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Federal Reserve keeps interest rates the same, but December hike likely

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The Federal Reserve opted not to change interest rates Thursday but hinted that rates are likely to rise in December.

The U.S. interest rate is currently in a range of 2 to 2.25 percent, but the Fed has signaled it wants to gradually raise rates in the coming months to 3 percent or slightly higher. A rate hike is widely expected in December, and the Fed has indicated it is likely to do three more increases next year.

The U.S. economy looks very strong on almost every front, the Fed said several times in a statement released Thursday. Companies are hiring workers at a rapid pace, wages are rising, and consumers, the backbone of the economy, continue shopping at a healthy rate.

“Job gains have been strong, on average, in recent months, and the unemployment rate has declined,” the Fed wrote in its statement. “Both overall inflation and inflation for items other than food and energy remain near 2 percent.”

The Fed noted that business investment “has moderated from its rapid pace earlier in the year,” a surprise since the tax cuts were expected to boost business spending. But the Fed doesn’t sound alarmed.

Notably absent from the statement was any mention of the housing market slowdown or recent stock market jitters. People are buying fewer new homes as mortgage rates rise. Some worry this weakness could spill to other sectors, but so far, that hasn’t happened.

President Trump has repeatedly berated the Fed for hiking rates too quickly, which he fears will harm economic growth, but the Fed remains committed to getting interest rates back to more normal levels given how well the economy is doing now.

The Fed thinks the current interest rate level is still helping to stimulate the economy and top leaders at the central bank, including Fed Chair Jerome H. Powell, want to see interest rates move to a so-called “neutral level” which doesn’t boost or curb growth. Given how upbeat the Fed’s assessment of the economy is, Wall Street thinks a December rate hike is almost certain.

“I put it at highly likely — probably a 95 percent probability,” said Diane Swonk, chief economist at Grant Thornton. “This is a Fed that is ready to continue removing accommodation, but it’s important to say rates are not tight yet.”

Thursday marked Powell’s last meeting without a news conference immediately afterward to further explain the Fed’s thinking on the economy, markets and interest rates. Powell will speak after the December meeting and after every meeting next year, a first for a Fed chair and a sign of Powell’s commitment to making the bank as transparent as possible. It also gives him a chance to respond to Trump and other critics.

As the economy powers ahead and wages are now rising at their fastest pace in almost a decade, concerns are rising that inflation could pick up and the Fed might need to hike rates even faster. Swonk is predicting four rate hikes next year — one more than the Fed is anticipating — because she believes inflation will be above the Fed’s 2 percent target and the Fed will act swiftly to contain it.

Trump is widely expected to keep criticizing the Fed for rising rates, but so far Powell has stayed on course and avoided firing back. Behind the scenes, Powell has been forging tight relationships with Republicans and Democrats on Capitol Hill, who have oversight over the Fed. Powell has met frequently with House Democrats, and the shift in power in that chamber is not expected to hinder the Fed.

“If Trump’s public criticism for fed for tightening too rapidly is likely to have had effect on their deliberations, I think it’s more like to make the Fed raise rates than not just to show that they are independent,” said George Selgin, senior fellow at the Cato Institute.