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Powell sees pain ahead as Fed sticks to the fast lane to beat inflation

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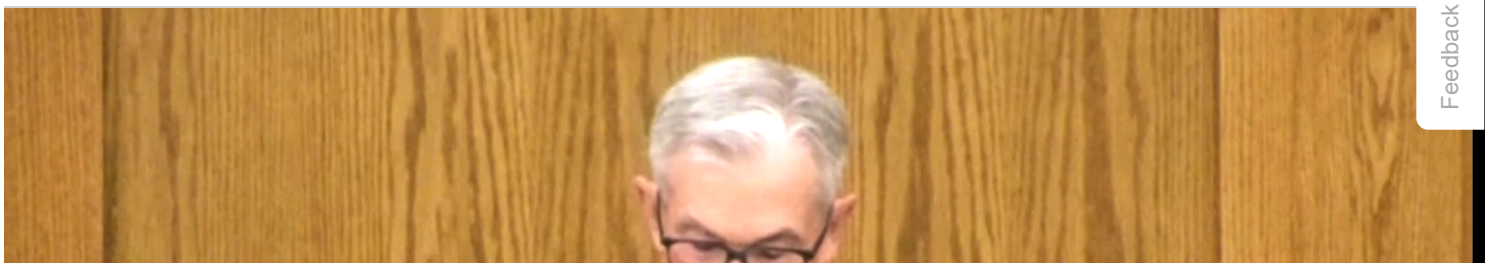
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JACKSON HOLE, Wyo., Aug 26 (Reuters) - Americans are headed for a painful period of slow economic growth and possibly rising joblessness as the Federal Reserve raises interest rates to fight high inflation, U.S. central bank chief Jerome Powell warned on Friday in his bluntest language yet about what is in store for the world's biggest economy.

In a speech kicking off the Jackson Hole central banking conference in Wyoming, Powell said the Fed will raise rates as high as needed to restrict growth, and would keep them there "for some time" to bring down inflation that is running at more than three times the Fed's 2% goal.

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bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain."

As that pain increases, Powell said, people should not expect the Fed to dial back its monetary policy quickly until the inflation problem is fixed.

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"I thought the message was strong and right," Cleveland Fed President Loretta Mester said in an interview with Bloomberg TV after the speech. "I think we're going to have to move (short-term interest rates) up ... above 4% and probably need to hold them there next year."

Indeed, Powell's remarks summed up the momentous challenge facing not just Fed policymakers but also most of the other dozens of central bankers from abroad at Jackson Hole who are frantically trying to contain the worst outbreak of inflation in four decades or more.

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Some investors anticipate the Fed will flinch if unemployment rises too fast, with some even penciling in interest rate cuts next year.

To the contrary, Powell and other policymakers are signaling that even a recession would not budge them if inflation is not convincingly heading back to the Fed's target. Powell gave no indication on Friday of how high rates might rise before the Fed is finished, only that they will go as high as needed.

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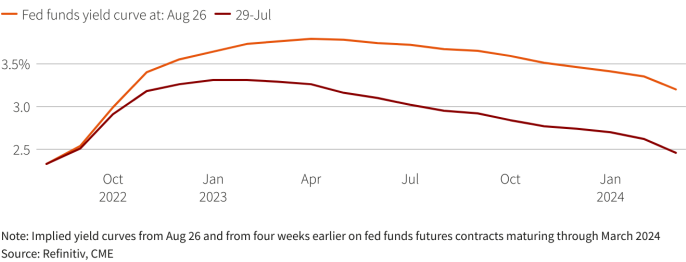
"The historical record cautions strongly against prematurely loosening policy," Powell said. "We must keep at it until the job is done. History shows that the employment costs of bringing down inflation are likely to increase with delay."

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basis points higher than the current 2.25%-2.50% range, "we should stay there for a long time."

The Fed's game plan: 'Raise and hold'

Federal Reserve officials have sent a consistent message in the last few weeks: Don't expect us to turn rapidly from rate hikes this year to rate cuts next year, even if the economy weakens a bit, a point Fed Chair Jerome Powell emphasized in his keynote speech on Friday in Jackson Hole, Wyoming. The market is now more positioned for the Fed to keep rates high for a while than it was a month ago.



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After Powell's remarks, interest rate futures traders beefed up bets on a third straight 75-basis-point rate hike at the Fed's Sept. 20-21 policy meeting and priced in expectations the policy rate will get to the 3.75%-4.00% range by next March.

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Powell's frank acknowledgment of coming pain to households "took investors by surprise and hammers home how serious they are about raising rates to fight inflation," said Ryan

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But rate futures trading continued to reflect expectations for such a pivot later next year, with the Fed seen cutting its policy rate by about 40 basis points by the end of 2023 and further in 2024.

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The Fed will get another chance to reset those expectations in September, when its 19 policymakers release a fresh set of economic forecasts, including for their own rate hikes.

INCOMING DATA



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Federal Reserve Chair Jerome Powell walks with Fed Vice Chair Lael Brainard and New York Fed President John Williams during a break at the annual Kansas City Fed Economic Policy Symposium in Jackson...

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Powell did not hint at whether the Fed would stick with a 75-basis-point hike or downshift to a half-percentage-point move at its policy meeting next month, except to say the decision would depend on the "totality" of the data by that time.

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Recent data have shown some small decline in inflation, with the Fed's closely watched personal consumption expenditures price index falling in July to 6.3% on an annual basis, from 6.8% in June. Inflation expectations based on the University of Michigan's measures also have eased. [read more](#)

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bank's policy-setting Federal Open Market Committee.

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Other statistics have shown what Powell said was "strong underlying momentum," with the job market "clearly out of balance" given job openings are far in excess of the number of unemployed.

The decision of how much to increase rates "will depend on the totality of the incoming data and the evolving outlook," Powell said, with further jobs and inflation reports to come.

The Fed has become increasingly open that its policies may lead to a rise in the U.S. unemployment rate, currently at 3.5%, a level that has not been stronger in more than 50 years.

To quell inflation, though, Fed policymakers have said they need to curb demand for goods and services by raising borrowing costs and making it more costly to finance homes, cars and business investment. As the process bites, as it is beginning to do, particularly in the housing market, companies may adjust their hiring plans or even resort to layoffs.

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double-whammy of rising unemployment and still-high inflation.

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"If there is a recession, it would be shallow," Harker said.

MORE GROUNDED APPROACH

Powell delivered his speech to a roomful of international policymakers and economists gathered at a mountain lodge to discuss how the COVID-19 pandemic put new constraints on the world economy, and the implications of that for central banks.

Inflation is now their chief concern, and Powell's remarks at the symposium, hosted by the Kansas City Fed, set a tone likely to register on global markets. It also dovetailed with the message being preached by other major central banks: higher interest rates are meant to slow economies and the commitment to raise them won't waiver until inflation falls.

Indeed, some European Central Bank policymakers want to discuss a 75-basis-point interest rate hike at a policy meeting next month even if doing so increases the risk of a recession, sources with direct knowledge of the process told Reuters. [read more](#)

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director, told conference attendees on Friday. [read more](#)

In prior appearances at the Jackson Hole conference, Powell's remarks have involved high-level discussions of Fed strategy and analysis.

He acknowledged that in his opening remarks. But with the Fed trying to keep markets and the general public apprised of what is coming in the future, he said the intensity of the moment required a more grounded approach.

"Today, my remarks will be shorter, my focus narrower, and my message more direct," Powell said.

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