ECONOMY

Jerome Powell Affirms Fed's Patient Approach to Interest-Rate Changes

Economic outlook is favorable but recent months have brought 'some crosscurrents and conflicting signals,' Federal Reserve chief tells Congress

Federal Reserve Chairman Jerome Powell testifying before the Senate Banking Committee on Tuesday. **PHOTO:** ANDREW HARRER/BLOOMBERG NEWS

By Nick Timiraos

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WASHINGTON—Federal Reserve Chairman Jerome Powell said the central bank is in no rush to move interest rates while officials assess the impact on the U.S. economy of slower global growth and financial-market turbulence.

"With our policy rate in the range of neutral, with muted inflation pressures and with some of the downside risks we've talked about, this is a good time to be patient and watch and wait and see how the situation evolves," Mr. Powell told lawmakers on the Senate Banking Committee on Tuesday.

Fed officials raised their benchmark short-term rate four times last year, most recently in December, but have since signaled further increases are on hold.

Senators appeared content with the Fed's stance: They asked Mr. Powell so few questions about interest rates during the nearly two-hour hearing that he volunteered to better define the "patient" policy in the final minute.

"When I say we're going to be patient, what that really means is we're in no rush to make a judgment about changes in policy," he said. "We're going to allow...the data to come in. I think we're in a very good place to do that."

Mr. Powell described the U.S. economy as healthy and the outlook as good, but he also pointed to headwinds from abroad. These include slower growth in China and Europe, political uncertainty over trade negotiations between Washington and Beijing, and the discussions surrounding the U.K.'s decision to leave the European Union.

"Over the past few months we have seen some crosscurrents and conflicting signals," Mr.

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Powell said. "Right now, the predominant risks to our economy are slowing global growth."

Financial markets turned volatile late last year and financial conditions, including stock and bond prices, "are now less supportive of growth than they were earlier last year," he said.

While Fed officials seem unlikely to change rates soon, they appear much closer to announcing modifications concerning the runoff of the central bank's $4 trillion asset portfolio. They have indicated recently they are ready to end the runoff later this year.

Mr. Powell said Tuesday the Fed is preparing to evaluate the "appropriate timing and approach for the end of the balance sheet runoff."

Officials began shrinking their crisis-era holdings of Treasury and mortgage securities in 2017 and plan to continue reducing their mortgage-bond holdings after the runoff ends, leaving primarily Treasurys.

The central bank had been raising rates steadily over the past two years: With unemployment falling to half-century lows, many officials warned of the potential for the economy to expand beyond its long-run capacity, fueling more inflation.

Officials have been surprised by both higher-than-anticipated levels of workforce participation, which have so far prevented steeper declines in the unemployment rate, and modest price pressures, which have held year-over-year inflation readings just below the Fed's 2% target in recent months.

While recent energy-price declines are expected to hold down measures of overall inflation in the months ahead, Mr. Powell said those effects are likely to prove transitory. As those effects subside, "we expect that inflation will run close to 2%," he said.

Meantime, he said it appeared there was more slack, or excess capacity, in the job market because of a stabilization in workforce-participation rates, which had been projected to fall as baby boomers retire.

"If people weren't coming back in, then the unemployment rate would be substantially lower," he said. "But they are, or they're staying...and that tells us there is more room to grow, and that certainly has implications for monetary policy."

Mr. Powell defended a proposal that would redefine the Fed's 2% inflation target to encourage periods of modestly higher inflation when the economy is strong to compensate for weaker inflation during downturns.

He said the change would be evaluated as part of a broader review the Fed is conducting of its framework this year. Policy makers are focused on ways to make their 2% inflation target "highly credible," he said.

The Fed has only recently succeeded in seeing inflation rise closer to the target, and even then, expectations of future inflation have been drifting lower. "We owe it to the public" to think through better strategies to meet the Fed's goals, he said.

Mr. Powell also warned about rising federal borrowing, with budget deficits projected to surpass $1 trillion in the coming years.

"It is widely agreed that federal government debt is on an unsustainable path," he said. He later added, "The idea that deficits don't matter for countries that can borrow in their own currencies is just wrong."

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