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FED MINUTES

Another interest rate hike is likely

Fed rates

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The Associated Press

WASHINGTON>> Most Federal Reserve officials expect that another interest rate increase will likely be needed this year to combat inflation, according to minutes released Wednesday from the central bank's most recent meeting.

The officials unanimously agreed that inflation was still elevated and had not made much progress toward their 2% target in recent months, the minutes said. The Fed increased its key interest rate at the Sept. 15-16 meeting by a quarter-point to about 3.9%, its first increase in three years.

The increase defied President Donald Trump's repeated calls for the Fed to cut rates and prompted the president to criticize the Fed's rate-setting committee, though he still expressed support for Chairman Kevin Warsh, whom he appointed earlier this year. The rate increase comes as Americans are already struggling with high costs for groceries, gas and housing, and as affordability has taken on a leading role in the upcoming midterm elections, just over four weeks away.

Longer-term interest rates for mortgages and other borrowing have also jumped in the past few months for a range of reasons, including rising government debt, heavy borrowing by tech firms to finance data center construction, climbing oil and gas prices, and signs that growth and inflation remain elevated. The Fed's rate hike has likely played only a limited role in the increase.

Still, key policymakers have said since the meeting that the Fed can take some time to monitor the economy and the impact of last month's rate hike before making another move. Wall Street investors now forecast the Fed will keep its rate unchanged at its next meeting Oct. 28-29, according to futures pricing, and raise it when they meet in December.

Philip Jefferson, vice chair of the Fed's board of governors, said last week that policymakers "will need to come to our own judgment, which may take more time." Inflation, according to the Fed's preferred measure, came in lower than many economists expected in August but remained elevated. Overall prices rose 3.4% compared with a year earlier, while core prices — which exclude volatile food and energy categories — increased 3%. On a monthly basis, prices rose 0.3% from July to August, and core prices just 0.2%.

According to the minutes, even with the rise in longer-term rates, many officials said that financial conditions — which includes rising stock prices — "appeared to be supportive of economic growth," a sign that more rate hikes may be needed to cool the economy.

Several policymakers said that they saw the Fed's rate as too low to restrain the economy, or only acting as a mild restraint. That suggests they would support multiple rate hikes to rein in inflation.

Higher oil and gas prices stemming from the Iran war and the lingering effects of tariffs have lifted costs in recent months. But even excluding those trends, many Fed officials believe inflation is stuck between 2.5% and 3%, above its target. Spiking prices for semiconductors, computer equipment, and electrical components due to the rapid surge in data center construction have also played a big role in accelerating inflation.

The Fed lifted its key interest rate to about 3.9% at its Sept. 15-16 meeting, its first increase in three years. Higher rates are intended to slow borrowing and spending, cool the economy and bring down inflation.

Warsh emphasized after the announcement that the economy has shown signs of gathering speed since the central bank decided to keep rates unchanged in late July.

“The plain fact is that inflation is too high and has been for too long,” Warsh said at a news conference after last month’s meeting. “We must be confident that underlying inflation is moving to our objective clearly and at sufficient speed. Today the FOMC decided that this standard has not been satisfied,” he added, referring to the policy-setting Federal Open Market Committee, an arm of the Fed.

Trump criticized the committee for voting to raise rates, calling them “very political,” but he did not single out Warsh.

“They’re raising rates to make Trump do as bad as they can possibly do,” the president said.