MONEY

Fed maintains status quo but says September hike on table

Policymakers give upbeat view of economy, remain cautious

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WASHINGTON The Federal Reserve provided an upbeat view of the labor market and economy Wednesday and said risks to its outlook have waned, leaving the door open to a September hike.

As expected, the Fed kept its key interest rate unchanged and gave no clear signal about its upcoming plans. Weak employment reports in July and August almost certainly would stay the Fed's hand when it meets again in September.

But its statement after a two-day meeting was surprisingly bullish: "Near-term risks to the economic outlook diminished." That was one of its most positive assertions in months.

And while policymakers reiterated that they continue to monitor "global economic and financial developments," there was no mention of the uncertainty or risks generated by the United Kingdom's vote in late June to leave the European Union. Global stocks sold off after the U.K. referendum, and while they have more than recovered their losses, economists said further turbulence may lie ahead.



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Fed Chair Janet Yellen

The Fed's statement puts a September rate hike back in play, says Scott Anderson, chief economist of Bank of the West. But he added policymakers "would need to see further upside surprises on U.S. jobs and economic growth, an improved global outlook and more signs that inflation expectations are starting to normalize."

Markets say there's just an 18% chance of a September rate increase.

The Fed also painted a generally positive portrait of the U.S. economy. "The labor market strengthened" and "economic activity has been expanding at a moderate rate" since the Fed's mid-June meeting, it said. It added that "job gains were strong in June following weak growth in May" and "household spending has been growing strongly." Economic growth in the second quarter is expected to approach a healthy 3% annual rate after feeble gains the previous two quarters.

At the same time, the statement noted that business investment "has been soft" — a byproduct of a listless global economy, strong dollar and oil industry downturn. It also reiterated that inflation remains below the Fed's 2% annual target. Some Fed officials have said persistently low inflation means there's little urgency to increase rates. And the statement reaffirmed the Fed plans to lift rates gradually.

It has kept its benchmark rate unchanged since raising it in December — to a still meager 0.4% — for the first time in nine years. Policymakers have cited a sluggish global and U.S. economy and financial market turmoil.

After U.S. job gains totaled just 11,000 in May, Fed Chair Janet Yellen said that policymakers needed assurances that the economy and labor market were back on track before lifting interest rates again. Employers then added a booming 287,000 jobs in June. Barclays economist Michael Gapen predicts that solid payroll gains in July and August would prod the central bank to make a move in September.