

Yellen signals Fed will likely raise rates in March

By Lindsay Dunsmuir and Howard Schneider
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The Federal Reserve is set to raise interest rates this month and is on track to lift them further later this year, Fed Chair Janet Yellen signaled on Friday, evidence the fears that forced the Fed to keep borrowing costs near zero for so many years are firmly on the wane.

“At our meeting later this month, the committee will evaluate whether employment and inflation are continuing to evolve in line with our expectations, in which case a further adjustment of the federal funds rate would likely be appropriate,” Yellen said at a business luncheon in Chicago.

Yellen’s strongly worded message barely budged markets, which had reset earlier this week to price in a March rate hike after several of Yellen’s colleagues in recent days also put a rise at the next rate-setting meeting firmly in view.

Stocks were down slightly, and futures tied to rate-hike expectations moved little. The comments from Fed speakers this week had already pushed market pricing of a March hike to 80 per cent.

“A rate hike isn’t just baked into the cake, the cake is practically decorated and ready to have the candles lit,” said Brian Jacobsen, chief portfolio strategist at Wells Fargo Funds Management in Menomonee Falls, Wisconsin.

The Fed next meets on March 14 to 15.

In her comments, Yellen also said rates are likely to rise faster this year as the economy for the first time in her tenure appears clear of any imminent hurdles at home or abroad.

“On the whole, the prospects for further moderate economic growth look encouraging, particularly as risks emanating from abroad appear to have receded somewhat,” Yellen said.

The Fed’s employment goal has largely been met, Yellen said, and inflation is perking up.

Inflation data on Wednesday showed consumer prices in January posted their biggest monthly gain in four years and left the 12-month increase in prices at 1.9 per cent, just below the Fed’s 2 per cent target. The next monthly jobs report is scheduled for March 10.

The Fed raised interest rates for only the second time in a decade at its policy meeting last December, but has forecast three rate increases this year on the back of the low unemployment rate – currently 4.8 per cent – and rising inflation.

Fed policymakers have also been buoyed in their economic outlook by a surge in business and consumer confidence since Republican Donald Trump was elected U.S. president. Since the Nov. 8 election, the S&P 500 has risen 11 per cent.

Yellen did not directly address the likely impact of the Trump administration’s economic policies in her remarks.

Earlier Friday Richmond Fed President Jeffrey Lacker plugged the need for preemptive rate hikes, without explicitly mentioning March.