Fed raises target overnight rate by quarter-percent

By Editorial Staff *Thu, Dec 17, 2015*

'Were the FOMC to delay the start of policy normalization for too long, we would likely end up having to tighten policy relatively abruptly at some point,' Janet Yellen said at a press conference yesterday announcing the first rate hike in seven years.

Choosing to take minimal action before events force it to take drastic action, the Federal Open Market Committee “decided to raise the target range for the federal funds rate by one-quarter percentage point, bringing it to 0.25% to 0.50%,” Federal Reserve chairman Janet Yellen said at a press conference yesterday.

“This action marks the end of an extraordinary seven-year period during which the federal funds rate was held near zero to support the recovery of the economy from the worst financial crisis and recession since the Great Depression,” Yellen read from a prepared text.

The Fed Funds rate is the annual rate at which Federal Reserve member banks lend reserves to each other overnight. Yellen added that the Fed raised two other rates that it uses as tools to push the Fed Funds rate up into the target range.

“Specifically, the Board of Governors raised the interest rate paid on required and excess reserves to 0.5%, and the FOMC authorized overnight reverse repurchase operations at an offering rate of 0.25%. Both of these changes will be effective tomorrow,” she said.

As for the future, Yellen’s forward guidance wasn’t nearly as specific as Alan Greenspan’s when he began raising rates by predictable amounts and predictable intervals in 2004.

“The median projection for the federal funds rate rises gradually to nearly 1.5% percent in late 2016 and 2.5% in late 2017,” she said. “As the factors restraining economic growth continue to fade over time, the median rate rises to 3.25% by the end of 2018, close to its longer-run normal level.”

Anticipating questions about why the Fed had decided to raise rates even though it thinks the U.S. economy is relatively tepid, Yellen said:

“We recognize that it takes time for monetary policy actions to affect future economic outcomes. Were the FOMC to delay the start of policy normalization for too long, we would likely end up having to tighten policy relatively abruptly at some point to keep the economy from overheating and inflation from significantly overshooting our objective. Such an abrupt tightening could increase the risk of pushing the economy into recession."