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Federal Reserve Leaves Interest Rates Unchanged Following Ten Consecutive Hikes

After ten consecutive interest rate increases, the Federal Reserve finally left rates unchanged. Although the Fed left rates unchanged for now, they are projected to increase interest rates once again before the end of the year. The Fed plans to take another six weeks to see if their decisions continue to fight inflation.

Officials are expecting there to be at least two more interest rate hikes, ultimately leaving rates at 5.6% or higher at the end of the year. “We have raised our policy interest rate by five percentage points, and we’ve continued to reduce our security holdings at a brisk pace. We’ve covered a lot of ground and the full effects of our tightening have yet to be felt,” said Fed Chair Jerome Powell. The issue with changing interest rates and using monetary policy by the Fed is that there is a lag, so to speak, where there isn’t a change in the economy for some time after policies are implemented. The end goal, of course, is to fight off high inflation.

In May 2023, inflation declined to around the four percent mark, which is the lowest it has been since early 2021 which gives clear reason as to why interest rates did not increase this time around. Although rates now can be still considered high, it is important to understand inflation was very high, especially in 2022 and it has to be carefully watched and interest rates will be very meticulously adjusted.

Although four percent inflation seems low, especially when compared to the over nine percent inflation in the near past, the goal is around two percent, which can further explain speculation for future hikes in rates by the Fed. Unemployment rates are important to watch over, also, when looking at the economy from this perspective, because inflation and unemployment are typically inversely related- meaning if inflation is high, unemployment is typically low. Because of the fact that inflation is decreasing, it is expected that unemployment rates are rising, however, this year it was noted that over half a million jobs were added in January alone, and over 300,000 in May. The fact that employment rates are still increasing, or at least on target, meant that the Fed did not see any real issues when raising interest rates to fight inflation.

The Federal Reserve must keep a balance between promoting economic growth and combating the high inflation from the last few years, and this halt in consecutive rises of interest rates is definitely a sure way to do that. The interest rates are now between 5-5.25% which generally can be considered on the higher side.

As the economy continues to evolve, it will be interesting to see what the Federal Reserve decides to do throughout the year, and if multiple rises will occur again later this year.