Jerome Powell Says Fed Is Prepared to Speed Up Interest-Rate Rises

Chair says Fed is likely to lift rates higher than previously thought to fight inflation

Federal Reserve Chair Jerome Powell offered his first public acknowledgment that the pace of interest-rate increases isn't set in stone.

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By Nick Timiraos Follow

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WASHINGTON—Federal Reserve Chair Jerome Powell said strong and sustained economic activity to start this year could prompt central bank officials to accelerate interest-rate increases and will likely lead them to lift rates more than they expected to combat high inflation.

Mr. Powell's comments, prepared for delivery during the first of two days of Capitol Hill hearings on Tuesday, offered his first public acknowledgment that a pace of quarter-point interest-rate increases isn't set in stone.

"The latest economic data have come in stronger than expected, which suggests that the ultimate level of interest rates is likely to be higher than previously anticipated," Mr. Powell said in the remarks prepared for delivery before the Senate Banking Committee. "If the totality of the data were to indicate that faster tightening is warranted, we would be prepared to increase the pace of rate hikes."

The Fed raised its benchmark federal-funds rate by a quarter-percentage-point to a range between 4.5% and 4.75% last month, slowing the pace of rate rises following increases of a larger half-point in December and 0.75-point in November.

"We will continue to make our decisions meeting by meeting," Mr. Powell said. "Although inflation has been moderating in recent months, the process of getting inflation back down to 2% has a long way to go and is likely to be bumpy."

Since officials last met on Feb. 1, several economic reports have revealed hiring, spending and inflation were hotter in January than expected, and data revisions showed inflation and demand for labor didn't slow as much as initially reported late last year.

Mr. Powell said data on hiring, spending, factory production and inflation partly reversed softening trends seen just a few weeks ago. Some of the upswing could reflect unseasonably warm January weather that can interfere with seasonal adjustments to economic data, he said.

"Still, the breadth of the reversal along with revisions to the previous quarter suggests that inflationary pressures are running higher than expected at the time of our previous [policy-setting] meeting," Mr. Powell said.

The Fed has been trying to curb investment, spending and hiring by raising rates, which makes it more expensive to borrow and can push down the price of assets such as stocks and real estate. The fed-funds rate influences other borrowing costs throughout the economy.

Mr. Powell's testimony this week will be his last scheduled public remarks on interest-rate policy, and a final chance to shape market expectations, before the Fed's next meeting, March 21-22. Officials begin their premeeting quiet period on Saturday.

In December, most Fed officials thought they would raise the fed-funds rate this year to between 5% and 5.5% and hold it there into 2024. They will submit new projections at the coming meeting.

Several Fed officials have indicated in recent weeks they could raise rates this year more than previously projected. Three regional Fed bank presidents have said they could have backed a larger half-point increase last month or would do so at the coming meeting.

The recent strong economic data shifted investors' rate expectations. When the Fed last met, investors in interest-rate futures markets anticipated officials would raise the fed-funds rate just once more this year, to a peak of 4.9%, and begin cutting it this fall. On Monday, investors anticipated the rate would rise to around 5.5% by midyear and remain there through the end of 2023, according to CME Group.

Mr. Powell could face limits in guiding markets this week because two widely watched economic reports that could influence officials' deliberations are set to be released after he testifies and before the next Fed meeting. The Labor Department is scheduled to report Friday on February hiring. Next week, it is set to release its February inflation report.

Employers added 517,000 jobs in January, a figure that shocked economists who were anticipating hiring to slow, while the unemployment rate declined to 3.4%, a 53-year low. Friday's labor report could offer clues on whether the gain was a blip or a sign of an economy that is accelerating.

Inflation's decline late last year stalled in January. The 12-month inflation rate, excluding volatile food and energy items, was 4.7%, up from 4.6% in December, as measured by the Commerce Department's personal-consumption expenditures price index.

After holding the fed-funds rate near zero after the pandemic hit the U.S. economy, officials lifted the rate more over the past 12 months than any time since the early 1980s. Officials have slowed the pace of increases to see the effects of their moves.

Tuesday's hearing marks Mr. Powell's first appearance before Congress since last June, when the Fed had lifted the fed-funds rate to a range between 1.5% and 1.75%.

A handful of Democratic lawmakers who consistently played down inflation worries in 2021 have warned Mr. Powell against raising rates too fast or too high. They have expressed concern the Fed leader is too eager to slow down the economy by seeking increases in unemployment.

Write to Nick Timiraos at Nick.Timiraos@wsj.com

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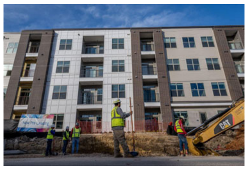

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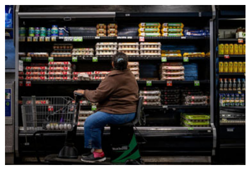

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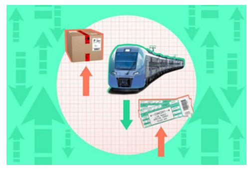

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