Powell Assures Americans That Fed Will Tackle High Inflation

- Fed chair says price stability a condition for full employment
- Powell calls high inflation ‘severe threat’ to goal for jobs

By
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Federal Reserve Chair Jerome Powell pledged to do what’s necessary to contain an inflation surge and prolong the expansion, while steering clear of fresh details on the path of U.S. monetary policy.

“If we have to raise interest rates more over time, we will,” Powell told the Senate Banking Committee Tuesday under questioning at his confirmation hearing for a second term as central bank chief. “We will use our tools to get inflation back.”

Both Republicans and Democrats have expressed concern that the Fed is over-stimulating the economy with low rates and bond purchases as inflation runs far above officials’ 2% target. U.S. central bankers have been surprised by the persistence of inflation and want to lean against it this year without stalling out growth.

Prices rose 5.7% for the 12 months ending November as measured by the personal consumption expenditures price index, the Fed's preferred benchmark.

Powell's remarks were more guarded than those of some of his colleagues, who've called openly for the Fed to starting raising rates at their meeting in March. But the chair typically tries to avoid providing policy guidance in public before he's had a chance to discuss matters with the Fed's policy-setting committee, which next gathers Jan. 25-26.

While stressing that the Fed doesn't prioritize its congressional mandate for price stability more than the goal for full employment, Powell said that the emphasis can shift and at the moment there was more focus on inflation.

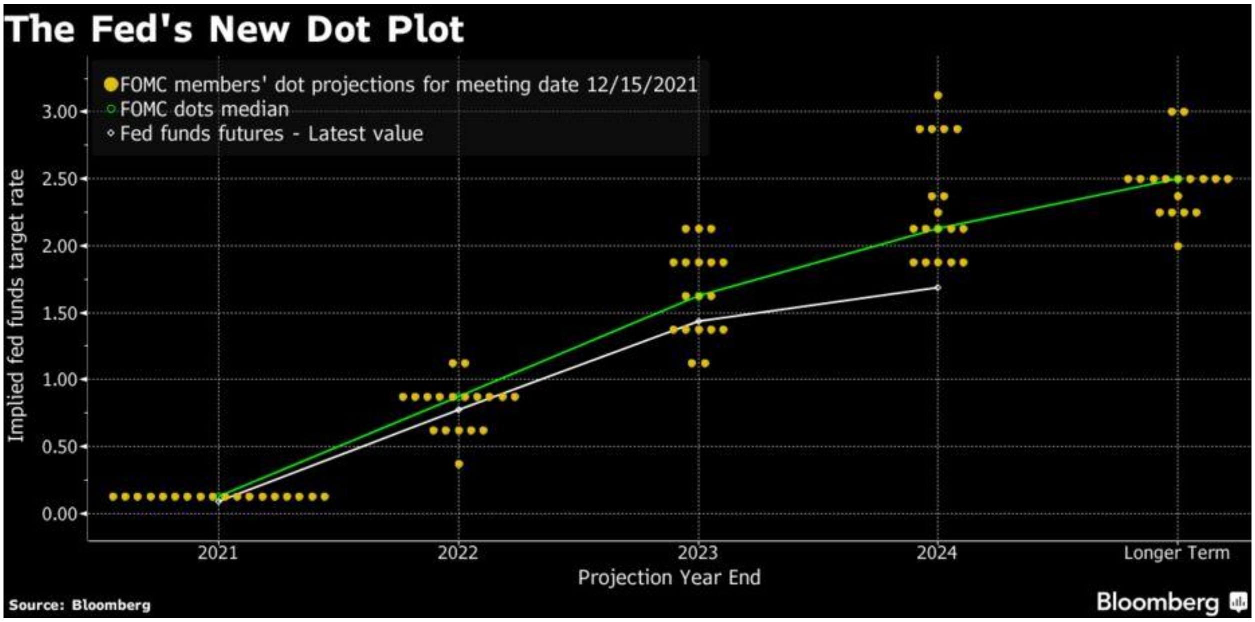
'Severe Threat'

"To get the kind of very strong labor market we want, with high participation, it is going to take a long expansion," he said. "To get a long expansion we are going to need price stability. And so in a way, high inflation is a severe threat to the achievement of maximum employment."

Meantime, Tuesday's hearing underscored the bipartisan support Powell has for another term, starting next month. Senate Banking Committee Chair Sherrod Brown told Bloomberg he didn't expect much change from the January 2018 vote that confirmed Powell for his first term. That count was 84-13.

President Joe Biden in November nominated Powell for a second term as chair and picked Fed Governor Lael Brainard to serve as vice chair. Brainard's confirmation hearing is scheduled for Thursday. Biden is also expected to soon nominate three new governors to fill remaining vacancies on the board.

Financial markets took Powell's remarks in their stride. Stocks erased losses, with the S&P 500 and the Nasdaq 100 pushing higher while bonds fluctuated.



"The ongoing vagueness about the timing of the first rate hike contrasts with the avalanche of comments from other Fed directors circling March 2022," said Thomas Costerg, senior U.S. economist at Pictet Wealth Management. "Bottom line: I have a sense Powell wants to calm things a bit and wants the market to digest quietly the last minutes -- not add fuel to the fire."

Investors are betting the Fed will begin raising its benchmark federal funds rate in March, two years after cutting it to nearly zero at the onset of the pandemic in March 2020. A Labor Department report Friday showing the U.S. unemployment rate fell to 3.9% in December -- closing in on the 3.5% pre-pandemic low.

Fed officials in December said they would accelerate end of their asset purchase program, and forecast they would raise rates three times this year. Wall Street firms such as Goldman Sachs Group Inc. are forecasting as many as four increases.

Balance Sheet

Powell, asked about plans to shrink the Fed's $8.77 trillion balance sheet, said at some point this year he and his colleagues will allow it to run off. His remarks follow comments from other Fed officials favoring a start to shrinking the balance sheet fairly soon after the central bank begins raising rates.

Noting that the U.S. economy was in a much stronger position than the last time the central bank shrank its balance sheet -- when it waited around two years between raising rates and allowing its holdings to run off, the chair said no decisions had been made but it would be quicker this time around.

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"The balance sheet is much bigger and so the runoff can be faster. So I would say sooner and faster -- that much is clear," he said.

— With assistance by Steve Matthews, Katia Dmitrieva, Olivia Rockeman, and Daniel Flatley