

NOVEMBER 13, 2023

Paige Wilhelm

Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Powell wary of an inflation 'head fake'

No fewer than 14 Federal Reserve officials spoke last week. But the most important voice, Chair Jerome Powell, came at a high-profile event. He spoke on a panel at a Washington, D.C., conference of the International Monetary Fund.

Basketball has become an international sport in the last few decades, so his comment that “Inflation has given us a few head fakes,” probably was understood by most participants. It is a good way to articulate the concern the Fed has about ending the tightening cycle too soon. If they don’t hold rates high enough or cut prematurely—and inflation reverses course—they risk losing credibility and weakening their sway over the markets.

Consumer and business Inflation expectations are nearly as important as actual inflation. Powell has said on several occasions that, if projections of high inflation become entrenched, the Fed’s ability to bring it back to the 2% target will be greatly compromised. And so, he emphasized the Fed’s commitment to restoring price stability, saying he and his colleagues “will not hesitate” to raise rates if it inflation doesn’t cooperate more than it has.

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