

## Federal Reserve raises US interest rates to highest level in 22 years

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### Central bank implements quarter-point increase as inflation concerns linger

The Federal Reserve raised its benchmark interest rate by a quarter of a percentage point on Wednesday to the highest level in 22 years as it left the door open to further increases this year.

The Federal Open Market Committee lifted the federal funds rate to a new target range of 5.25 per cent to 5.5 per cent with unanimous support, resuming its most aggressive monetary tightening campaign in decades.

Wednesday's increase followed a brief reprieve at the previous meeting in June, when the FOMC held the benchmark rate steady. At the time, Fed chair Jay Powell indicated the central bank would take a more gradual approach to rate rises to account for months of earlier increases and the fallout of a regional banking crisis this spring.

In a statement, the committee said inflation remained "elevated", jobs gains in recent months had been "robust" and economic activity was expanding "at a moderate pace".

The committee said it remained "highly attentive to inflation risks", and would "continue to assess additional information and its implications for monetary policy".

In a press conference following the decision, Powell refused to be drawn on whether the Fed would increase rates again at its next meeting in September.

"I would say it is certainly possible that we would raise funds again at the September meeting if the data warranted," he said. "And I would also say it's possible that we would choose to hold steady at that meeting. We're going to be making careful assessments... meeting by meeting."

Markets were little changed by the Fed's decision, with US stocks and Treasury yields both slightly lower on the day. Traders in the interest rate futures market were betting on a roughly 50-50 chance of another interest-rate increase later this year.

"We have covered a lot of ground and the full effects of our tightening have yet to be felt," Powell said, adding the committee would "take a data-dependent approach" to determine whether more rate rises were necessary.

Powell said it was “a good thing” that the Fed’s rate rises had managed to “achieve disinflation...without any meaningful negative impact on the labour market”. But he warned “stronger growth could lead over time to higher inflation”, requiring more tightening from the central bank.

“What our eyes are telling us is that [monetary] policy has not been restrictive enough for long enough to have its full desired effect.”

However, Powell raised hopes the Fed would be able to pull off a “soft landing”, noting the central bank’s own economists had reversed their call that the world’s largest economy would enter a recession.

“The staff now has a noticeable slowdown in growth starting later this year in the forecast,” he said. “But given the resilience of the economy recently they are no longer forecasting a recession.”

Having raised its benchmark rate from near zero in March 2022 to more than 5 per cent, the Fed is now closer to a level of borrowing costs it deems “sufficiently restrictive” to bring inflation down to its longstanding 2 per cent target in a timely manner.

Powell last month said the Fed was “not so far away from the destination”. But officials have resisted ruling out any further rate increases in case inflation — which fell to an annual rate of 3 per cent in June, according to the consumer price index — does not keep falling this year.

One complication for the central bank is that the US economy has defied expectations of a sharper slowdown this year. The labour market has cooled off but remains strong, helping to buoy consumer spending. Headline inflation has fallen as energy and food prices have eased, although “core” measures that strip out those volatile costs still hover well above the Fed’s target.

Concerns that some price gains — especially those across the services sector — were still elevated prompted officials last month to revise up their forecasts for core inflation, as measured by the personal consumption expenditures price index. In turn, they upped their predictions for the level at which the fed funds rate would peak this year.

In June, most officials predicted the benchmark rate topping out at 5.5 per cent to 5.75 per cent, suggesting one further quarter-point increase after a July move.

However, market participants and economists are sceptical the Fed will follow through with further rate rises this year.

“We think that the Fed is done raising rates,” said Bob Michele, chief investment officer at JPMorgan Asset Management. “We see enough signs of inflation moderating. By the time they meet in September, that is likely to be evident in both inflation and the growth.”

After the July gathering, the Fed next meets in September, giving it two more full rounds of monthly data on jobs, inflation and consumer spending.

Christopher Waller, a governor and one of the FOMC's most hawkish members, recently said the September gathering would be a "live meeting", meaning the Fed could raise rates then.

But many economists believe the central bank has a high bar for more tightening in September. Should data indicate the need for another rate rise, most expect it to be implemented at the November meeting.

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