Fed minutes: Rate hike 'fairly soon'

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WASHINGTON Many Federal Reserve officials said the central bank may raise interest rates "fairly soon" and "potentially at an upcoming meeting" to head off a pickup in inflation, leaving the door firmly open to a March rate hike, according to minutes of the Fed's Jan. 31-Feb. 1 meeting.

Fed policymakers said such a step could be necessary if the advances of the labor market and inflation were "in line with or stronger than their current expectations."

The Fed also has started to discuss shrinking its $4.5 trillion balance sheet, a move that would mark a milestone in the 7½-year-old economic recovery and could push up long-term interest rates.

Fed officials seem to be increasingly concerned they may need to get ahead of accelerating inflation by nudging short-term rates higher sooner rather than later.



J. SCOTT APPLEWHITE, AP

Federal Reserve officials, who raised interest rates in December, have forecast three increases in 2017 and two to three annually over the next couple of years.

puts March in play

"A few participants noted that continuing to remove policy accommodation in a timely manner, potentially at an upcoming meeting, would allow the committee greater flexibility in responding to subsequent changes in economic conditions," the minutes said.

Among the chief reasons Fed officials foresee the possibility of faster growth and inflation is President Trump's proposed infrastructure spending and tax cuts. Policymakers "continued to view the possibility of more expansionary fiscal policy as having increased the upside risks to their forecasts," the minutes said. But some officials also perceived risks of slower growth from some of Trump's proposals, presumably restrictions on trade.

Several policymakers also said the risk of "undershooting" the Fed's long-run unemployment target was "high, particularly if economic growth was faster than currently expected."

In that case, the Fed might have to raise rates more rapidly than anticipated to curtail inflation, bolstering the argument for lifting rates next month.