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Fed keeps interest rates unchanged

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WASHINGTON >> The Federal Reserve pushed the pause button on its interest rate cuts Wednesday, leaving its key rate unchanged at about 3.6% after lowering it three times last year.

Chair Jerome Powell said at a news conference after the central bank announced its decision that the economy's outlook "has clearly improved since the last meeting" in December, a development that he noted should boost hiring over time. The Fed also said in a statement that there were signs the job market is stabilizing.

With the economy growing at a healthy pace and the unemployment rate appearing to level off, Fed officials likely see little reason to rush any further rate cuts. While most policymakers do expect to reduce borrowing costs further this year, many want to see evidence that stubbornly-elevated inflation is moving closer to the central bank's target of 2%. According to the Fed's preferred measure, inflation was 2.8% in November, slightly higher than a year ago.

Michael Gapen, chief U.S. economist at Morgan Stanley, said that Powell kept the door open for further rate cuts this year, "when they get enough evidence inflation is decelerating." Powell suggested in his remarks that the impact of tariffs, which have pushed up the cost of many goods such as furniture, appliances and toys, will peak in the middle of this year and inflation will fall after that.

In a sign of the unprecedented situation in which the Fed finds itself in Trump's second term, Powell was asked to address a number of issues not directly tied to monetary policy but that could very well decide how the Fed implements its policy going forward.

Two officials dissented from Wednesday's decision, with Governors Stephen Miran and Christopher Waller preferring another quarter-point reduction. President Donald Trump appointed Miran in September, and he had dissented at the three previous meetings in favor of a half-point cut. Waller is under consideration by the White House to replace Powell, whose term ends in May.

The Fed's decision to stand pat will likely fuel further criticism from Trump, who has relentlessly assailed Powell for not sharply cutting short-term rates. A reduction in the Fed's key rate tends to lower borrowing costs for things like mortgages, car loans, and business borrowing, though those rates are also influenced by market forces.

A key issue facing the Fed is how long it will remain on hold. The rate-setting committee remains split between those officials opposed to further cuts until inflation comes down, and those who want to lower rates to further support hiring.

Powell suggested that there may not be that many more rate cuts needed.

In December, just 12 of the 19 participants in the committee's meetings supported at least one more rate cut this year. Most economists forecast the Fed will cut twice this year, most likely at the June meeting or later.

One issue still hanging over the Fed's decision-making is the administration's trade policy and the tariffs it has imposed on many U.S. trade partners. When asked if the impact of tariffs had already moved through inflation, Powell said "a lot of it has," and added that the Fed generally sees the import taxes as a one-time price increase.

"The expectation is that we will see the effects of tariffs flowing through goods prices peaking and then starting to come down, assuming there are no new major tariff increases," Powell said.

Fed officials met this week in the shadow of unprecedented pressure from the Trump White House. Powell said Jan. 11 that the Fed had received subpoenas from the Justice Department as part of a criminal investigation into his congressional testimony about a $2.5 billion building renovation. Powell in an unusually blunt video statement said the subpoenas were a pretext to punish the Fed for not cutting rates more quickly.

On Wednesday, Powell declined to add anything to that earlier statement.

And last week, the Supreme Court took up Trump's attempt from last year to fire Fed governor Lisa Cook over allegations of mortgage fraud, which she denies. No president has fired a governor in the Fed's 112-year history. The justices at an oral argument appeared to be leaning toward allowing her to stay in her job until the case is resolved.

When asked why he decided to attend the Supreme Court hearing, Powell said, "I would say that this case is perhaps the most important legal case" in the Fed's history. "And as I thought about it, I thought, it might be hard to explain why I didn't attend."

When asked by reporters if he was confident the Fed can retain its independence, Powell said, "Yes," and added, "I'm strongly committed to that and so are my colleagues."

Trump has suggested he is close to naming a new Fed Chair, to replace Powell once his term ends in May. The announcement could come as soon as this week, though it has been delayed before.

The president's efforts to pressure the Fed may have backfired, economists say, as Republicans in the Senate have voiced support for Powell and threatened to block Trump's replacement chair.

Powell has the option of remaining as a Fed governor beyond May but told reporters he hadn't made a decision about whether to stay or leave.

The chair was also asked if he had any advice for his successor. "Don't get involved in elected politics," he said. "Don't do it."

As for interest rates, Wall Street expected the Fed to hold steady at least until June.

Twelve of the 19 members of the Fed's rate-setting committee have a vote, including all seven members of the board of governors, the president of the New York Fed, and a rotating group of four presidents from the regional Fed banks.

This year, Beth Hammack, president of the Cleveland Fed; Neel Kashkari, president of the Minneapolis Fed; Lorie Logan, president of the Dallas Fed; and Anna Paulson, president of the Philadelphia Fed, will vote on rate decisions. All have recently expressed some skepticism of the need for further cuts in the immediate future.