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The Fed Hints at Higher Interest Rates

The Federal Open Market Committee made no change in its target rate for Federal Funds, which is currently 1 percent. In the statement released at the end of the meeting, the FOMC changed very slightly the wording used since August to describe the length of time it would maintain low interest rates in the face of a growing economy. Within seconds of the press release, bond and stock prices fell sharply while the U.S. dollar rose against other major currencies.

The Fed Celebrates an Anniversary

Who says the Federal Reserve has lost its ability to surprise? The Federal Open Market Committee meets every six weeks to discuss its policy on short-term interest rates. Ever since its August meeting, it has used the same phrase – considerable period – to indicate the length of time it would continue to keep fed funds at 1%. Market watchers took this to mean that the Fed would remain complacent about economic expansion and inflation, events that in normal times would trigger a hike in the funds rate.

While the change in wording shocked the markets momentarily, in retrospect we can see the Fed shifting its attitude with previous meeting's press release. At that time, the Fed judged that the balance of forces between inflation and deflation were approximately equal; but in previous releases, the Fed had put more emphasis on the possibility of deflation. This may seem like a subtle change, but the Fed is nothing if not subtle in its use of language. Looking at both of these changes in wording, it seems clear that the Fed is preparing us for a rate increase in the not too distant future, certainly before a 'considerable period' of time has passed.

We have an anniversary to celebrate, one that has gone unnoticed by most. At its first meeting of the year in January 2001, the FOMC made the first of 13 cuts in the fed funds rate (with the last being made in June of 2003).