

# Federal Reserve raises interest rates to highest since 2007, sees higher rates in '23

**Jennifer Schonberger**

·Senior Reporter

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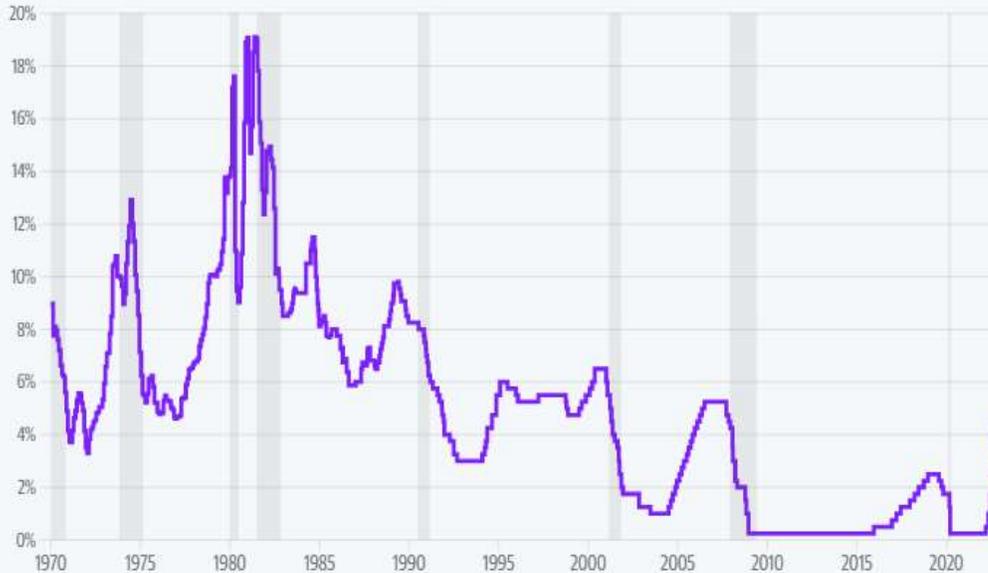
The Federal Reserve [raised short-term interest rates Wednesday](#) by 0.50%, bringing benchmark interest rates to the highest level since 2007 while suggesting more rate hikes are coming in 2023.

Wednesday's move brings the Fed funds rate to a range of 4.25%-4.5%, capping a year that saw the central bank raise rates by a collective 4.25%.

Wednesday's 50 basis point rate hike did mark a slowdown from the Fed's recent pace of rate hikes, as the central bank had raised rates by 75 basis points at [each of its past four policy meetings](#) — its most aggressive stretch since the 1980s.

"Over the course of the year, we have taken forceful actions to tighten the stance of monetary policy," Fed chair Jerome Powell said on Wednesday. "We have covered a lot of ground, and the full effects of our rapid tightening so far are yet to be felt. Even so, we have more work to do."

## FEDERAL FUNDS TARGET RATE



SOURCE: FEDERAL RESERVE • SHADED AREAS INDICATE U.S. RECESSIONS

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In its statement announcing Wednesday's move, the central bank included wording which said it anticipates "ongoing increases" in interest rates, implying the Fed does not intend to pause rate hikes imminently.

"The Committee anticipates that ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time," the Fed's statement said.

New [economic forecasts from the Fed published Wednesday](#) show officials now see benchmark interest rates peaking at 5.1% in 2023, an extra 50 basis points higher than the previously projected 4.6% back in September. Officials then see rates coming down to 4.1% in 2024, slightly higher than previously projected.

These projections come after Fed Chair Jerome Powell said last meeting that rates will need to move higher than previous projections in September.

Seven officials see rates rising higher than 5% next year — with five clustering around 5.25% and two seeing rates peaking as high as 5.6% next year.

Officials don't see core inflation coming back down close to target until 2024, with inflation rounding out this year at 4.8% before falling to 3.5% next year and 2.5% in 2024.



Federal Reserve Board Chairman Jerome Powell holds a news conference following the announcement that the Federal Reserve raised interest rates by half a percentage point, at the Federal Reserve Building in Washington, U.S., December 14, 2022. REUTERS/Evelyn Hockstein

Officials see unemployment rising to 4.6% next year and remaining at that level through 2024. The Fed sees below-average economic growth, with the economy barely growing next year at just 0.5% before picking up slightly to 1.6% in 2024.

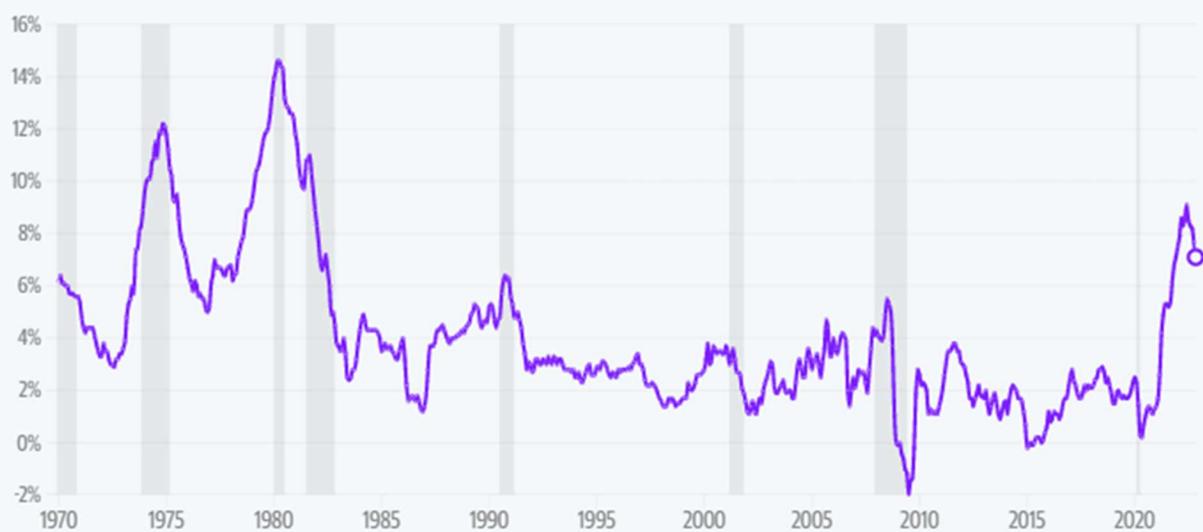
Asked during a press conference on Wednesday whether these forecasts — with slowing growth and rising unemployment — suggest the Fed would tolerate the economy tipping into recession, Powell said, "I don't think it would qualify as a recession, because you've got positive [GDP] growth."

The Fed's move comes as inflation has [started to show signs of slowing](#) the past two months after hitting a 40-year high this spring. The Consumer Price Index, excluding the more volatile food and energy components, rose 0.2% month-on-month in November, down from 0.3% in October and 0.6% in September and August.

"The inflation data received so far for October and November show a welcome reduction in the monthly pace of price increases," Powell said. "But it will take substantially more evidence to give confidence that inflation is on a sustained downward path."

# ANNUAL INFLATION RATE DROPS TO 7.1%

U.S. CONSUMER PRICE INDEX, YEAR-OVER-YEAR CHANGE SINCE 1970



SOURCE: U.S. BUREAU OF LABOR • SHADED AREAS INDICATE U.S. RECESSIONS

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