Fed chief: Interest rates will stay low as long as necessary

Paul Davidson
@PDavidsonusat
USA TODAY

Federal Reserve Chairwoman Janet Yellen said Wednesday that interest rates would stay near zero as long as the economy remains well below the central bank's goals for inflation and employment.

Her remarks at the Economic Club of New York provided a blueprint to financial markets that recently have been confused about when, and how quickly, the Fed plans to raise its benchmark short-term interest rate. The message: Rates will stay low for some time and then rise only gradually. And by the way, don't be so fixated on time frames — it's the pace of the recovery that will determine Fed action.

"The larger the shortfall of employment or inflation from their respective objectives and the slower the projected progress toward those objectives, the longer the (near zero) range for the federal funds rate is likely to be maintained," she said.

Yellen said she views the risk of inflation persisting below the Fed's 2% annual target as significantly greater than a run-up in wages and prices that could force the Fed to raise its benchmark rate more rapidly. Low inflation could prompt consumers to put off purchases and make it more difficult to repay debt.



ANDREW BURTON, GETTY IMAGES
Janet Yellen

Yellen also said the gap between the 6.7% unemployment rate and the Fed's 5.2% to 5.6% estimate of the normal rate "remains significant, and in our baseline outlook, it will take more than two years to close."

Other indicators also point to a still-weak labor market, such as an historically high long-term unemployment rate, she said.

Policymakers' interest-rate forecasts released after the Fed's March 18-19 meeting raised concerns that rates could rise more abruptly than expected, driving down stocks. Yellen further fueled worries by suggesting to reporters that the Fed's first short-term rate hike could occur as early as April 2015, months sooner than expected.

Market concerns were eased last week when minutes of the meeting showed that Fed policymakers fretted that the new interest rate forecast "could be misconstrued as indicating" a sharper increase in rates.

Separately, the Fed's "beige book" said the economy largely emerged from a winter-related slump over the past six weeks, but cold and stormy conditions continued to dampen growth.

4/17/14