Fed Holds Off on Rate Hike at Yellen's Final Meeting

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The Federal Open Market Committee on Wednesday opted against raising its benchmark interest rate at the group's first meeting of 2018 – its final gathering with Federal Reserve Chair Janet Yellen at the helm.

In a statement published Wednesday afternoon, officials at the Federal Reserve praised a labor market that "has continued to strengthen" and economic activity that has been "rising at a solid rate."

"Gains in employment, household spending and business fixed investment have been solid, and the unemployment rate has stayed low," the FOMC said in a statement.

The Fed's decision to hold off on raising rates wasn't entirely surprising. Although unease over the central bank's deliberations was believed to have contributed in part to the week's stock market volatility, many analysts expected the central bank to hold off after launching a hike as recently as December.

Sam Bullard, a managing director and senior economist at Wells Fargo Securities, wrote in a research note on Tuesday that the Fed was also likely to keep rates unchanged in an effort to "maintain an uneventful leadership transfer between Yellen and [incoming Fed Chair Jerome] Powell."

Powell, who was nominated by President Donald Trump last year to succeed Yellen and has since been confirmed by the Senate, will take the reins on Saturday and will be sworn in Monday, according to a separate Fed statement published Wednesday afternoon. With her departure, Yellen will be the first central banking chief in decades not to be renominated for her post by an incoming president.

"The handover from Janet Yellen to Jerome Powell happens at a critical phase, with the Fed expected to continue raising interest rates and having begun the process of winding down the balance sheet," Greg McBride, a senior vice president and chief financial analyst at Bankrate.com, said in a statement Wednesday. "We're changing pilots on final approach and Jerome Powell will have his hands full trying to assure a soft landing of solid, sustained economic growth without letting inflation or asset prices climb unchecked."

Powell has served on the Fed's board of governors since 2012 and has consistently voted with Yellen on policy decisions in recent years, so analysts don't expect the Fed's rate hiking path to change much after the transition. But Powell is believed to be more open to some of Trump's desired regulatory tweaks than Yellen, which likely bolstered his standing in the president's eyes.

Despite Powell's experience at the Fed, however, he represents the first Fed chair in decades to not hold an advanced economics degree. And he's soon likely to find himself surrounded by a sea of new faces, as Trump will have the opportunity to fill four vacancies on the Fed's board of governors once Yellen departs. He's already installed Randal Quarles to the board and has nominated Carnegie Mellon University economics professor Marvin Goodfriend, but Trump will have the opportunity to staff six of the Fed's seven board positions as soon as next month, provided the Senate confirms his nominees.

The sheer amount of turnover at the central bank has alarmed some analysts, who fear the degree of inexperience at the central bank will raise the chance of a policy mistake.

"Only twice before in its history has the FOMC had so few continuity voters across two consecutive years: in 1987 and in 2007. On the first occasion, the Fed had to deal with a major stock market crash, while on the second it was confronted by the decline in the subprime market that heralded the 2008 Financial Crisis," Tate Lacey, a policy analyst at the Cato Institute's Center for Monetary and Financial Alternatives, wrote in a blog post this week. "These are only two data points to be sure, but the point is that a relatively inexperienced FOMC may find itself having to cope with situations that would pose a challenge even to the Fed's most seasoned veterans."