

FEDERAL RESERVE

Powell says taming inflation 'absolutely essential,' and a 50 basis point hike possible for May

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KEY POINTS

Fed Chairman Jerome Powell on Thursday said the central bank is committed to raising rates “expeditiously” to bring down inflation.

That could mean an interest rate hike of 50 basis points in May as prices rise at their fastest pace in more than 40 years.

“It’s absolutely essential to restore price stability,” he added.



VIDEO 03:09**Fed Chair Jerome Powell on inflation and his outlook for the U.S. economy**

Federal Reserve Chairman [Jerome Powell](#) affirmed the central bank's determination to bring down inflation and said Thursday that aggressive rate hikes are possible as soon as next month.

"It is appropriate in my view to be moving a little more quickly" to raise interest rates, Powell said while part of an International Monetary Fund panel moderated by CNBC's Sara Eisen. "I also think there is something to be said for front-end loading any accommodation one thinks is appropriate. ... I would say 50 basis points will be on the table for the May meeting."

Powell's statements essentially meet market expectations that the Fed will depart from its usual 25 basis point hikes and move more quickly to tame inflation that is running at its [fastest pace in more than 40 years](#). A basis point equals 0.01 percentage point.

However, as Powell spoke, market pricing for rate increases got somewhat more aggressive.

Expectations for a 50 basis point move in May rose to 97.6%, according to the [CME Group's FedWatch Tool](#). Traders also priced in an additional hike equivalent through year's end that would take the fed funds rate, which sets the overnight borrowing level for banks but also is tied to many consumer debt instruments, to 2.75%.

Stocks also fell, sending the Dow industrials [down more than 400 points](#) and the Nasdaq, with its rate-sensitive tech stocks, lower by more than 2%. Treasury yields pushed higher, with the benchmark 10-year note most recently at 2.9%.

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At its March meeting, the [Fed approved a 25 basis point move](#), but officials in recent days have said they [see a need to move more quickly](#) with consumer inflation running at an annual pace of 8.5%.

“Our goal is to use our tools to get demand and supply back in synch, so that inflation moves down and does so without a slowdown that amounts to a recession,” Powell said. “I don’t think you’ll hear anyone at the Fed say that that’s going to be straightforward or easy. It’s going to be very challenging. We’re going to do our best to accomplish that.”

VIDEO 03:37

U.S. economy is very strong, says Fed Chairman Jerome Powell

“It’s absolutely essential to restore price stability,” he added. “Economies don’t work without price stability.”

The Fed had resisted raising rates through 2021 even though inflation was running well above the central bank’s 2% longer-run target. Under a [policy framework adopted in late 2020](#), the Fed said it would be content with letting inflation running hotter than normal in the interest of achieving full employment that was inclusive across income, racial and gender demographics.

Until several months ago, Powell and Fed officials had insisted that inflation was “transitory” and



demand for goods over services abated. However, Powell said those expectations “disappointed” and the Fed has had to change course.

“It may be that the actual [inflation] peak was in March, but we don’t know that, so we’re not going to count on it,” he said. “We’re really going to be raising rates and getting expeditiously to levels that are more neutral and then that are actually tight ... if that turns out to be appropriate once we get there.”

These will be Powell’s last remarks before the May 3-4 meeting of the Federal Open Market Committee, which sets interest rates. He is the latest Fed official to say [rapid action is needed](#) to take down inflation.

Along with the rate hikes, the Fed is expected soon to start reducing the amount of bonds it is holding. The central bank’s balance sheet now stands at close to \$9 trillion, primarily consisting of Treasuries and mortgage-backed securities.

Discussions at the March meeting indicated the Fed eventually [will allow \\$95 billion of proceeds](#) from maturing bonds to roll off each month.

Powell noted that the other than pernicious inflation, the U.S. economy is “very strong” otherwise. He characterized the labor market as “extremely tight, historically so.”

Earlier in the day, he referenced former Fed Chairman Paul Volcker, who battled inflation in the late 1970s and early ’80s with a series of rate hikes that ultimately led to a recession. Volcker “knew that in order to tame inflation and heal the economy, he had to stay the course,” Powell said.

The Volcker Fed ultimately took the benchmark rate to nearly 20%; it currently sits in a range between 0.25% and 0.50%.

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