More Facts About the Federal Reserve and Inflation

- The Federal Reserve left its key interest rate unchanged after the September meeting for the second time in its past three meetings, a sign that it's moderating its fight against inflation as price pressures have eased. But Fed officials also signaled that they expect to raise rates once more this year.
- Consumer inflation has dropped from a year-over-year peak of 9.1% in June 2022 to 3.7%. Yet it's still well above the Fed's 2% target, and its policymakers made clear that they aren't close to declaring victory over the worst bout of inflation in 40 years. The Fed's latest decision left its benchmark rate at about 5.4%, the result of 11 rate hikes that began in March 2022.
- The Fed's hikes have significantly raised the costs of consumer and business loans. In fine-tuning its rate policies, the central bank is trying to guide the U.S. economy toward a tricky "soft landing" of cooling inflation without triggering a deep recession.
- Besides forecasting another hike by year's end, Fed officials now envision keeping rates high deep into 2024. They expect to cut interest rates just twice next year, fewer than the four rate cuts they had predicted in June. They predict that their key short-term rate will still be 5.1% at the end of 2024 — higher than it was from the 2008-2009 Great Recession until May of this year.
- The policymakers' inclination to keep rates high for an extended period suggests that they remain concerned that inflation might not be falling fast enough toward their 2% target. The job market and the economy have remained resilient, confounding expectations that the Fed's series of hikes would cause widespread layoffs and a recession.
- In their new quarterly projections, the policymakers estimate that the economy will grow faster this year and next year than they had previously envisioned. They now foresee growth reaching 2.1% this year, up from a 1% forecast in June, and 1.5% next year, up from their previous 1.1% forecast.
- Core inflation, which excludes volatile food and energy prices and is considered a good predictor of future trends, is now expected to fall to 3.7% by year's end, better than the 3.9% forecast in June. Core inflation, under the Fed's preferred measure, is now 4.2%.
- The next phase for the Fed involves determining the level at which rates are "sufficiently restrictive" enough to bring inflation back down. Answering that question involves figuring out what level rates have to hit to adequately slow the economy, often referred to as the "neutral rate" of interest.