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More Fed Officials Wanted Rate Hike

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More Federal Reserve officials favored raising interest rates last month than the three who formally dissented, and others signaled they would back an increase if inflation doesn't improve, according to minutes of the meeting released Wednesday.

"Many participants assessed that policy tightening would likely be necessary if inflation did not decline," the minutes said.

The decision to hold the benchmark rate steady between 3.5% and 3.75% drew three dissents from Fed presidents who thought a rate increase was warranted. While there are 12 voting members of the Federal Open Market Committee, a total of 19 officials, including seven bank presidents without a vote, participate in the meetings. The minutes suggested that some officials without a vote would have also supported raising rates.

Note

At a news conference after the July 28-29 meeting, Chairman Kevin Warsh deflected criticism that holding rates meant the Fed was doing nothing. He pointed to the rise in market interest rates since the June meeting, in both nominal and inflation-adjusted terms, as evidence that financial conditions had tightened without the Fed acting.

The minutes noted the tightening partly reflected strong growth and "market expectations that the Commit--tee would adopt a more restrictive policy stance before long," meaning the restraint Warsh cited rested on an increase the Fed hadn't committed to making. Some officials went further, saying financial conditions might not be restrictive enough to return inflation to 2%.

Inflation has run above the Fed's 2% target for five years and has been stuck between 2.5% and at least 3.5%, depending on the measure.

Since last month's meeting, the data have done more to lower the urgency of a rate increase than to settle the argument for one.

The July employment report showed the unemployment rate fell to 4.1% despite a decline in job creation. The consumer- price index showed inflation measures were mild in July.

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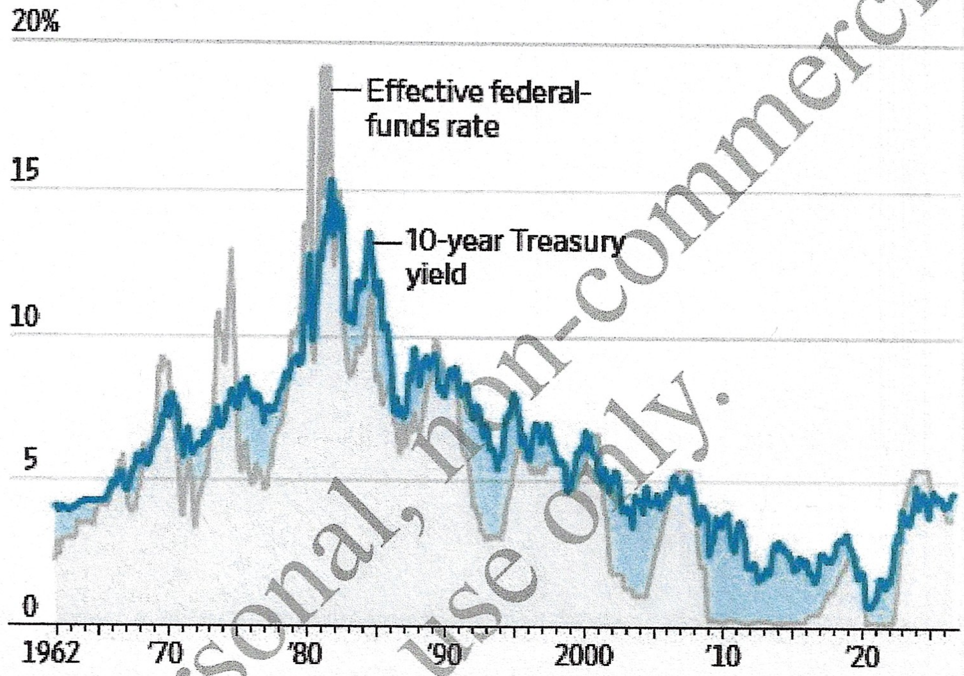
Interest rates



Source: Federal Reserve Bank of St. Louis

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