Economic and Market Insights

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Fed Gives Itself Some "Flexibility" on Timing of Rate Rise

All economic ears were tuned into the Federal Reserve's pronouncement Wednesday that the economy is growing stronger, but not quite strong enough to identify the exact timing of the anticipated interest rate hike.

We think Fed Reserve Chairman Janet Yellen got it right by ending its pledge to be "patient" in normalizing monetary policy, yet reserving the right to time any rate increases to when the labor market gains more momentum and inflation remains in check.

This gives the Fed the flexibility – a key change in its language – on when it decides to raise rates. The economy is in a comfortable zone and there is no reason to break that paradigm suddenly. The market reacted well when it learned it had more economic runway with which to work.

In its statement following a two-day meeting, the Fed's policy-setting committee acknowledged that job market conditions had improved. While the statement put a June rate increase on the table, it also allowed the Fed enough flexibility to move later in the year, emphasizing that any decision would depend on incoming data.

"The committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium-term," the Fed said.

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