THE US FEDERAL RESERVE RAISES ITS RATES AGAIN
The Fed appears to be still preoccupied by inflation, but also remarks on a certain weakness within the economy

- The federal funds target rate was raised to 3.00%. Votes: For = 12; Against = 0.
- With the appropriate monetary policy, risks should remain almost balanced in terms of price stability and economic growth.
- Despite today’s hike, monetary conditions remain flexible.
- Certain recent indicators suggest that the solid pace of spending growth has slowed, partly due to the increase in energy prices. The labour market keeps on improving bit by bit.
- Inflationary pressures have heated up over the past few months.

For the eighth consecutive meeting, the members on the Federal Open Market Committee (FOMC) opted today to raise its key interest rates by 25 points. The commentary accompanying today’s decision by the US Federal Reserve differs from the preceding reports nonetheless.

First, the FOMC members still appear to be concerned by the fanning of inflationary pressures. Given this viewpoint, they also gave up the phrase indicating that core inflation would not be greatly affected by rising energy prices. Before doing this, this item placed a certain salve on the preceding press releases regarding concerns about inflation. It seems that this factor is no longer calming the fears of the US Federal Reserve.

Second, the Fed’s leaders show they are aware that the current economic context in the United States is far from perfect. This observation comes from indicators that suggest that the surge in spending has slowed. Of course, the main cause of a deceleration in economic activity is the sharp rise in energy prices. It is completely normal that the US Federal Reserve shows it is concerned by the huge drain on the budgets of consumers and businesses alike that an additional increase of 25% on price of gas has had since the beginning of the year.

Despite the concerns it has in terms of inflation and the economy, the Fed remains confident that, thanks to an appropriate monetary policy, there appears to be a balance between price stability and sustainable growth. In fact, this balance is now showing itself to be harmful: inflation is on the rise and growth is slowing. This not-very-pleasant situation has been well represented over the past several months by the decline in the leading indicator and the increase in core inflation. Since the Fed continues to characterize the future trend of its policy as “measured”, the key lending rates ought to be raised by 25 more basis points over the next few meetings. If the Fed decides to stray from this path, it now seems that a lull is just as likely as a swifter hike in key lending rates as an alternative scenario.
Excerpts from the Fed Press Release:

[...] The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity. Recent data suggest that the solid pace of spending growth has slowed somewhat, partly in response to the earlier increases in energy prices. Labor market conditions, however, apparently continue to improve gradually. Pressures on inflation have picked up in recent months and pricing power is more evident. Longer-term inflation expectations remain well contained.

The Committee perceives that, with appropriate monetary policy action, the upside and downside risks to the attainment of both sustainable growth and price stability should be kept roughly equal. With underlying inflation expected to be contained, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability. [...]