

MONEY

Powell says U.S. economy strong after stock swoon

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Government tax and spending plans that will likely juice the economy and push inflation higher could prompt the Federal Reserve to raise interest rates more rapidly, Fed Chairman Jerome Powell told Congress on Tuesday.

Powell said he's not worried recent volatility in financial markets and higher long-term interest rates will dampen the economy. And despite a likely drift upward in consumer prices, he expects inflation to remain contained.

"Indeed, the economic outlook remains strong," Powell told the House Financial Services Committee, his first testimony before Congress since he was sworn in this month.

Government tax and spending policy "can have an effect (on the economy), and that of course can be seen in the path of (interest rates)," Powell said. "My personal outlook for the economy is that it has strength." Powell said he still expects "gradual" hikes. He would not "prejudge" whether other Fed policymakers would increase their median forecast of three rate increases this year at a March 20-21 meeting. The Fed is expected to lift rates at that meeting.

Markets plunged early this month after a Labor Department report showed faster wage growth that could trigger higher inflation, possibly leading the Fed to lift its benchmark rate four times this year instead of the three it forecast.

What Powell's testimony says about:

■ **Markets and borrowing costs:** Markets plummeted early this month



Fed Chair Jerome Powell told Congress he still expects "gradual" interest rate hikes. GETTY IMAGES

before stabilizing recently. And the yield on 10-year Treasury bonds has risen to 2.86% from 2.43% in early January. "At this point, we do not see these developments as weighing heavily on the outlook for economic activity, the labor market and inflation," Powell said.

■ **Federal tax and spending plans:** Government tax and spending policy "is becoming more stimulative. In this environment, we anticipate that inflation on a 12-month basis will move up this year and stabilize around (the Fed's) 2% objective over the medium term. Wages should increase at a faster pace as well," Powell said.

■ **Inflation:** Powell is sounding no alarm bells on consumer prices. Inflation "has been low and stable."

■ **Jobs:** The unemployment rate has fallen to a 17-year low of 4.1%, and monthly job growth averaged 179,000 during the second half of 2017, Powell noted. But while wages are growing moderately, the size of the gain has been dampened by low growth in productivity, or worker output, he said.

■ **The economy:** "Economic growth in the second half (of 2017) was led by solid gains in consumer spending, supported by rising household incomes and wealth and upbeat sentiment," Powell said. "In addition, growth in business investment stepped up sharply last year, which should support higher productivity growth in time."