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Pressure on prices and policymakers

Federal Reserve Chair Jerome Powell’s confirmation hearing this week was a formality, but the meeting on Capitol Hill was noteworthy for his strong words about inflation.

Powell enjoys strong bipartisan support by lawmakers and is a lock to gain another term as Fed chief. Answering concerns by members of the Senate Banking Committee, he called the spike of inflation as a “severe threat.” That’s such a far cry from “transitory” it was tantamount to an admission the Fed erred in its earlier dismissal of price pressures. Yet he still maintained that the surge was largely due to supply/demand imbalances and transportation bottlenecks, so it is not clear if he was simply saying what the Senators and public want to hear. The recent data showing inflation in December hit its highest annual level since 1982 has put it on the minds of many Americans, putting pressure on policymakers to tamp it down. They certainly are addressing it now. In speeches last week, other Fed officials echoed Powell’s affirmation that the Fed is seeking to withdraw monetary accommodation through rate hikes and an end to asset purchases.