Fed keeps rates steady — for now

Interest rate hike still on the table for December

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Jerome Powell, a governor of the U.S. Federal Reserve, is favored to be its next chairman. BLOOMBERG VIA GETTY

WASHINGTON — The Federal Reserve held its key interest rate steady Wednesday but provided an upbeat economic outlook that leaves the door open to an anticipated rate hike in December despite persistently weak inflation.

In a statement after a two-day meeting that occurred against a backdrop of imminent changes in the central bank's leadership, the Fed said it left its benchmark federal funds rate unchanged at a range of 1% to 1¼%, as expected.

But Fed policymakers said "the labor market has continued to strengthen" and "economic activity has been rising at a solid rate despite hurricane-related disruptions." The economy grew at a surprisingly strong 3% annual rate in the third quarter despite Hurricane Harvey in Texas and Hurricane Irma in Florida, the government said last week.

The Fed added that the storms caused job losses in September but "the unemployment rate declined further." Economists expect the Labor Department on Friday to announce big payroll gains for October as idled employees returned to work.

The statement did nothing to discourage the widespread view that the Fed will lift its benchmark rate by a quarter percentage point for a third time in 2017 at its mid-December meeting. Before the release of the statement, fed fund futures indicated a 97% chance of a December hike, according to CME Group. Another rate increase could nudge rates higher across the economy, including for mortgages, credit cards, business loans and savings accounts.

And while the Fed noted that rising gasoline prices following the hurricanes boosted overall consumer prices, it added that its preferred measure of inflation, which excludes food and energy costs, "remained soft." That reading fell to 1.3% in September from close to its 2% annual target early this year. Fed Chair Janet Yellen largely has blamed temporary factors, such as the rollout of unlimited cellphone data plans. But some Fed officials have pointed to longer-term trends that may be holding down wages and prices.

As a result, some of the policymakers favor putting off the next rate increase until next year. Yet Wednesday's statement reiterated that Fed officials expect inflation to stabilize around the 2% target "over the medium term."

The Fed also noted that it's continuing the gradual reduction of its $4.5 trillion asset portfolio, an initiative it launched in September.