

WSJ Print Edition

'We want to make more progress on inflation,' the Fed chief said.

Powell Says Fed Can Take Time on Interest Rate Cuts

BY NICK TIMIRAOS

WASHINGTON—Federal Reserve Chair Jerome Powell delivered a simple message to Congress to start two days of testimony on Tuesday: Because the economy is doing well, the Fed can take its time to decide when and whether to lower interest rates.

“We’re in a pretty good place with this economy. We want to make more progress on inflation. And we think our policy rate is in a good place, and we don’t see any reason to be in a hurry to reduce it further,” Powell told members of the Senate Banking Committee.

The central bank cut interest rates at its last three meetings of 2024 by a full percentage point after holding rates near a two-decade high. Powell defended last year’s rate cuts as a needed recalibration of the Fed’s policy stance to account for improvement on inflation and cooler labor market conditions.

Powell received minimal pushback from senators over recent interest-rate moves. That is despite criticism from some Republicans who last year accused the Fed of being politically motivated in cutting rates and some Democrats who said rates were too high.

One Republican lawmaker, Sen. John Kennedy of Louisiana, patted Powell on the back for achieving a so-called soft landing that has brought inflation down without a meaningful increase in unemployment.

“It seems to me that you and some of...your colleagues deserve some credit for that,” Kennedy told Powell. “I’m not saying things are perfect, but I never imagined that our landing could be this soft.”

The Fed held rates steady at its meeting last month. Officials have suggested they will maintain that wait-and-see posture at least through their next meeting in one month.

The labor market appears to have stabilized after job growth slowed last summer. The unemployment rate drifted up from 3.7% in January 2024 to 4.2% last July, but it has since leveled off. It ticked down to 4.0% last month.

Looking ahead, Powell said the Fed could keep rates on hold for much longer if inflation doesn’t continue to move down to its target and the economy remains solid. He said the Fed could cut rates if the labor market weakened unexpectedly or inflation made faster-than-expected progress declining to its 2% goal.

Powell repeated his view that the neutral interest rate had moved up meaningfully from very low levels before the pandemic. (The neutral rate is the rate that keeps the economy at full employment with stable inflation, but it can’t be directly observed.) Those hazy estimates of a higher neutral rate could also explain why policymakers have taken a more relaxed approach to further rate cuts. Fed officials have been heartened by recent inflation readings that suggest price pressures have continued to run at mild levels that could soon put them much closer to their target.

But they are anxious over how potential policy changes by the Trump administration, including a much more aggressive use of tariffs compared with his first term, could raise the price of imported goods in ways that derail the last stages of their inflation fight.

* The Fed controls shortterm interest rates, which influence borrowing costs throughout the economy—including rates on credit cards and auto loans. But longerterm interest rates haven’t changed meaningfully since the Fed began to cut rates

last September, in part because investors have dialed back expectations for rate cuts amid better-than-anticipated economic growth.

Powell said it was possible longer-term interest rates would remain at higher levels if investors become more concerned about rising budget deficits or new shocks that generate inflation risks.

Longer-term rates “are high for reasons not particularly closely related to Fed policy,” Powell said.

The Fed began raising rates rapidly in 2022 to combat inflation that hit a four-decade high. Officials reeled off a sequence of jumbo rate increases that fanned fears of a recession, which many economists said would be needed to bring inflation down.

But the economy proved to be far more resilient. It has so far shrugged off the effects of those tighter policies, bolstered by strong consumer spending, lofty asset prices, and the aftereffects of aggressive stimulus to support the economy in 2020 and 2021. Inflation as measured by the Fed’s preferred gauge was 2.6% at the end of last year, down from a peak of 7.2% in 2022.

[Copyright \(c\)2025 Dow Jones & Company, Inc. All Rights Reserved. 2/12/2025](#)

[Powered by TECNAVIA](#)

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit djreprints.com.
