US Federal Reserve reaffirms commitment to near-zero interest rates

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Federal Reserve Chair Janet Yellen said Wednesday that the US Central Bank would continue to keep interest rates near zero "for a considerable time," allaying concerns on Wall Street that the Fed would set out an earlier timetable for raising interest rates. Her remarks followed a two-day meeting of the Fed's policy-making Federal Open Market Committee (FOMC).

The Dow Jones Industrial Average closed at a record high after the release of the FOMC's policy statement and Yellen's press conference. Stock prices had increased this week in anticipation of the Federal Reserve's decision.

"The people who bought yesterday got affirmation … the Fed seems to have their back," one trader told the *Wall Street Journal*. Brad McMillan, chief investment officer for Commonwealth Financial, told the Associated Press, "The Fed is not going to take the punch bowl away. They didn't want to spook the market."

While insisting that it would keep rates near zero for months to come, the Fed confirmed that it planned to end its "quantitative easing" bond-buying program in October, and presented details of its plan to terminate the program. The central bank said it would purchase another $15 billion in bonds and securities next month and stop making asset purchases in November. Yellen noted, however, that getting the size of the Fed's balance sheet back to the level prior to the Wall Street crash of 2008 "could take to the end of the decade."

Yellen insisted several times during her press conference that the FOMC policy statement "is in no way intended to signal a change in the stance of monetary policy."

The committee voted to approve the statement by a margin of 8-2. The two dissenters were Philadelphia Fed President Charles Plosser and Dallas Fed President Richard Fisher, both of whom were critical of the wording about keeping interest rates extraordinarily low for a "considerable time," believing the Fed should begin to raise rates earlier.

The Fed also said that FOMC members anticipated the central bank would raise rates somewhat earlier than previously predicted. The consensus of FOMC members was that the benchmark federal funds rate would stand at 1.25 percent to 1.50 percent by the end of 2015, up slightly from the earlier estimate of 1.0 percent to 1.25 percent. Only two of the committee's seventeen members said they expected rates to stay at zero until 2016.

Financial markets estimate that the Federal Reserve will begin raising interest rates around the middle of 2015.

The Fed has held the federal funds rate, the interest major banks charge one another for overnight loans, to near-zero since late 2008. The series of "quantitative easing" programs that have accompanied this interest rate policy has ballooned the Federal Reserve's balance sheet to more than $4 trillion.

FOMC members revised downward their projection for economic growth and raised their projection for unemployment in the coming period. The Fed's latest growth forecast, published together with its policy statement, predicts that the economy will grow at a rate of 2.1 percent this year, down from its June estimate of 2.2 percent, and 2.8 percent next year, down from its earlier estimate of 3.1 percent. The FOMC said it expects the unemployment rate to be just under 6 percent by the end of this year, and 5.5 percent next year.

"Economic activity expanded at a moderate pace," the Fed said in its official policy statement. "On balance, labor market conditions improved somewhat further, however the unemployment rate is little changed and a range of labor market indicators suggests that there remains significant underutilization of labor resources."

During her press conference, Yellen noted the ongoing prevalence of involuntary part-time work and the fact that a large number of workers have dropped out of the labor force because they have concluded that work is not available.

The US economy added fewer jobs in August than any other month this year, according to the Labor Department's latest US jobs report, published September 5. That month, 268,000 people dropped out of the labor force as the labor force participation rate fell to 62.8 percent, its lowest level in three-and-a-half decades. The number of adults not in the labor force hit a new record.

While the Federal Reserve remains committed to its near-zero interest rate policy well into 2015, there are increasing concerns that the Fed's cash infusions are fueling a financial market bubble. Over the past year, for example, the NASDAQ rose by more than twenty percent, even as the real economy remained depressed.

The massive rise in stock values has significantly increased the wealth of the rich and the super-rich. In 2013, Warren Buffett, the head of Berkshire Hathaway, saw his net worth increase by $12.7 billion. That of Amazon CEO Jeffrey Bezos grew by $12 billion, while Mark Zuckerberg of Facebook saw his wealth nearly double, from $11.3 billion to $23 billion.