13th Week

Fed Minutes Signal December Rate Increase Likely, But Less Certain Path Next Year

A few officials on the monetary-policy panel expressed uncertainty about timing of further tightening
By Nick Timiraos Updated Nov. 29, 2018 6:52 p.m. ET

WASHINGTON—Federal Reserve officials signaled plans to raise interest rates next month, but they appeared more uncertain about maintaining a pace of quarterly increases after that, minutes of the central bank's recent policy meeting show.
Almost all participants at the Nov. 7-8 meeting believed another rate increase "was likely to be warranted fairly soon if incoming information on the labor market and inflation was in line with or stronger than their current expectations," said the minutes, released Thursday. The next Fed meeting is Dec. 18-19.

Officials, however, discussed changing their postmeeting policy statement to emphasize their flexibility to respond to fresh economic developments as they weigh their rate moves next year. Officials voted at the meeting to hold steady their benchmark federal-funds rate in a range between 2% and 2.25%.
Since January, the statement has said officials expected that "further gradual increases" in short-term rates would be necessary, and the central bank has raised rates by a quarter-percentage point every three months over the past year.

At their recent meeting, officials debated whether they should change that key phrase to stress their next few moves would depend more on the most recent data, a subtle but important shifting of the Fed's policy-planning gears.

"Such a change would help to convey the committee's flexible approach in responding to changing economic circumstances," said the minutes.

Less precise language about the Fed's policy plans is one sign officials are less sure about what they will do. Such a shift could be an attempt to avoid a miscommunication that roils markets, but also might create more uncertainty for investors.

Fed Chairman Jerome Powell has worked to trim the statement this year, either because some wording has grown stale or might send a misleading signal about the Fed's intentions.

"It is less of a foregone conclusion that they're going to be hiking at every other meeting," said Michael Feroli, chief U.S. economist at JPMorgan Chase. At the same time, "being data dependent doesn't necessarily mean you stop" raising rates, he said.
Projections released in September showed most officials expected then they would raise rates once again this year. They were more divided over what to do next year, with officials roughly equally split over whether to raise rates between two, three or four times.

Meeting discussions earlier in the year focused greater attention on concerns that the economy might overheat. Tax cuts and increased federal spending boosted growth, unemployment fell and inflation returned this year to the Fed's 2% target.
The minutes suggest the debate has since shifted. Officials placed new attention on developments that

might lead the economy to slow more than forecast, a sign of budding caution.

They flagged concerns about rising uncertainty related to trade and fiscal policy as well as the lagged effects of their own policy tightening moves over the past, the minutes said. They also cited a possible slowdown in global growth. A couple of officials pointed to softening inflation data.
Some worried over rising levels of corporate debt, which could make the economy more prone to a sharp pullback if slowing growth triggers more defaults and bankruptcies.

Fed officials appeared less concerned about a market selloff that led to a rotten October for stocks. Several participants at this month's meeting "judged that financial conditions remained accommodative relative to historical norms," the minutes said.

Economic and financial data since the meeting has underscored questions over the Fed's policy path next year. While job growth remained solid in October, signs of softer demand have emerged. Housing markets are cooling, oil prices have plunged, and corporate bond prices have fallen modestly.
The Fed's preferred inflation gauge, released Thursday, showed slowing in October. Excluding volatile food and energy prices, the gauge—the personal-consumption-expenditures price index—rose 1.8% last month from a year earlier, versus gains of 1.9% in August and September.

The broader index rose 2% in the year to October, and it has been at or above the Fed's 2% target every month since February. The central bank targets 2% inflation as a sign of healthy demand in the economy. The headline gauge had been propped up this year by rising energy costs, but that should change with the decline in oil prices.

The big question is how much higher officials think rates need to go. Most agree they should at least raise rates to a level considered neutral, or one that neither speeds nor slows growth.

One challenge for the Fed is that officials aren't sure where that point lies. Mr. Powell ignited a market rally Wednesday by saying interest rates are "just below" broad estimates of a level considered neutral.

Investors welcomed his remarks because they appeared to retreat from a comment he made in early October describing the Fed's benchmark rate as a "long way" from a neutral level. His emphasis on Wednesday suggested greater flexibility.

"There is no preset policy," he said. "We will be paying very close attention to what incoming economic and financial data are telling us."

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Appeared in the November 30, 2018, print edition as 'Fed Signals Less Rate Certainty in 2019.'