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Definitely, Maybe: Fed Chair Reiterates Plans to Raise Interest Rates….Eventually

By Martin Salvucci, J.D. Candidate 2018 | October 2, 2015

Nearly one week after the Federal Reserve, once again, declined to raise its benchmark interest rate, Chairwoman Janet Yellen reiterated her expectation that the Fed would raise interest rates by the end of the calendar year. Speaking at the University of Massachusetts, Amherst, Yellen sought to quell lingering unease within the financial markets by underscoring her commitment to a timely departure from the present near-zero interest rate environment. Yellen conceded that unmet expectations for economic growth could delay the Fed's long-planned increase until 2016, but indicated that domestic economic indicators, rather than market turmoil abroad, would dictate their timeline.

Chief among these indicators is inflation, which continues to lag behind the two percent *per annum* target that the Fed considers most desirable. Yellen expressed confidence in the Fed's long-term forecasts, which continue to predict a rapid return to this "normal" inflationary environment. She also sought to downplay recent inflation shortfalls, which she attributed both to a sharp decline in global energy prices and a modest improvement in the strength of the dollar. These assertions have met with vocal criticism from some commentators, including Yellen's erstwhile rival, Lawrence Summers, the influential former Secretary of the Treasury.

Summers argues that the market for inflation-indexed bonds has assumed a more modest trajectory for inflation, and that the Fed could stifle growth needlessly by raising interest rates without sufficient reason. Summers suggests there is little reason to do so in the absence of significant acceleration in wages or prices, sustained evidence of shortages in product or labor markets, or unreasonable euphoria within the financial markets. These concerns likely reflect broad skepticism among the political class as to the true scope and scale of a still-uncertain recovery. The Fed will have two additional opportunities this calendar year to follow through on their plans to raise interest rates, once in late October and then again in mid-December.