

Inflation Bumps up 5.4% In June – Is It in Line with the Fed’s Plan? Fed Chair Powell Addresses House Financial Services Committee

Article By:

Robert C. Gabrielski

Federal Reserve Chair Jerome Powell addressed House Financial Services Committee members last week with an update on the Fed’s current plan on its monetary policy, as well as its views and outlook on the U.S. economy.

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Chairman Powell acknowledged the country’s economic progress in the first half of 2021 but said “there is still a long way to go” before the labor market recovers. [Powell acknowledged the higher-than-expected 5.4% spike in inflation in June from a year ago](#) (the biggest monthly gain since August 2008), stating that inflation has “increased notably and will likely remain elevated in the coming months before moderating” – basically stating that the inflation rate will ease down as the economy returns to normal. “[H]e gave no indication that the recent jump in prices is pushing central bankers to rush to change policy,” [Jeanna Smialek wrote in *The New York Times*](#).

So far, the markets believe the inflation rate is running hot due to shortages in various segments of the market. (High tech manufacturers, including computer manufacturers, automakers, etc., have been hamstrung in finding computer chips to manufacture their products and supply the market. An example of the shortage of computer chips over the past months can be seen in the surge in the used car market because auto manufacturers are unable to obtain chips to manufacture new cars – however, that market is starting to subside and will likely return to normal over the next few months.) If, as Chairman Powell predicts, inflation returns to a 2% level over the next two quarters, markets should remain calm. Otherwise, investors and markets will demand a higher return to compensate for the higher inflation risk.

Fed Chair Powell Addresses House Financial Services Committee

[Powell reiterated that the Fed’s two policy measures](#), “minimizing inflation” and “full employment,” along “with our strong guidance on interest rates and our balance sheet will ensure that monetary policy will continue to deliver powerful support to the economy until the recovery is complete.”

Addressing the lower segment of the economy and job market, Powell said “the Fed is focused on an inclusive employment mandate across racial, gender, and income groups. While he noted that there were “substantial improvements for all racial and ethnic groups, the hardest-hit groups still have the most ground to regain.” Unfortunately, he provided no further guidance on how the Fed’s programs plan to solve the suffering in the lower market segments. Chairman Powell will address the Senate Banking Committee on Thursday.

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