

Powell says economy still needs Fed support, pushes back on inflation worries

BY HOWARD SCHNEIDER AND ANN SAPHIR, REUTERS - 2:19 PM ET 2/23/2021

TOP NEWS



WASHINGTON (Reuters) - Federal Reserve Chair Jerome Powell, pushing back on suggestions that loose monetary policy risked unleashing inflation and financial risks in what may be an emerging economic boom, said the central bank would keep its attention focused on getting Americans back to work as a vaccine-related recovery proceeds.

"Monetary policy is accommodative and it continues to need to be accommodative ... Expect us to move carefully, patiently, and with a lot of advance warning," before any changes, Powell said in response to questions from Republican lawmakers about whether a faster-than-expected recovery still required crisis-level assistance.



Feedback

Powell, who was testifying before the U.S. Senate Banking Committee, acknowledged the potentially fast growth to come as the coronavirus crisis eases and vaccinations expand. Coming updates to the Fed's outlook may show the economy expanding "in the range" of 6% this year, he said, and overall output conceivably returning in the next few weeks to the pre-pandemic level.

Such a rebound would have been unthinkable even a few weeks ago, but the rollout of COVID-19 vaccines coupled with federal fiscal support that has bolstered household income has boosted the economic outlook for the year.

When asked what his message was to financial markets, Powell did not talk about the risks of rising bond yields or a possible spike in inflation, but of the roughly 10 million jobs still missing compared to a year ago, and the need for the U.S. central bank's policy to stay wide open until that is fixed.

Interest rates will remain low and the Fed's \$120 billion in monthly bond purchases will continue "at least at the current pace until we make substantial further progress towards our goals ... which we have not really been making," Powell said in the hearing, his first since Democrats won the White House and control of both chambers of Congress.

There was little market reaction to Powell's remarks, though a recent sharp rise in Treasury bond yields, linked partly to concerns that inflation might surge and the Fed might tighten monetary policy sooner than expected, was largely curbed.

"Powell presumably wants to try to persuade markets that a strengthening economy does not necessarily mean that rates have to rise. Good luck with that when the post-COVID surge in activity becomes clear," said Ian Shepherdson, chief economist at Pantheon Macroeconomics.

'WARNING SIGNS'

Some Republican senators expressed concerns the combination of Fed asset purchases, a potential vaccine-driven economic boom, and passage of another massive stimulus package may drive asset prices to unsustainable levels and spark inflation.

"Be it GameStop, Bitcoin, real estate, commodities, we are seeing quite elevated asset prices and signs of inflation," said Republican Senator Pat Toomey, who is among those arguing that the Biden administration's proposed \$1.9 trillion spending plan should be tailored.

"There are a lot of warning signs that are blinking yellow," Toomey said, referring to the recent run-up and crash of video-game retailer GameStop Corp's stock and sharp moves in the value of the Bitcoin cryptocurrency.

Powell, however, said the focus needed to remain on an economic recovery that is "uneven and far from complete," and which would need the central bank's help for "some time" to get back to full employment.

The Fed's interest rate cuts and monthly bond purchases "have materially eased financial conditions and are providing substantial support to the economy," Powell said in his opening remarks to the committee.

"The economy is a long way from our employment and inflation goals, and it is likely to take some time for substantial further progress to be achieved," the hurdle the Fed has set for discussing when it might be appropriate to pare back support.

Even with Americans being vaccinated at a rate of more than 1.5 million a day and coronavirus caseloads dropping, Powell and his fellow Fed policymakers are focused on the nearly 10 million jobs missing from the economy compared to a year ago, and the potent risks still posed by the virus, which has killed more than half a million people in the United States.

While the health crisis is improving and "ongoing vaccinations offer hope for a return to more normal conditions later this year," Powell said, "the path of the economy continues to depend significantly on the course of the virus and the measures taken to control its spread."

Powell will testify before the U.S. House of Representatives Financial Services Committee on Wednesday as part of his mandated twice-a-year appearances on Capitol Hill to provide an update on the economy.

(Reporting by Howard Schneider; Editing by Paul Simao)

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