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ECONOMY

Fed holds rates steady, says job market solid

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WASHINGTON>> The Federal Reserve left its benchmark interest rate unchanged Wednesday after cutting it three times in a row last year, a sign of a more cautious approach as the Fed seeks to gauge where inflation is headed and what policies President Donald Trump may pursue.

In a statement, the Fed said the job market is "solid," and noted that the unemployment rate "has stabilized at a low level in recent months." The Fed also appeared to toughen its assessment of inflation, saying that it "remains somewhat elevated." Both a healthier job market and more stubborn inflation typically would imply fewer Fed rate cuts in the coming months.

In a news conference Wednesday, Fed Chair Jerome Powell largely deflected questions about recent comments from President Trump, including one from last week, when Trump said he would lower oil prices and then "demand" lower rates. He also said he would speak with Powell about it.

"I'm not going to have any response or comment on whatever the president said," Powell said. Asked if Trump had communicated his desire for lower rates directly to Powell, the Fed chair said he had "no contact."

The Fed reduced its rate last year to 4.3% from 5.3%, in part out of concern that the job market was weakening.

Hiring had slowed in the summer and the unemployment rate ticked up, leading Fed officials to approve an outsized half-point cut in September. Yet hiring rebounded last month and the unemployment rate declined slightly, to a low 4.1%.

Powell conveyed a more deliberate approach to interest rate decisions at the news conference.

"With our policy stance significantly less restrictive than it had been and the economy remaining strong, we do not need to be in a hurry to adjust our policy stance."

Powell has said it is harder to gauge where inflation is headed, in part because of increased uncertainty around what policies Trump will adopt and how quickly they will affect the economy. Trump has promised widespread tariffs, tax cuts, and mass deportation of immigrants, all of which could push prices higher. The Fed typically keeps interest rates high to slow borrowing and spending and cool inflation.

In December, Fed officials signaled they may reduce their rate just twice more this year. Goldman Sachs economists believes those cuts won't happen until June and December.In November, inflation was just 2.4%, according to the Fed's preferred measure, not far from its 2% target. But excluding the volatile food and energy categories, core prices rose a more painful 2.8% from a year earlier.

The Fed pays close attention to core prices because they are often a better guide to inflation's future path.

Lindsay Rosner, head of multi sector fixed income investing at Goldman Sachs Asset Management, said "while we continue to think the Fed's easing cycle has not yet run its course, the (Fed) will want to see further progress in the inflation data to deliver the next rate cut."

Most other central banks in developed countries are cutting their interest rates. The European Central Bank, for example, is widely expected to reduce borrowing costs at its next meeting on Thursday. The Bank of Canada said Wednesday it has also cut its rate, and the Bank of England is also expected to do so next month.

The Bank of Japan, however, is actually raising its rate from a rock-bottom level. Japan has finally experienced some inflation after decades of slower growth and bouts of deflation.