



The Daily Dish

Powell at the NABE

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Eakinomics was lucky enough to be in the audience yesterday when Federal Reserve Chair (technically Chair Pro Tempore since he has not yet been reconfirmed by the Senate) Jerome Powell spoke yesterday at the National Association for Business Economics (NABE) [conference](#) in Washington. His topic was “Restoring Price Stability,” and his tone was sufficiently hawkish that the moderator joked that this was his “the buck stops here” speech.

Powell began by reminding the audience of some themes of his recent congressional testimony. First, even though the unemployment rate is 3.8 percent – above the lows reached prior to the pandemic – other measures indicate that the labor market is very, very tight. Quits are at historic highs because workers can find other jobs at higher wages. There are 1.7 job openings for every person who is seeking work. The sum of employment and listed job openings (potential jobs) exceeds the size of the labor force (potential workers) by roughly 5 million. All of which leads to rapidly rising wages, especially for the lower end of the skill distribution. Put differently, the Fed is doing fine in fulfilling its mandate for full employment.

Inflation is another story. In contrast to the Fed’s expectations early in 2021, inflation did not dissipate, but rose strongly in the second half of 2021. The Fed’s challenge is to restore price stability – hit its target of 2 percent inflation – and on this front Powell repeatedly affirmed the Fed’s ability and desire to do so. Two mild surprises arose in the process, however.

First, as testament to how durable inflation has become, Powell said that he anticipated inflation would return to its target over the next three years. The days of “transitory” inflation are long gone; this is the most explicit he has been regarding the timing of the anti-inflation efforts.

Second, he was quite clear that the Fed was not wedded to 25 basis-point moves; indeed, he emphasized that the Fed would be willing to raise by 50 basis points if circumstances merited it. Eakinomics, for one, would be unsurprised to see a 50-point move at the May meeting. And it would seem odd to then return to 25-point moves unless inflation fell off dramatically. He also repeated that the goal was to move monetary policy to neutral as expeditiously as possible, so expect a series of 50-point moves until the Fed gets to neutral.

Finally, Powell reinforced the importance of keeping long-term inflation expectations well-anchored. He argued that while expectations of near-term inflation had, indeed, risen recently, longer-term expectations remained in check. It is his desire that they remain so by taking strong action. His willingness to contemplate raising rates past neutral to fight inflation is evidence on this front, even as the Fed would risk slowing the economy in the process.

By the numbers, the Fed remains behind the curve in resetting monetary policy. But Powell is clearly hoping to send the message that this can be changed, and changed quickly.