Fed Holds Interest Rates Steady but, Defying Trump, Signals Increases to Come

By Jim Tankersley, aug. 1, 2018 The New York Times

WASHINGTON — The Federal Reserve raised its already high marks for the state of the economy on Wednesday, refusing to bow to President Trump's recent push for the central bank to pause its march toward higher interest rates.

Federal Open Market Committee officials voted unanimously at the end of their two-day meeting to keep interest rates unchanged, at a range of 1.75 to 2 percent. But the statement they issued keeps the Fed on track to raise rates next month and again in December, after two rate increases in the first half of the year. Its revised assessments of economic growth and the inflation rate could signal that those coming increases are even more likely than investors previously thought.

The statement declared that the job market continues to strengthen and that "economic activity has been rising at a strong rate." That is a change from the June statement, when the Fed said economic growth was "solid." Officials also improved their assessment of consumer spending, saying that it has "grown strongly."

The Fed statement did not convey any concern that Mr. Trump's trade policies could hamper growth, nor did it suggest worry about the sluggish pace of wage increases for most workers. The Fed chairman, Jerome H. Powell, fielded a barrage of questions from members of Congress on those topics in testimony last month.

In their statement on Wednesday, Fed officials said the overall inflation rate and the rate that excludes volatile food and energy prices both "remain near 2 percent," which is the Fed's target level. In June, officials said those rates "have moved close to 2 percent."

In keeping with previous statements, officials continued to signal they will raise rates again soon, saying they expect "that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions and inflation near the committee's symmetric 2 percent objective over the medium term."

The slight changes reflect improving economic data in recent weeks. Economic growth clocked in above a 4 percent rate for the second quarter, and inflation ran slightly above 2 percent.

The statement did not come with an updated set of economic forecasts issued after the meeting or a question-and-answer session with Mr. Powell, who gives quarterly news conferences now but has chosen to pick up the pace next year and brief reporters after every Fed meeting. So there was no direct response to Mr. Trump, who has broken recent protocol and publicly criticized the Fed's path of rate increases, worrying that they will dampen a strong economic run.

Here are four takeaways from Wednesday's Fed statement:

The economy is running hot, but inflation fears remain contained.
Mr. Powell has consistently played down the notion that the economy is close to "overheating" — growing so fast, with unemployment so low, that it sets off a rapid escalation in wages and consumer prices. The economy's 4.1 percent growth rate in the second quarter certainly is rapid, but its current pace

for the year, about 3 percent, is only slightly above the Fed's most recent forecasts. The statement acknowledged that acceleration but expressed no concern over it.

"Risks to the economic outlook appear roughly balanced," officials wrote, meaning that the likelihood is about the same that things could get better or worse in the economy. It's standard language of late for the Fed, and in keeping with analysts' expectations.

"We expect only minor changes to the policy statement to reflect the latest developments in the economy," economists at Bank of America Merrill Lynch wrote in a research note on Tuesday.

Trade fears aren't showing up in data.

As Mr. Powell noted in his testimony before Congress last month, the Fed has heard a lot anecdotally from businesses about fears of Mr. Trump's tariffs and threats hurting investment and growth — but those fears have not shown up in the economic data. That's partly because a pre-tariff surge in soybean exports helped prop up growth in the second quarter, a trend that economists warn will reverse in the back half of the year.

"The escalating trade rhetoric hampers forecasters' near-term view of the economy, which is a particular problem for the Fed currently as it attempts to engineer a soft landing from the current expansion," Deutsche Bank researchers wrote this week.

A question before the meeting was whether the trade war had escalated enough to merit a warning in the statement.

Answer: It has not.

The Fed's next move still looks to be a rate increase.

Nothing in the statement suggested that officials are worried about growth or prepared to slow their pace of rate increases, a development that defies some recent Fed attempts to leave its options open on next policy moves.

Even when the Fed is not raising or cutting rates, it still sends signals to the market about where monetary policy is headed, through subtle, but crucial, changes in language. Some of those recent changes have sent a purposefully muddy signal, apparently meant to demonstrate flexibility to respond to events in the economy.

For example, in his testimony last month, Mr. Powell, the leader of the Federal Open Market Committee, said that "with a strong job market, inflation close to our objective and the risks to the outlook roughly balanced, the F.O.M.C. believes that — for now — the best way forward is to keep gradually raising the federal funds rate."

Analysts saw that phrase and honed in on "for now."

"The inclusion of those words diluted the signal for continued gradual tightening, but not necessarily in a dovish or a hawkish way," Jim O'Sullivan, chief United States economist for High Frequency Economics, wrote this week. "Rather, as we have been discussing, their inclusion continued the recent trend toward reduced forward guidance: The pace of tightening could be stepped up or slowed down, depending on the data."

That still seems possible, particularly from Mr. Powell’s recent testimony, but the statement only points one way for now.

The Fed will not be bullied.

Mr. Trump has made no secret of his disagreement with the Fed’s rate increases, tweeting last month that the central bank’s moves undercut the United States economy and that its pattern of rate increases “hurts all that we have done.”

The president, who had accused the Fed of keeping interest rates artificially low to help President Barack Obama, now appears ready to blame the central bank for trying to slow down a booming economy.

Mr. Powell has insisted the Fed is an independent body that moves in response to economic data, not political pressure. The statement seems to back that up. We’ll have to wait for direct questioning at the next meeting, but for now, the Fed is telling Mr. Trump, in its very Fed way, to mind his own business.