

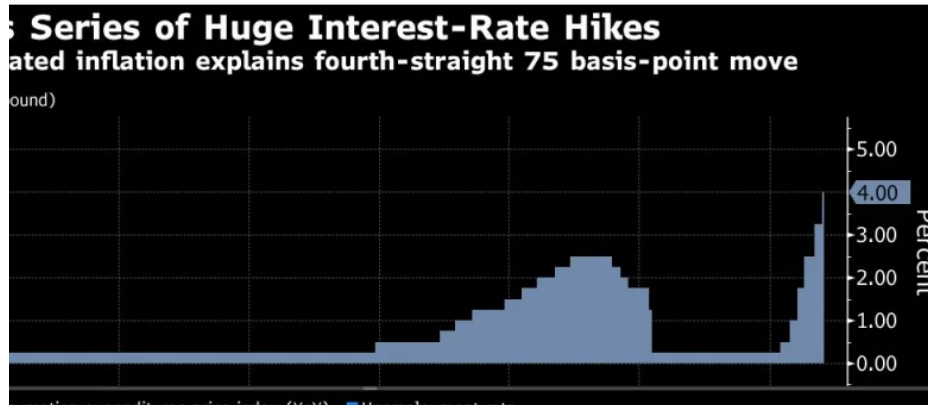
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Powell Signals Smaller Rate Hikes Ahead on Path to Higher Peak



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(Bloomberg) -- Federal Reserve Chair Jerome Powell left little doubt that he's prepared to push rates as high as needed to stamp out inflation, even as the central bank eyes a downshift to a slower pace of increases.

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Addressing reporters Wednesday after the Fed raised rates by 75 basis points for the fourth time in a row, Powell said "incoming data since our last meeting suggests that the ultimate level of interest rates will be higher than previously expected."

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The move lifts the Fed's benchmark to a 3.75%-4% range, from nearly zero in March. Even so, the US economy has shown remarkable resilience: Rising borrowing costs have slowed the housing market, but the inflation rate is stubbornly stuck near 40-year highs.

"We think that we have a ways to go, we have some ground to cover with interest rates before we get to that level of interest rates that we think is sufficiently restrictive," Powell said, warning investors that the tightening campaign wasn't over.

"It is very premature to be thinking about pausing," he said, while also noting it could be appropriate to slow the pace of increases "as soon as the next meeting or the one after that."

US stocks reversed initial gains, with the S&P 500 suffering its worst rout on a Fed decision day since January 2021 as investors digested the message.

Powell's challenge was to signal a shift to a slower pace of hikes without communicating that the Fed was close to done with the tightening campaign. He accomplished that by declaring rates would peak higher than officials expected in September, even as they slow the pace of their increases as they get closer to that destination.

Shift Focus

His remarks shift the focus away from the size of the next rate hike to where they will peak and how long they will have to stay at those levels.

"That was the single most important thing that came out of this entire meeting," said Erik Weisman, chief economist and portfolio manager at MFS Investment Management in Boston. "I don't need to know anything else."

The term "sufficiently restrictive" was new language in the Federal Open Market Committee's statement. It was balanced by saying the pace of future increases "will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments."

The FOMC vote was unanimous and some economists said the statement read like a compromise to prevent dissents. Powell, however, was careful to spell out that this didn't represent any retreat in the war on inflation. He noted that, if anything, the risks were higher of doing too little than too much.

What Bloomberg Economics Says...

"Powell sent a clear message to markets at the Nov. 2 FOMC meeting: Don't expect us to continue raising rates by 75 basis points every time, but we're not making a dovish pivot either."

-- Anna Wong, Andrew Husby and Eliza Winger (economists)

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"I would want people to understand our commitment to getting this done and to not making the mistake of not doing enough or the mistake of withdrawing our strong policy and doing that too soon," he told reporters.

Unemployment at 3.5% is matching five-decade lows. Job openings, which Powell watches closely, unexpectedly rebounded in September, with the ratio of available positions for every unemployed person now at 1.9.

He called the labor market out of balance and expressed disappointment at the persistence of high inflation even though some goods prices have begun to decelerate.

The Fed's latest rate hike comes just days before the Nov. 8 midterm US congressional elections and amid rising criticism from Democrats who are worried that higher borrowing costs will push up unemployment. Powell expressed his conviction that low inflation was better in the long run for all Americans, even if the short-term cost was high.

But he did acknowledge that the path to a soft economic landing is getting narrower, because robust demand and stubbornly high inflation just haven't budged much in response to higher rates.

"There is a lot of pressure on Powell to stop and pause, and wait for the lags," said Veronique de Rugy, an economist at the Mercatus Center at George Mason University in Arlington, Virginia. "I don't think there was ever going to be another option other than creating a recession. There is no way to get out of this high inflation without extreme pain."

--With assistance from Jonnelle Marte.

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