The Fed

Fed officials say tapering ‘may soon be warranted’ and interest rates rise pencilled in for 2022

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By by Greg Robb

Powell says announcement on tapering bond purchases could come in November

Federal Reserve Chair Jerome Powell testifies before Senate panel in 2020 Kevin Dietsche/AFP via Getty Images

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The Federal Reserve on Wednesday signaled it’s almost ready to taper its bond-buying program and might even move up its timetable for raising interest rates to 2022, reflecting a strong conviction the economy is on the path to full recovery.

Chairman Jerome Powell said the Fed could “easily move” in November to announce it’s scaling back its bond purchases if the economy continues to make further progress.

He also noted that inflation now sharply exceeds the Fed’s 2% target, though he stuck to his view that it should slow considerably over the next year.

The Fed has been buying $80 billion worth of Treasurys and $40 billion worth of mortgage-backed securities each month since last summer to keep long-term interest rates low and spur demand as the economy recovered from the coronavirus pandemic.

Since the summer, the Fed has been talking about slowing down its bond purchases. The central bank has been guarded though, worried there could be a repeat of the “taper tantrum” that roiled global financial markets in 2013.

The formal announcement could come at the Fed’s November 2-3 meeting, barring a major setback for the economy or another coronavirus outbreak, Powell indicated. He made his remarks at a press conference after the Fed’s latest two-day strategy session.

He said Fed officials think its appropriate for the tapering program to be gradual and end “around the middle of next year.” He made his remarks at a press conference after the Fed’s latest two-day strategy session.

“Today the Fed moved closer to the start of tapering, appeared willing to raise policy rates more aggressively than before, and revealed a little more concern over inflation,” said deputy chief economist Michael Gregory of BMO Capital Markets.

In updated projections, the Fed also penciled three interest rate hikes in 2023 and three more in 2024, bringing the benchmark interest rate up to 1.8% by the end of the period.

In a bit of a twist, though, the Fed’s so-called dot plot suggested the central bank could raise interest rates for the first time since the pandemic by 2022. Previously the Fed had indicated the first rate hike would come until 2023.

Powell, as he’s done before, cautioned investors not to read too much into the Fed dot plot chart or assume a rate hike is in the cards next year.

Read: Fed ‘dot plot’ signals higher U.S. interest rates in 2022, but Powell warns it’s not set in stone

The fed stuck with its forecast that inflation would fade back toward 2.2% by next year. The central bank expects the rate of inflation to top out around 4.2% in 2021, according to its new projections.

Many economists are doubtful inflation will fall as quickly as the Fed expects and even some senior officials at the central bank are skeptical.

Read: The Fed has bet on a future of low inflation. Here's what could go wrong

Growth in the U.S. economy, for its part, is expected to slow from an estimated 5.9% this year to 3.8% in 2022 and 2.5% in 2023. The economy's long-term growth potential is viewed as about 2.5% a year.

The unemployment rate is also forecast to fall to 3.5% by 2023 and match the 50-year low that existed prior to the onset of the pandemic.

The sunnier forecasts for the economy underscore why the Fed is ready to start unwinding its unprecedented support for the U.S. economy during the pandemic.

U.S. stocks **DJIA, +1.00%** gained and the benchmark 10 year bond yield **TMUBMUSD10Y, 1.341%** edged higher after the statement from the Fed.

Arizona official resigns after secret recording reveals criticism of fellow Republicans' lack of 'guts' to pursue 'audit' of 2020 election

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