Fed on track to raise interest

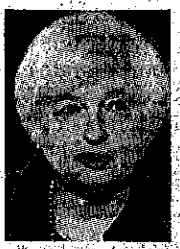
But exact timing, number of hikes up for contention

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WASHINGTON Citing an improving economy, the Federal Reserve signaled Wednesday it's on track to raise historically low interest rates as early as September, but that rates are likely to climb more gradually than it previously anticipated.

Fed policymakers continue to expect the Fed's benchmark rate to rise from 0.125% to 0.625% by the end of the year, in line with their median estimate in March, according to forecasts released Wednesday. Economists have said there almost certainly would have to be two rate hikes to reach that level, with the first likely coming in September. The rate has been near zero since the 2008 financial crisis.

But debate among the officials on the timing of the move is becoming more heated. Seven of the 17 policymakers expect no more than one rate hike this year, up from three in March. That suggests the initial bump in rates could slip past September, says Michael Gapen, chief U.S. economist of Barclays Capital. The Fed also expects slower rate increases in 2016 and 2017.



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Janet Yellen

In a statement after a two-day meeting, the Fed depicted an economy that has emerged from a first-quarter slump, noting job gains have "picked up," household spending has been "moderate" and housing "has shown some improvement."

And at a news conference, Fed Chair Janet Yellen said energy prices and a strong dollar appear to have stabilized and there are clues that wage increases are picking up. Those are all signs unusually low inflation could soon accelerate,

rates in fall

giving the Fed the confidence it has been seeking to boost rates this year.

But after the economy shrank early this year, the Fed lowered its forecast for economic growth in 2015 to 1.8% to 2%. It estimates the unemployment rate, now 5.5%, will fall to 5.2% to 5.3% by the end of the year, a bit higher than its previous forecast.

"My colleagues and I would like to see more decisive evidence that a moderate pace of economic growth will be sustained" before hiking rates, Yellen said.