Economics

Powell Holds Dovish Line as Fed Signals Zero Rates Through 2023

By Craig Torres and Matthew Boesler
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- Central bank sees inflation settling back after jump this year
- Seven officials see higher rates in 2023, up from five before

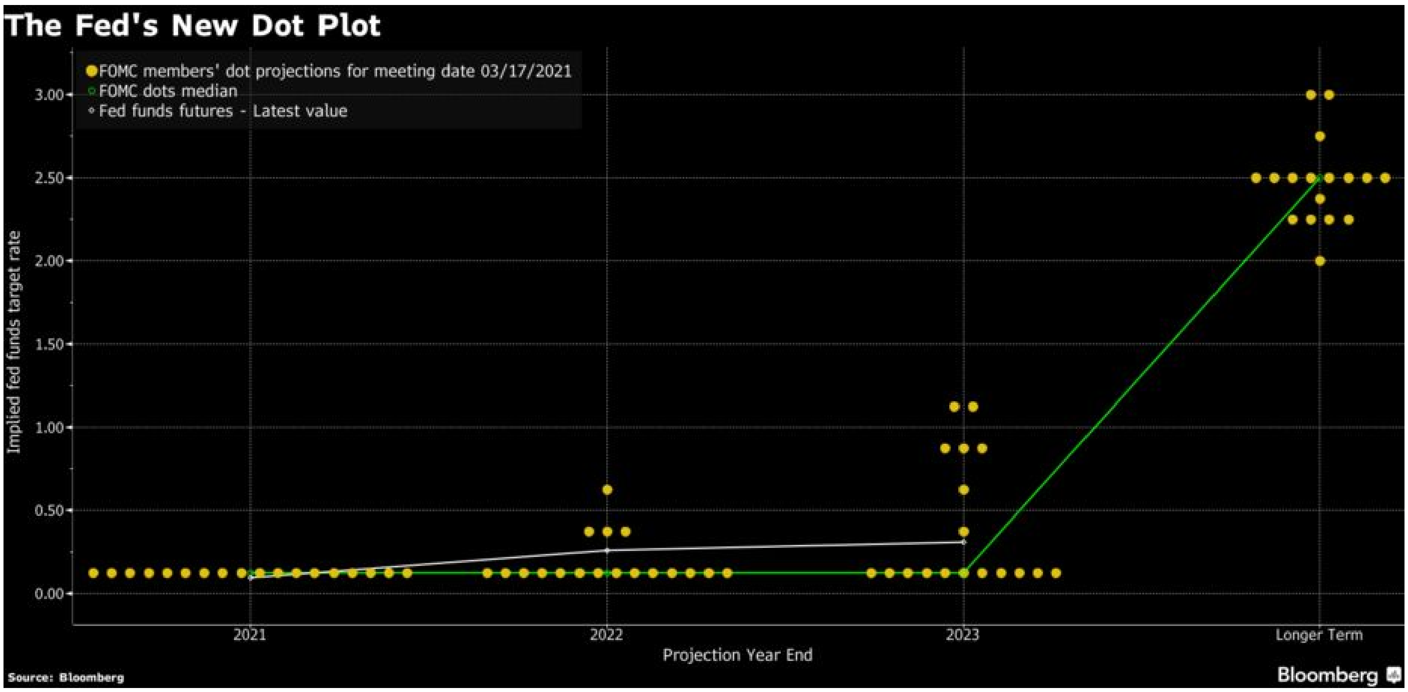
Fed's Powell Sees Uneven Recovery, Short-Lived Inflation

Federal Reserve Chair Jerome Powell and his colleagues continued to project near-zero interest rates at least through 2023 despite upgrading their U.S. economic outlook and the mounting inflation worries in financial markets.

The decision, which came on a volatile day for investors with Treasury yields surging ahead of the announcement, masked a growing number of officials who saw liftoff before then -- though Powell stressed this remains a minority view.

"The strong bulk of the committee is not showing a rate increase during this forecast period," Powell told a virtual press conference Wednesday following a meeting of the Federal Open Market Committee, adding that the time to talk about reducing the central bank's asset purchases was "not yet."

Seven of 18 officials predicted higher rates by the end of 2023 compared with five of 17 at the December gathering, showing a slightly larger group who see an earlier start than peers to the withdrawal of ultra-easy monetary policy, according to fresh quarterly Fed projections.



"Indicators of economic activity and employment have turned up recently, although the sectors most adversely affected by the pandemic remain weak," the FOMC said in its policy statement. "Inflation continues to run below 2%."

The Fed expects that a bump in inflation this year will be short-lived. Officials saw their preferred measure of price pressures slowing to 2% next year following a spike to 2.4% in 2021, according to the projections. Excluding food and energy, inflation is forecast to hit 2.2% this year and fall to 2% in 2022.

Ten-year Treasury yields reversed their earlier rise as Powell spoke and U.S. stocks closed higher.

Read More: Fed's Powell Says No Need to React to Rising Treasury Yields

Asked about the recent move up in yields, Powell pushed back against the idea the Fed should lean against the market, noting that the current stance of Fed policy, including its asset purchase program, was appropriate.

Massive fiscal support and widening vaccinations that will help reopen the economy have buoyed investor expectations for rate increases and inflation, propelling Treasury yields higher as the central bank and federal government keep adding stimulus.

The target range of the benchmark federal funds rate was kept at zero to 0.25%, where it's been since last March. Wednesday's FOMC decision was unanimous.

> ## What Bloomberg Economists Say
>
> "The Federal Reserve continues to hold the course, maintaining the glide path for both rates and asset purchases which it established last year, and does not appear to be close to altering its trajectory anytime soon."
>
> -- By Carl Riccadonna, Yelena Shulyatyeva, Andrew Husby and Eliza Winger (economists)
>
> -- Read more here

U.S. central bankers left asset purchases unchanged at $120 billion a month and repeated that this pace would be maintained until "substantial further progress" is made on their employment and inflation goals. Powell told reporters that the Fed would signal well in advance when that threshold was on track to being achieved.

Powell and his colleagues met as the economy continues to improve. Job gains picked up last month and President Joe Biden signed an additional $1.9 trillion of pandemic aid into law on March 11. Vaccinations continue apace, allowing states to start easing lockdown restrictions that could release a torrent of consumer spending.

The economy remains far from the Fed's goals, though. Even with 379,000 jobs added to payrolls in February, 9.5 million fewer Americans have jobs compared with a year ago and inflation remains well below the Fed's 2% target.

"This particular downturn was a direct hit on the part of the economy that employs many minorities," Powell said.

Ready, Set ... Go!

Fed officials growing more upbeat on economy and job market, see firmer inflation

Source: Federal Reserve
Note: Median ests. GDP, PCE price index are 4Q/4Q, unemployment is average for 4Q of year

Still, prospects for stronger growth have ignited some concern about higher inflation, contributing to a rise in 10-year Treasury yields in recent weeks. Powell told lawmakers in testimony last month that the economy is still has a long way to go before there's any risk of overheating.

They also upgraded forecasts for economic growth and the labor market, with the median estimate for unemployment falling to 4.5% at the end of 2021 and 3.5% in 2023, while gross domestic product was seen expanding 6.5% this year, up from a prior projection of 4.2%.

Christopher Waller, who joined the Board of Governors in late December, contributed projections for the first time this month.

– With assistance by Ana Monteiro, Sophie Caronello, Alex Harris, Vince Golle, Steve Matthews, Catarina Saraiva, and Christopher Condon

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