Fed change rattles markets

Will drop its 6.5% unemployment rate threshold for raising interest rates

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USA TODAY

WASHINGTON As Janet Yellen led her first news conference as head of the Federal Reserve, the Fed gave new guidance Wednesday about when it will raise short-term interest rates, sparking a modest sell-off on Wall Street.

The Fed said it will no longer use a threshold of a 6.5% jobless rate before it would raise short-term interest rates. Instead, it will weigh a mix of employment and inflation indicators.

The Fed also said it would wind down its economic stimulus as expected, trimming its monthly bond purchases by another $10 billion to $55 billion despite re-

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ANDREW HARRER, BLOOMBERG NEWS

Janet Yellen, chair of the Federal Reserve, speaks during a news conference Wednesday.

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cent weakness in the U.S. economy and global turmoil.

In reaction, the Dow Jones industrial average closed down 114.02 points, or 0.7% to 16,222.17. The Standard & Poor's 500 and Nasdaq composite each fell 0.6%.

The program is aimed at holding down long-term interest rates and spurring economic and job growth.

"The Fed and Yellen delivered exactly what was expected: Continued the taper, kept short-term rate hikes on hold, tweaked the language of the statement a bit," says Greg McBride, senior financial analyst for Bankrate.com.

The Fed's statement said that rates could remain low for "a considerable time" after its bond purchases end. When asked, Yellen said "a considerable time" was about six months, which sparked the market selloff.

Economists expressed surprise that Wall Street would react negatively to the Fed's new guidance on when rates could start to rise. "That still puts us in mid-2015, which isn't much of a surprise," says John Lonski, team managing director at Moody's Analytics.

The central bank downgraded its economic outlook slightly following bad weather that has crimped first-quarter growth, but policymakers also expect a more rapid decline in the unemployment rate.

The jobless rate, now 6.7%, is projected to fall to 6.1% to 6.3% by year's end. The Fed's previous year-end forecast was 6.3% to 6.6%, but the rate has been dropping much faster than expected. Inflation has been running well below the Fed's 2% target.

Minnesota Fed President Narayana Kocherlakota dissented from the statement.

Despite the markets' brief tantrum over her definition of a "considerable period," experts gave Yellen generally good marks on her first news conference. "Yellen has a lot of experience handling herself with the press, and she's doing a good job explaining what the issues are," says Krishna Memani, chief investment officer of OppenheimerFunds.