THE HILL

Financial world's eyes on Fed chairwoman

By Kevin Cirilli

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Wall Street will be watching Federal Reserve chairwoman Janet Yellen closely on Wednesday for clues about when and if the central bank will raise interest rates.

Most economists had expected that Yellen and Fed policymakers would increase interest rates in July. But now Fed observers think action by the Central bank might be put off until the fall, or even early 2016.

Yellen could provide some signals at a press conference on Wednesday that will conclude the Fed’s meeting.

The big reason people have been changing their expectations for a rate hike is low oil prices and uncertainty about the global economy, which has lowered the chances of inflation in the U.S.

“The largest factor is that falling oil prices and the risk of deflation overseas is making the potential for U.S. inflation to fall from its current level,” said David O'Malley, CEO of Penn Mutual Asset Management.

Other factors include volatility in the equity market and the strengthening dollar, which is depressing import prices, O’Malley said.

The Fed cut interest rates to zero following the 2008 economic collapse in an effort to stimulate growth. The Fed has ended another economic stimulus program known as quantitative easing, but has yet to raise its rates.

The low interest rate has allowed homeowners to refinance or buy homes with lower interest rates, which is intended to boost the economy.

“That saves households dollars that can go into other purchases,” said Sherle R. Schwenninger, director of the New America Foundation's Economic Growth Program. “This extra money increases consumer spending, and thus job creation and economic growth, which is to the benefit to most Americans.”

Another factor for the Fed is avoiding a bubble in the market, which could be created by an untimely hike in interest rates.

When Yellen took over the Fed in January 2014, she promised to follow her predecessor Ben Bernanke's efforts to be more transparent in signaling the Fed's direction.

Critics say she hasn't met that standard so far.

“The policy statements are a mess,” said William Poole, former president and chief executive officer of the St. Louis Federal Reserve. “The Fed has repeatedly said they want to have better communication with the market — well this ain't it. They're failing in their communications strategy.”

That suggests those looking for clues from Yellen might have to keep looking after Wednesday.

“They haven't made clear what they intend to do,” said Poole, who is now a senior fellow at the right-leaning Cato Institute.