The Telegraph

Fed to step up the pace of interest rate rises next year

The US Federal Reserve Board Building in Washington DC

By Szu Ping Chan and Rhiannon Bury
14 DECEMBER 2016 • 9:25PM

The US Federal Reserve has signalled that it will step up the pace of interest rate rises next year as a robust jobs market and stronger growth prompted the central bank to raise rates for only the second time in a decade.

Janet Yellen, the Fed's chairman, described the increase as a "vote of confidence in the economy", as officials unanimously opted to raise its Federal funds target range to between 0.5pc and 0.75pc, from 0.25pc to 0.5pc.

Ms Yellen said expectations of fiscal stimulus following Donald Trump's US presidential victory had been one of "several" factors influencing changes to the Fed's projections, as policymakers indicated three more hikes next year.

"Job gains have been solid in recent months and the unemployment rate has declined", Fed officials said in a statement. Economic activity was expanding at a "moderate pace" while some measures of inflation expectations had increased "considerably".

The dollar jumped against the euro and pound and US Treasury yields climbed after policymakers upgraded their growth and interest rate forecasts and projected a further fall in the unemployment rate. The Dow Jones Industrial Average came within 40 points of a record high of 20,000 shortly after the interest rate decision , though the index closed down 0.6pc at 19,792.53.

Janet Yellen, chair of the US Federal Reserve CREDIT: ANDREW HARRER

The world's biggest economy is now expected to grow by 2.1pc in 2017 and by 2pc in 2018, compared with previous forecasts in September for growth of 2pc per year. The Fed's growth projection for 2019 was also revised up, to 1.9pc from 1.8pc. Unemployment, which fell to a nine-year low of 4.6pc in October, is now predicted to drop to 4.5pc next year, where it is expected to remain for the next three years.

The Federal Open Market Committee (FOMC), which sets interest rates, signalled that they could rise to around 1.4pc by the end of 2017, suggesting three further increases of 0.25 percentage points over the coming year if the economic outlook evolves as anticipated. Its so-called "dot plot", where policymakers indicate their expectations for the likely rate path over the medium term, showed policymakers predicting rates will rise to around 2.9pc by the end of 2019 .

While policymakers discussed the potential implications of Mr Trump's victory on the US economy, Ms Yellen stressed that it was "far too early to know" how potential changes to fiscal policy would affect the "appropriate course of monetary policy".

Ms Yellen stressed that while some officials had incorporated expected changes in fiscal policy "into their projections" she stressed that changes to the forecasts due to Mr Trump's election victory were "really very tiny".

The chairman even suggested that a big fiscal stimulus was not needed to boost the labour market, with policy changes that "enhance education, training, workforce development" and spurred "innovation and competition" more likely to lift growth through higher productivity and living standards.

Policymakers stressed that future rate rises were not on a “pre-set course”. The US president-elect has pledged to implement sweeping tax cuts and embark on an infrastructure spending spree.

You can read how the announcement unfolded below:

8:23pm

Yellen has finished speaking

We'll have a round-up of everything that was said today shortly.

8:19pm

Yellen says she wants to serve her full term

Donald Trump has criticised Yellen on a number of occasions, but she says she would like to serve her full term, which expires in 2018.

Ms Yellen has headed the Fed since January 2014 and is not expected to receive a second term in the job - Mr Trump has said he plans to put a Republican in the role instead.

8:15pm

Dollar gains as much as a cent on the euro

David Lamb, head of dealing at FEXCO Corporate Payments, explains the dollar surge:

“Janet Yellen’s cautious caveats did little more than shut the barn door after the bulls had bolted.

“When it comes to rate hikes, more is always more. The revelation that 2017 could see three rises rather than two – taking rates this time next year to 1.4pc, rather than the 1.1pc forecast in September – lit the blue touchpaper for dollar demand.

“The surge was strongest against the euro, which has endured a wretched week since the Eurozone’s QE programme was extended last week.

“With the Fed predicting that the US economy will continue creating jobs at its current prodigious rate and the rate hike escalator underpinned by an expectation of rising inflation, Dollar confidence is riding high in the countdown to the start of the Trump presidency.

“While it’s likely that many will take profits in the final days before Christmas – removing some of the Greenback’s froth – the dollar is set to end 2016, and the Obama presidency, in buoyant form.”

The dollar was as high as 94.92 cents immediately following the Fed's announcement, having started the day at 93.85 cents.

CREDIT: JON ELSWICK

8:08pm

Republicans say rate hike is "premature" and "burdensome"

A statement from the Republican party says this rate hike is "entirely premature" and will be "burdensome to a nation already struggling to pull itself out of this slow-growth Obama economy".

Congressman Roger Williams, who is a member of the House Financial Services Committee, pointed to people struggling to pay back loans and unachievable home ownership as a reason to keep rates low.

Yellen says she's not going to offer president-elect Donald Trump advice, when asked about what she thinks about his tweeting and attacks on individual companies.

But she adds: “I’m a strong believer in the independence of the Fed”. She's not responding to any questions about Trump directly.

She does confirm that the Fed has been in touch with Trump's transition team, and that they "share the objective that the whole government has to work constructively to ensure a smooth transition".

Those awaiting a tweet from the president elect have so far been disappointed.

CREDIT: GETTY IMAGES

7:53pm

Yellen says changes to fiscal policy are not necessarily vital

Asked a question about the need for fiscal stimulus, Yellen says: "There may be some additional slack in labour markets but I would judge that the degree of slack is diminished.

"Fiscal policy is not obviously needed to provide stimulus to get us back to full employment," she says, but she adds that she's not trying to provide advice to Congress.

She also points to a rising debt to GDP ratio thanks to the country's aging population which may change conditions in the future.