The Fed prepared to raise rates again - but it could be 'too late,' says economist

by ELISSA SALAMY

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WASHINGTON (TND) — Federal Reserve Chairman Jerome Powell said the Fed is prepared to raise interest rates at upcoming meetings as economists begin warning this is just the beginning of inflation.

I think the inflation outlook is pretty grim. And I think the Fed is a fair amount behind the curve," said former Treasury Secretary Larry Summers.

Scott Lincicome, director of general economics and trade at the Cato Institute, said the Federal Reserve may be "too late."

"In retrospect, if you look at the data we now have, the Fed should have moved in the fall and maybe even the summer. Output in the United States was basically back on trend at that time. Now, we're way above trend and we are behind the curve," said Lincicome to The National Desk's Jan Jeffcoat. "The Fed is going to need to move quickly and that means 50 basis points instead of the normal 25 basis point rate increases - probably two of those in the coming meetings - balance sheet reductions for quantitative easing, and that's going to of course tighten up credit markets, and we're just hoping fingers crossed that the economy can handle that kind of change."

Talks of a recession are also looming in the midst of the Federal Reserve trying to control and cool inflation.

"I think there very well could be a recession, or even worse," said Carl Icahn to CB Overtime. "I have kept everything hedged for the last few years. And I think now that we do have a strong hedge on against the long positions, that we try to be activists in and get that edge. So that's the way I look at it, but I am negative as you can hear."

Lincicome said the Federal Reserve has a "very difficult balancing act."

"It has to try to get inflation under control without causing the economy to seize up, or without causing stagflation," said Lincicome. "Making this all even harder, as if it wasn't hard enough, is Ukraine. We're going to see food and energy prices of course going up and even some shortages, maybe not in the United States, but elsewhere. And that of course just adds additional pressure on inflation while not helping growth at all."

One major marker of whether the U.S. is on the brink of a recession, according to Lincicome, is "when treasury yields go inverted."

"That's when the payout on long-term debt is actually worse than short-term debt. That's not how it should be. That, when it does happen, that indicates that the markets are pretty pessimistic about the longer-term outlook and there may be a recession coming, but there's a lot of other factors," said Lincicome.

Lincicome said those other factors include things like consumer spending and confidence, job openings and job turnover.

"There are all sorts of recession models so you plug all that data in, and then you get a single number trying to predict. But let's face it, with all of these other variables like Ukraine, like the pandemic, it is a very difficult thing to predict," said Lincicome.