Fed chair says rate hike in December a “live possibility”

Barry Grey
5 November 2015

Testifying Wednesday before the Financial Services Committee of the US House of Representatives, Federal Reserve Chairwoman Janet Yellen said a hike next month in the central bank's key interest rate remained a “live possibility.”

Yellen presented the “Semi-Annual Testimony on the Federal Reserve’s Supervision and Regulation of the Financial System,” as mandated by the 2010 Dodd-Frank financial regulatory overhaul. Most of the questioning focused on the Fed’s supervision of major banks and other financial firms, with the majority Republicans denouncing the Dodd-Frank Act, which imposed largely cosmetic regulatory changes, and demanding the lifting of all regulations on Wall Street.

The Democrats on the committee, for their part, demonstrated their subservience to the banks by arguing against any increase in interest rates until 2016 at the earliest. The Fed has not raised rates for nine years and has kept the benchmark federal funds rate at zero to 0.25 percent since the height of the financial crisis in December of 2008.

This policy, along with hundreds of billions of dollars in taxpayer bailouts and trillions of dollars in Fed bond purchases (“quantitative easing”), has underwritten an unprecedented profit bonanza for Wall Street and a stock market boom that has further enriched the multi-millionaires and billionaires.

The financial markets have been pressuring the Fed to further delay its long-promised tightening of interest rates, opposing even the slightest tapering of the flood of virtually free credit that has subsidized lucrative but entirely parasitic speculative activities such as mergers and acquisitions and stock buybacks. Meanwhile, the corporations and banks have sharply reduced their investments in productive activities, keeping the rate of economic growth at about 50 percent of the post-World War II average, depressing wages, and holding down the creation of decent-paying full-time jobs.

Yellen gave a rose-tinted picture of the state of the US economy in order to reiterate the line adopted by the Fed’s policy-setting Federal Open Market Committee (FOMC) at its meeting last week. The October 28 FOMC statement referred explicitly to the committee’s “next meeting” in mid-December as the occasion for the Fed to decide on a possible rate increase.

Yellen told the House Financial Services Committee, “At this point, I see the US economy as performing well.”

She continued: “What the [FOMC] has been expecting is that the economy will continue to grow at a pace that’s sufficient to generate further improvements in the labor market and to return inflation to our 2 percent target over the medium term. If the incoming information supports that expectation, then our statement indicates that December would be a live possibility, but, importantly, that we have made no decisions about it.”

As she has been doing for months, Yellen went to great lengths to reassure Wall Street that any initial increase in rates would be minimal and would not signal a return any time soon to a more normal monetary policy. “Moving in a timely fashion,” she said, “is a prudent thing to do because we will be able to move in a more gradual and measured pace.”

She added, “It’s been a long time that interest rates have been at zero, but markets and the public should be thinking about the entire path of policy rates over time. And the committee’s expectation is that will be a very gradual path.”

Nevertheless, Yellen’s remarks halted a market rally and led to a modest fall for the day on the major US stock indexes. They also triggered a move out of US Treasury securities, as investors responded to expectations of a rise in interest rates. Immediately after Yellen’s remarks, the yield on two-year Treasury notes, which moves inversely to price, rose to 0.83 percent, its highest level in more than four years.

Despite Yellen’s generally bullish description of the US economy, most recent economic indicators have pointed to a sharp slowdown in growth. On Tuesday, the Commerce Department reported that US factory orders declined 1 percent in September, following a downwardly revised 2.1 percent drop in August.

The Commerce Department also reported that orders for non-military capital goods excluding aircraft, generally seen as a measure of business spending plans, slipped 0.1 percent.