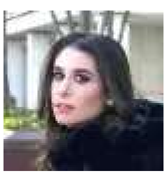
Fed's Powell: I won't take two consecutive rate hikes 'off the table'



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Federal Reserve Chairman Jerome Powell said Wednesday that there is still a risk of doing too little to bring down inflation, noting that he wouldn't take hiking interest rates at two consecutive policy meetings "off the table."

When asked during a panel at the European Central Bank Forum on Central Banking whether the Fed would proceed to raise rates every other meeting, Powell said, “We have not made a decision to go to that. It may work out that way. It may not work out that way. But I wouldn't take, you know, moving at consecutive meetings off the table at all.”

When asked whether he thought the risk was still doing too little, Powell replied, "Yes."

Powell's new comments about rate hikes come two weeks after the central bank decided to hold off raising rates at its last policy meeting in June while signaling rates could still rise to as high as 5.6%, implying two additional rate hikes are likely this year.

Powell reiterated Wednesday at the central bank forum in Sintra, Portugal, that most policymakers expect two more hikes, a point he also made last week while testifying before Congress.

The Fed chair also underscored the central bank's latest outlook for inflation, saying that he doesn't see inflation excluding volatile food and energy prices getting back to 2% this year or next.

“If you look at the data over the last quarter, what you see is stronger than expected growth, a tighter than expected labor market, and higher than expected inflation,” said Powell. “So that tells us that although policy is restrictive, it may not be restrictive enough and it has not been restricted for long enough.”

Jerome Powell, Chair of the Federal Reserve of the United States, arriving at the European Central Bank Forum on Central Banking in Sintra, Portugal. (Photo by Horacio Villalobos#Corbis/Corbis via Getty Images)

Powell says the job market is really pulling the economy, with strong wage gains that drive spending and demand.

Powell noted that he doesn’t see government spending as a major driver of inflation. President Biden’s infrastructure bill is boosting construction spending, he said, but the fiscal spending that helped Americans through the pandemic has come down.

Powell said he thinks there's a “significant probability” that there will be a recession, though he says he doesn’t see that as the most likely case.

'A long way'

Powell said the Fed will be “restrictive” as long as the central bank needs to. But if inflation is coming down sharply and officials are confident that inflation is on a path to 2%, “you would begin to think about loosening policy [then],” he said.

“But we're a long way from that. That's not something we're thinking about.”

The Fed decided not to raise rates at the last policy meeting in June because officials are still trying to assess whether there is further fallout from the bank failures earlier this spring, Powell said.

When a bank failure occurs, he said, credit availability can move down with a lag and the Fed is watching carefully to see if there is further tightening from credit access in addition to the Fed’s rate hikes.

“Tightening and financial conditions is what we're doing intentionally,” said Powell. “The question is is there another channel of that or a greater amount of that coming from what happened in March? We don't really see any evidence of that, but that’s certainly in the back of my mind to see whether we do see that.”