Yellen cautious on U.S. economy

Fed chair tells Congress 'gradual' interest rate hikes make sense for now

Adam Shell
@adamshell
USA TODAY

Federal Reserve Chair Janet Yellen, citing "considerable uncertainty" in the U.S. economic outlook and "vulnerabilities" abroad, says the U.S. central bank will proceed "cautiously" when raising interest rates and sees a "gradual" pace of increases.

Yellen's comments on the U.S. economy and monetary policy, global headwinds from China and a potential shock if Britain votes to leave the European Union came in the first of two days of testimony before Congress.

The testimony came less than a week after the Fed broke from its two-day June meeting and Yellen told investors the Fed not only wasn't hiking interest rates in June, but was dialing back the number of hikes it sees in 2017 and 2018 amid an acknowledgment U.S. economic growth will remain in the subpar 2% range at least through 2018.



JIM LO SCALZO, EPA

Fed Chair Janet Yellen

The Fed's recent comments that a more gradual pace of rate hikes make sense now runs counter to communication in the weeks heading up to the June meeting when various Fed officials, including Yellen, were optimistic about the ability of the economy to withstand a series of gradual hikes beginning as early as this summer. The Fed has yet to hike interest rates in 2016 after boosting them in December for the first time in nearly a decade.

In her prepared remarks Wednesday, Yellen said "considerable uncertainty about the economic outlook remains."

Yellen ticked off a number of other risks that are giving the Fed pause and which make a less-aggressive approach to interest rate hikes appropriate. One pertains to flagging U.S. growth. The Fed fears domestic demand at home "might falter." Another headwind the Fed chair would not rule out was the prospect of "slow productivity growth" continuing.

Yellen noted that Thursday's coming vote in Britain on whether to exit or stay in the European Union is high on the list of potential international risks. "A U.K. vote to exit the European Union could have significant economic repercussions," she wrote.

And though Yellen said some of the headwinds that China, the world's second-biggest economy, has been facing appear to have eased somewhat, she still warned that it remains a worry.

In her update on the U.S. economy, Yellen said that over the long term, she is "optimistic that we will see further improvements in the labor market and the economy more broadly over the next few years." But, the short-term outlook is less certain, she added.