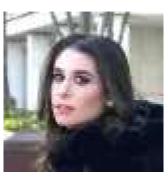
Federal Reserve raises interest rates to highest since 2001



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Wed, July 26, 2023 at 11:00 AM PDT·3 min read

The Federal Reserve raised the target range for its benchmark interest rate by 0.25% on Wednesday and left the door open for more rate hikes this year.

Wednesday's rate increase brings the Fed's policy rate, the fed funds rate, to a new range of 5.25%-5.50%, the highest level since March 2001.

Wednesday's rate hike marks the central bank's 11th increase since March 2022 and comes after the Fed held rates steady in June. In its statement on Wednesday, the Fed signaled future rate hikes will be contingent on the impact of previous rate hikes on the economy and financial developments. The decision was unanimous.

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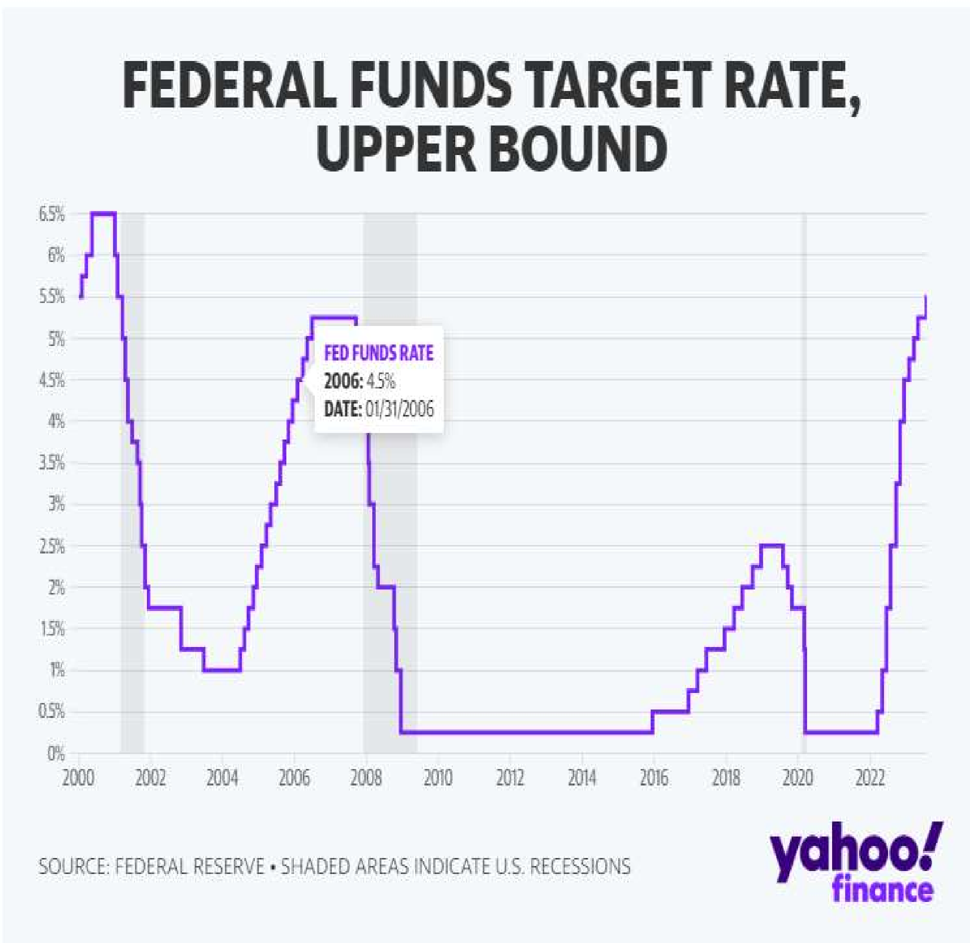

"In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments," the Fed's statement read.

"The process of getting inflation back down to 2% has a long way to go," Fed Chair Jay Powell said in a press conference Wednesday. Powell added that bringing down inflation "is likely to require a period of below-trend growth and some softening of labor market conditions."

Fed officials added that they will continue to assess additional information and its implications for monetary policy, reiterating in their statement that they still view inflation as "elevated" and noting that they remain "highly attentive" to inflation risks, despite a cooler reading on inflation in June.

Asked Wednesday whether the Fed plans to raise rates on an every-other meeting basis after holding rates unchanged in June, Powell said, "We haven't made a decision to go to every other meeting. It is not something we looked at. We will go meeting by meeting ... asking ourselves the same questions."

Federal Reserve Board Chairman Jerome Powell speaks during a news conference following a Federal Open Market Committee meeting in Washington, DC, on July 26, 2023. (SAUL LOEB/AFP via Getty Images)

Back in June, officials penciled in two more rate hikes for the second half of the year based on higher expectations for core inflation. The Fed now expects inflation to end the year closer to 4%, up from 3.6% previously and nearly double the Fed's inflation target.

Inflation data out earlier this month showed that on a "core" basis — which strips out the more volatile costs of food and gas — inflation rose 4.8%

over the prior year in June. Including food and energy, headline inflation rose 3% in June, down from a peak of 9% last year and the slowest annual increase since March 2021.

Officials also upgraded their assessment of the economy, characterizing growth as "moderate," up from "modest" last meeting.

"Recent indicators suggest that economic activity has been expanding at a moderate pace," the Fed said in its statement. "Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated."

During his press conference, Powell noted that the Fed's staff economic forecasts — which are different from the Summary of Economic Projections produced by Fed officials each quarter — no longer see the US economy falling into recession this year.