# Federal Reserve raises interest rates by 0.75%, most since 1994, amid effort to slow inflation

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The Federal Reserve on Wednesday raised interest rates by 0.75%, the largest move it has made in a single meeting since 1994.

The central bank messaged that further interest rate hikes will come this year, as the Fed leans on higher borrowing costs to dampen demand and work to slow faster-than-expected inflation.

“Overall economic activity appears to have picked up after edging down in the first quarter,” the policy-setting Federal Open Market Committee said in a statement, repeating its commitment to “ongoing increases.”

The Fed decision lifts short-term borrowing costs to a target range between 1.50% and 1.75%.

In economic projections released Wednesday, the median Fed policymaker expects to further raise interest rates to roughly 3.4% by the end of the year. That would suggest another 1.75% in total rate hikes, spread across the remaining four scheduled policy-setting meetings this year.

The Fed is now messaging a much steeper path of rate hikes than it had previously forecast in March (when the median member projected a year-end short-term rate closer to 1.9%).

The Fed's "dot plot" now suggests a much more aggressive path for interest rates this year, with benchmark rates expected to hit 3.4% by year-end. (Source: Federal Reserve)
The urgency to move faster coincided with Fed policymakers’ expectations that inflation will not abate as fast as they had expected in their March projections. The median Fed policymaker now expects prices to rise by 5.2%, as measured by personal consumption

expenditures (PCE), over the course of 2022, a faster pace than the 4.3% it had forecast in March.

The central bank also downgraded expectations on other key economic measures, expecting the U.S. economy to grow by only 1.7% this year, compared to the 2.8% it had forecast in March.

Fed officials also suggested they could see unemployment rise this year, with the median member now forecasting a 3.7% headline unemployment rate by the end of the year (which would be a notch up from the 3.6% recorded in May).

### Change in plans

The decision to raise interest rates by 0.75% was an abrupt turn from last week, when markets had largely expected the central bank to follow through on its communicated strategy of raising by 0.50%.

But a hot inflation report on Friday, showing the fastest pace of price increases since 1981, showed little sign of alleviating price pressures in the month of May. Combined with other economic data showing the worst reading of consumer confidence since the 1970s, the pessimistic outlook pushed the Fed to entertain the idea of abandoning its prior plan.

The decision to raise rates by 0.75% on Wednesday was not unanimously agreed to — Kansas City Fed President Esther George dissented, with the statement noting that she favored a 0.50% move.

The Fed's economic projections suggests a confidence among policymakers that a more aggressive rate hike path will cool inflation. Although the central bankers raised their expectations on inflation for 2022, the median member of the committee expects to see the pace of headline price increases to cool to 2.6% next year. These forecasts suggest inflation could further in 2024 to 2.2%, much closer to the Fed's 2% target.

The next FOMC meeting will take place the last week of July.

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