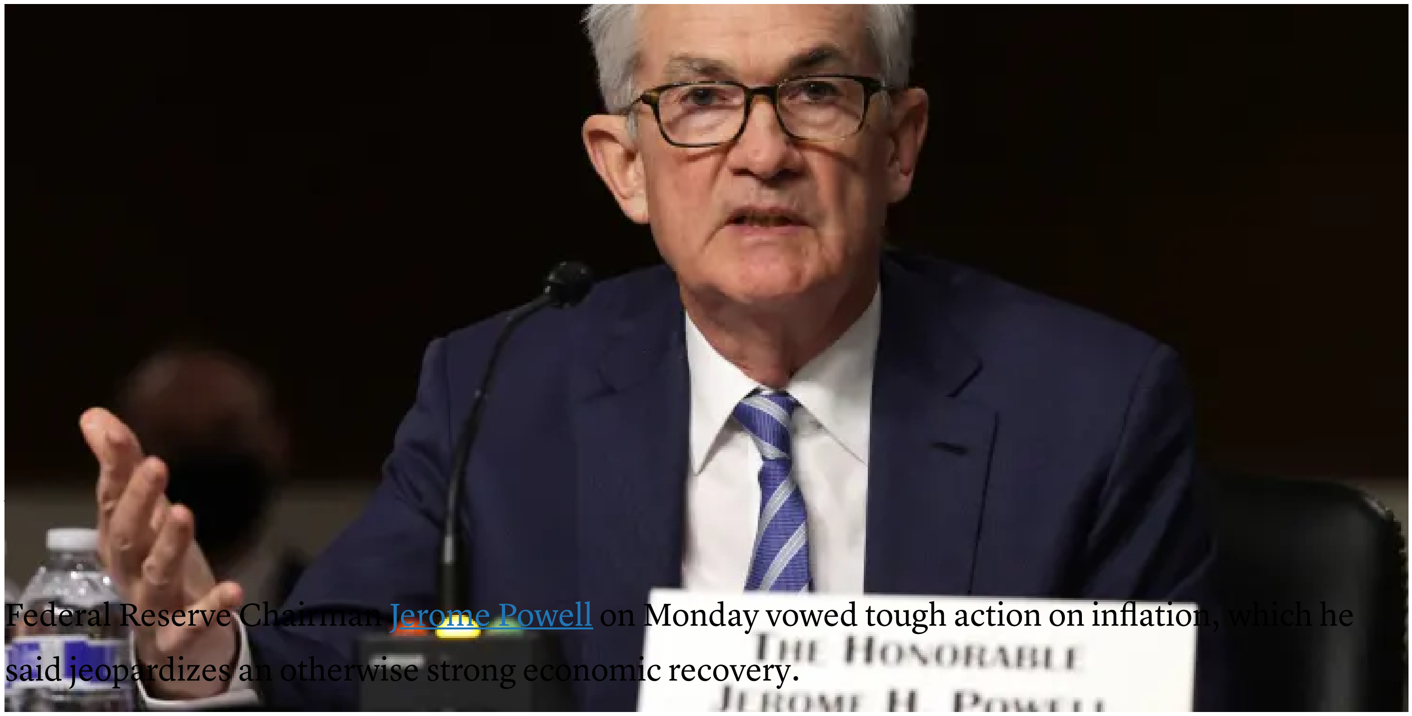

Federal Reserve Chairman Jerome Powell on Monday vowed tough action on inflation, which he said jeopardizes an otherwise strong economic recovery.

"The labor market is very strong, and inflation is much too high," the central bank leader said in prepared remarks for the National Association for Business Economics.

The speech comes less than a week after the Fed raised interest rates for the first time in more than three years in an attempt to battle inflation that is running at its highest level in 40 years.

Reiterating a position the Federal Open Market Committee made Wednesday in its post-meeting statement, Powell said interest rate hikes would continue until inflation is under control. He said the increases could be even higher if necessary than the quarter-percentage point move approved at the meeting.

"We will take the necessary steps to ensure a return to price stability," he said. "In particular, if we conclude that it is appropriate to move more aggressively by raising the federal funds rate by more than 25 basis points at a meeting or meetings, we will do so. And if we determine that we need to tighten beyond common measures of neutral and into a more restrictive stance, we will do that as well."

A basis point is equal to 0.01%. FOMC officials indicated that 25 basis point increases are likely at each of their remaining six meetings this year. However, markets are pricing in about a 50-50 chance the next hike, at the May meeting, could be 50 basis points.

The sudden policy tightening comes with inflation as measured by the consumer price index running at 7.9% on a 12-month basis. A gauge that the Fed prefers still has prices up 5.2%, well above the central bank's 2% target.

As he has before, Powell ascribed much of the pressures coming from Covid pandemic-specific factors, in particular escalated demand for goods over services that supply could not meet. He conceded that Fed officials and many economists "widely underestimated" how long those pressures would last.

While those aggravating factors have persisted, the Fed and Congress provided more than $10 trillion in fiscal and monetary stimulus since the pandemic's start. Powell said he continues to believe that inflation will drift back to the Fed's target, but it's time for the historically easy policies to end.

"It continues to seem likely that hoped-for supply-side healing will come over time as the world ultimately settles into some new normal, but the timing and scope of that relief are highly uncertain," said Powell, whose official title now is chairman pro tempore as he awaits Senate confirmation for a second term. "In the meantime, as we set policy, we will be looking to actual progress on these issues and not assuming significant near-term supply-side relief."

Powell also addressed the Russian invasion of Ukraine, saying it is adding to supply chain and inflation pressures. Under normal circumstances, the Fed generally would look through those types of events and not alter policy. However, with the outcome unclear, he said policymakers have to be wary of the situation.

"In normal times, when employment and inflation are close to our objectives, monetary policy would look through a brief burst of inflation associated with commodity price shocks," he said. "However, the risk is rising that an extended period of high inflation could push longer-term expectations uncomfortably higher, which underscores the need for the Committee to move expeditiously as I have described."

Powell had indicated last week that the FOMC also is prepared to begin running off some of the nearly $9 trillion in assets on its balance sheet. He noted the process could begin as soon as May, but no firm decision has been made.