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U.S. ECONOMY

Fed Minutes: Officials See Little Need to Change Rates This Year

FOMC members cited greater risks from global slowdown, muted inflation readings in keeping rates steady

Officials said interest rates "could shift in either direction based on incoming data and other developments." Above, Fed Chairman Jerome Powell testifying before a Senate panel in Washington on Feb. 26. PHOTO: KEVIN WOLF/ASSOCIATED PRESS

By Nick Timiraos

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WASHINGTON—Federal Reserve officials signaled greater conviction at their meeting last month that they don't need to move interest rates up or down.

Officials voted to hold rates steady at their March 19-20 policy meeting after having lifted the Fed's benchmark rate four times last year, most recently in December to a range of 2.25% to 2.5%.

Minutes of the March meeting released Wednesday suggest the Fed has set a high bar to raise rates again because of greater risks to the U.S. economy from the global growth slowdown and muted inflation that took more of the officials by surprise.

"A majority of participants expected that the evolution of the economic outlook and risks to the outlook would likely warrant leaving the target range unchanged for the remainder of the year,"

the minutes said.

At the same time, the minutes show officials didn't see any need to cut their benchmark rate absent a broad deterioration in the economy. Officials said their view of the appropriate setting for interest rates "could shift in either direction based on incoming data and other developments," according to the minutes.

Since the meeting, President Trump has called on the Fed to cut rates. Central bank officials have said they would base their decisions on the economic outlook and not political pressure.

Fed officials raised rates last year to guard against the risk that accelerating economic growth could lead to unwanted inflation or financial bubbles. Inflation reached the central bank's 2% target last year after falling short for years, but it has since retreated slightly—defying expectations that it would firm more as the economy expanded.

The weakness of inflationary pressures, despite a strong job market and accelerating output last year, has puzzled Fed officials. At last month's meeting, they discussed reasons that inflation might have been muted, including the prospect that the estimated unemployment rate consistent with stable prices is lower than previously thought.

Many officials noted that while inflation neared the Fed's target last year, "it was noteworthy that it had not shown greater signs of firming in response" to strong hiring, rising wages and short-term impacts from tariffs, the minutes said.

At the beginning of this year, Fed officials signaled they were ready to move to the sidelines and pause rate increases until they could better judge how a sharp rise in market volatility late last year—together with concerns about greater economic weakness in China and Europe—might affect the U.S. economy.

The minutes, released after a customary three-week lag, show the Fed "is in a comfortable place and probably has little interest in moving significantly in the absence of convincing evidence that it needs to do so," said Roberto Perli, an analyst at Cornerstone Macro, in a note to clients Wednesday.

The minutes highlighted some concern with weaker consumer spending, housing activity and business investment. Most Fed officials last month said they didn't expect weak consumer spending late last year to carry over beyond the first quarter.

Other sources of potential unease included a downward drift in consumers' and businesses' expectations of future inflation and a decline in yields on long-term government debt. An inverted yield curve, in which long-term yields fall below short-term yields, has often preceded recessions by a year or two.

Fed officials agreed last month to slow the pace at which they are shrinking their $3.9 trillion asset portfolio in May and to end the runoff of their Treasury holdings by October. The decisions to end the portfolio runoff have been driven by technical factors related to how the Fed implements its policy decisions rather than by a desire to provide more or less stimulus to the economy.

Officials last month debated when to allow the portfolio to start growing again, but didn't reach any conclusions. At issue is gauging demand for deposits held by banks at the Fed, known as reserves.

With the balance sheet at a fixed size, reserves will very slowly decline as other liabilities, namely currency, continue growing. At some point, reserves could become scarce enough to boost the rate banks charge in overnight money-market accounts, which would raise the Fed's benchmark rate.

More Fed officials appeared to favor allowing the portfolio to start growing again "relatively soon after the end of runoff, because they saw little benefit" to allowing reserves to fall to a level that could create rate volatility, the minutes said.

Some others favored keeping the portfolio steady for a longer period to learn more about banks' underlying demand for reserves.

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