MONEY

Fed raises interest rates, keeps forecast for 3 in '18

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WASHINGTON – Citing a brighter economic outlook, the Federal Reserve raised its key short-term interest rate Wednesday and maintained its forecast for a total of three hikes this year amid still-modest inflation.

The move is expected to ripple through the economy, nudging consumer and business borrowing costs higher, especially for variable-rate loans such as adjustable-rate mortgages and credit cards.

Jerome Powell

The Fed's policymaking committee, as widely anticipated, lifted the federal funds rate — what banks charge each other for overnight loans — by a quarter percentage point to a range of 1½% to 1¾%. That's still low by historical standards but it marks the central bank's fourth rate increase in the past 12 months and another vote of confidence in an economy that's picking up steam nearly nine years after the Great Recession ended.

"We're trying to take that middle ground" on rate hikes, boosting rates enough to head off an eventual spike in inflation without derailing the economic expansion, Fed Chairman Jerome Powell said at a news conference. The meeting was the first led by Powell — a Republican and appointee of President Trump — who took the reins from Democrat Janet Yellen last month.

▮ How fast rates will rise: Wednesday's hike was all but certain. Most of the suspense centered on whether the Fed would bump up its forecast from a total of three quarter-point increases this year to four. It held steady at three but raised its projection from two to three next year as inflation picks up.

The Fed expects its key rate to climb to about 2.1% at the end of the year and 2.9% by the end of 2019 and over the longer run. It still expects "further gradual" rate increases.

With federal tax cuts and increased spending set to juice growth over the next couple of years, some analysts expected policymakers' median projection to factor in an additional hike in 2018. That could have unnerved already volatile markets. But surprisingly tame consumer price increases likely persuaded Fed officials to stand pat.

▮ The economy: The Fed expects growth of 2.7% this year, up from its December forecast of 2.5%, and 2.4% in 2019, up from its prior 2.1% estimate. Both top the tepid 2.2% average during the nearly 9-year-old recovery. "The economy is healthier than it's been since before the (2008) financial crisis," Powell said.

▮ President's policies: Powell voiced doubt about Trump's vow to grow the economy 3% on a sustained basis. "That's well above almost all estimates," he said. But Powell also downplayed concerns that Trump's sweeping steel and aluminum tariffs will hobble growth.

▮ Jobs: The Fed said the "labor market has continued to strengthen," adding that "job gains have been strong in recent months, and the unemployment rate has stayed low."

Employers added more than 200,000 jobs in January and a booming 313,000 in February. Policymakers expect the 4.1% unemployment rate to fall to 3.8% by the end of the year. Very low unemployment is likely to accelerate tepid wage growth as employers compete for fewer available workers.