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Powell: Labor Market Still Has a 'Long Way to Go'

The Federal Reserve chairman gave his first of two days of testimony to Congress on Wednesday.

By Tim Smart   July 14, 2021

Federal Reserve Chairman Jerome Powell told Congress on Wednesday that while the economy has come a long way back from its pandemic-induced depths, the labor market "still has a long way to go."

In opening remarks for his semi-annual testimony to the House Committee on Financial Services, Powell sought to deflect concerns about the rise in inflation that has put into question the Fed's adherence to an accommodative monetary policy that has kept interest rates at record lows.

On Tuesday, the consumer price index for June showed inflation had increased from May to an annual rate of 5.4%, well beyond the Fed's stated goal of 2%. A large chunk of that was the result of surging used car and truck prices, which are soaring amid shortages of semiconductors used in new vehicles. Still, food and energy prices have also risen sharply as more people travel and go to restaurants.

"Labor demand appears to be very strong; job openings are at a record high, hiring is robust, and many workers are leaving their jobs," Powell said. "Indeed, employers added 1.7 million workers from April through June. However, the unemployment rate remained elevated in June at 5.9 percent."

Powell added that the official unemployment rate understates the real condition of the job market as many potential workers remain on the sidelines for reasons ranging from continued fear of COVID-19, enhanced unemployment benefits and difficulty finding child care.

Regarding inflation, Powell told the committee: "Measures of longer-term inflation expectations have moved up from their pandemic lows and in a range that is broadly consistent with the (Fed's) longer-run inflation goal."

Republicans on the committee challenged Powell over his characterization of the spike in inflation as "transitory" and blamed the Biden administration's spending policies for the increase. On Tuesday, Democrats said they had reached agreement on a $3.5 trillion budget deal.

"This spend first and ask questions later approach to fixing our economy will not work," said North Carolina Republican Patrick McHenry, the ranking member of the committee. "Simply put, the Democrats are addicted to spending."

GOP members gained even more ammunition on Wednesday with the release of the producer price index for June, which showed inflation running at a 7.3% annual rate in June.

The energy price sub-index gained 2.1% for the month as gas prices spiked, while wholesale food prices were up by 0.8%, continuing a run of strong gains since January. The core producer price index, which excludes food and energy, rose 0.5% in June and is at annual rates of 5.5%.

"Clearly both the consumer price and producer price increases for June were troubling. Inflation will continue to be an important issue for the financial markets," says Hugh Johnson, chairman and founder at Hugh Johnson Advisors.

But Johnson adds the Fed will not likely move away from its current policies until it sees further improvement in the labor market and an end to the supply chain disruptions that are affecting many industries.

As the economy and the labor market continues to improve, the central bank is expected to begin reducing its $120-billion monthly purchases of Treasury bonds and mortgage securities. Those have put downward pressure on interest rates, leading to low mortgage rates and other borrowing costs that have propelled a housing boom and a stock market that has reached record highs. But Powell did not indicate any immediate change to its current policies.

While some worry the Fed is creating dangerous asset bubbles, the majority of economists seem to think inflation will begin to recede later in the year or next year when the Fed dials back and even prepares to raise interest rates.

"Our assessment is we are near the peak in the inflation cycle and most voting members on the (Fed's monetary policy committee) share this general sentiment," **Bernard Baumohl, chief global economist at The Economic Outlook Group** said Tuesday. "The forces that drive price competition and bring down retail prices are bound to emerge as consumers seek out more deals and as firms re-focus on locking in, if not expanding, their market share."