

Powell in the hot seat as he signals Fed's latest policy moves



By [Katja Hamilton](#)

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Despite the remarkable progress in the US Labour market and an inflation that remains well above the country's longer-run goal of 2%, the US Central Bank has indicated it plans to start raising interest rates "soon".



Source: REUTERS

"The economy no longer needs sustained high levels of monetary policy support, that is why we're phasing out our asset purchases and why we soon will be expected to raise our target range for the Federal Funds rate."

This was the message of Jerome H. Powell, Fed chair.

He reiterated "the US economic outlook remains highly uncertain".

Powell said supply-and-demand imbalances related to the pandemic, and the reopening of the economy have continued to contribute to elevated levels of inflation in particular, bottlenecks in supply constraints are limiting how quickly production can respond to higher demand in the near term.

"These problems have been larger and longer-lasting than anticipated, exacerbated by waves of the virus," he said.

Making appropriate monetary policy in this environment requires humility, and recognising that the economy evolves in unexpected ways, Powell said.

"We'll need to be nimble so we can respond to the full range of plausible outcomes. With this in mind, we will remain attentive to risks including the risk that high inflation is more persistent than expected and we will need to be prepared to respond as requested to achieve our goals."

Keeping his cards close to his chest

To provide greater quality about the US approach for reducing the size of the Federal Reserve's balance sheet, Powell said the Committee will be drawing up a set of principles to provide guidelines on future decisions related to the federal funds rate.

"These high-level principles clarify that the Federal Funds rate is our primary means of adjusting monetary policy, and reducing our balance sheet will occur after the process of raising interest rates has begun.

"Reductions will occur over time in a predictable manner primarily through adjustments to reinvestments so that securities are all off our balance sheet.

Over time we intend to hold Securities in the amounts needed for our ample reserves operating framework, and in the longer run we envisage holding primarily treasury securities.

"Our decisions to reduce our balance sheet will be guided by our maximum employment and price stability goals. In that regard we will be prepared to adjust any details of our approach to balance sheet management in light of economic and financial developments," Powell said.

Powell added that the Committee has not made decisions regarding the specific timing, pace or details of how the process of shrinking the balance sheet will occur. He said these matters would be discussed in upcoming meetings and that the Committee will provide the public with additional information and the appropriate time.

Committed to price stability

"We understand that high inflation imposes significant hardship especially on those unable to meet the needs of the higher cost of essentials like food, housing and transportation. In addition we believe that the best thing we can do to support labour-market gains is to promote a long expansion and that will require price stability.

"We're committed to our price stability goal. We will use our tools both to support the economy and strong labour market and to prevent higher inflation from becoming entrenched.

"We understand that our actions affect communities, families and businesses across the country. Everything we do is in service to our public mission.

"We at the Federal Reserve will do everything we can to achieve our maximum employment and price-stability goals."

ABOUT KATJA HAMILTON

Katja is the Finance, Property and Healthcare Editor at Bizcommunity.

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