

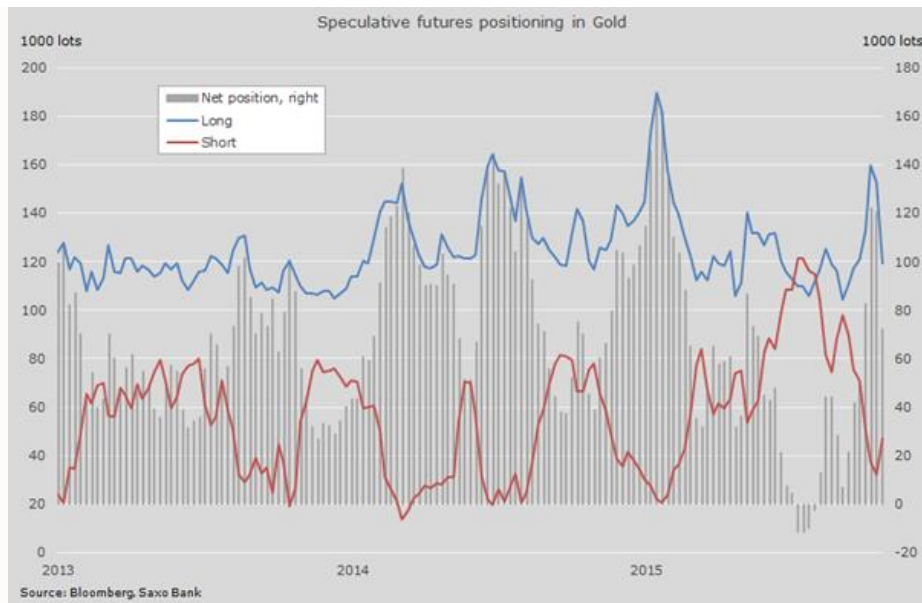
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Fed to America: Prepare for higher interest rates

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For much of Janet Yellen's tenure as Fed chair, policymakers at the core of the committee, and Yellen herself, have said they would rather delay a rate hike and battle inflation than hike too soon and brake the recovery.

Monetary policy decisions are "difficult" when the economy continues to grow at a time where inflation is weaker than the Fed wants, he said. He added that he will be looking at "the incoming information to see if it confirms my expectation that growth will be sufficient to further tighten the USA labor market".

Dudley's remarks were part of a question and answer session at an Economic Club of NY event.

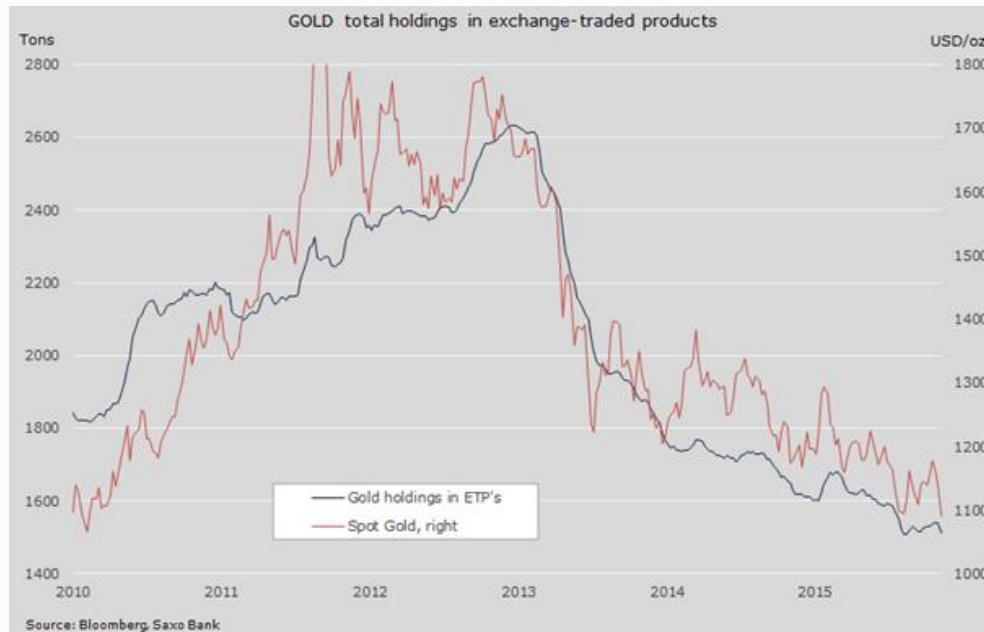
The Fed has held interest rates near zero since December 2008.

St. Louis's Bullard, in contrast, has been pushing the central bank to get on with rate increases and he repeated that call during a monetary policy conference at the Cato Institute in Washington.

Both Lacker and Bullard are considered hawks, or receptive to increasing interest rates.

Jeffrey Lacker, president of the Federal Reserve Bank of Richmond, also said that he was comfortable with raising rates gradually.

Dudley stopped short of saying whether he would vote to raise rates when the Open Market Committee meets next month.



Beyond the first rate increase, the economy will face headwinds including a strong USA dollar and tight mortgage credit, he said.

His comments echoed those of San Francisco Fed President John Williams, who told USA Today Tuesday that data permitting, there was a "very strong case for starting the process of raising interest rates" in December.

"They have kept those interest rates artificially low for one reason and one reason only: because they're trying to politically support Barack Obama and his agenda".

"Spare labor resources are shrinking".

The bank president was upbeat about growth in his speech. Officials must weigh ending seven years of near-zero rates amid solid employment gains, though inflation remains well below its 2 percent goal. Going sooner and more slowly, he said, may now be best for the Fed's "risk management".

Bullard suggested that that inflation was on its way up and unemployment levels were sufficiently low to raise rates. "I don't favor waiting until I see the whites of inflation's eyes" because allowing price pressures to flare could risk fueling public expectations of even higher future inflation, which could force the Fed to be more aggressive with rate rises.

Mr Dudley also said the Fed is appropriately paying little attention to the election season, in which a number of Republican presidential candidates have taken to bashing the central bank's actions.