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Federal Reserve Holds Benchmark Rate Steady

All 10 members of the central bank's rate-setting panel voted to hold the fed-funds rate in a range between 1.5% and 1.75%

Federal Reserve Chairman Jerome Powell, at a news conference after the Fed's decision, says it is too soon to say how the coronavirus outbreak will affect Chinese, global and U.S. growth. PHOTO: JACQUELYN MARTIN/ASSOCIATED PRESS

By Nick Timiraos

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WASHINGTON—The Federal Reserve left its benchmark interest rate unchanged Wednesday and reaffirmed its make-no-moves posture while it gauges how rate cuts last year cushioned the U.S. economy against a spell of weaker global growth.

"We're comfortable with our current policy stance and we think it's appropriate," Fed Chairman Jerome Powell said at a news conference after the central bank announced its decision.

But his comments suggested that lingering risks to the global economy and difficulty sustaining inflation at the Fed's 2% target meant that if Fed officials were to change rates, they would be more likely to cut them than to raise them.

Inflation has held below the target since the central bank formally adopted it in 2012, except for 2018, when Fed officials most recently raised interest rates. They reversed course last year and cut rates three times as the global economy slowed and inflation ran below 2%.

"We're not satisfied with inflation running below 2%, particularly at a time such as now where we're a long way into an expansion and a long way into a period of very low unemployment, when in theory where inflation should be moving up," Mr. Powell said at the news conference.

Mr. Powell and his colleagues have been considering changes to their inflation-targeting framework that would seek to stem falling consumer expectations of future inflation. The officials are concerned that low inflation and low nominal interest rates could hinder the Fed's ability to reduce rates to counteract a future recession.

"We have seen this dynamic play out in other economies around the world and we're determined to avoid it here in the United States," he said. Mr. Powell later said the review was designed to address how "ongoing powerful, global disinflationary trends" have hampered central banks around the world.

Mr. Powell's comments on inflation provided "a strong message that they're going to err on the side of providing more accommodation," said Kathy Bostjancic of Oxford Economics. "It's unclear at this point if that means they actually cut interest rates this year, but at a minimum, they're far, far away from considering interest-rate hikes."

The Fed's postmeeting statement Wednesday offered a mixed assessment of the economic outlook. It described consumer spending growth as moderate, a downgrade from "strong" in December, and said business investment had remained weak.

All 10 members of the central bank's rate-setting committee voted to hold the Fed's benchmark federal-funds rate in a range of 1.5% to 1.75%.

To keep the rate trading near the midpoint of that range, they also decided to slightly increase a separate rate, the interest rate paid on bank deposits, or reserves, held at the Fed, to 1.6% from 1.55%.

The technical adjustment amounts to a housekeeping move after the Fed flooded markets with cash in September to prevent money-market volatility from pushing the fed-funds rate out of its range. The Fed had lowered the interest rate on reserves closer to the bottom of the fed-funds range in September as part of those efforts.

Since Fed officials' December meeting, financial markets had been ebullient due to a cease fire in trade hostilities between the U.S. and China, and the resolution of how the U.K. would leave the European Union. Reduced geopolitical uncertainty has been joined by glimmers of firmer global manufacturing activity.

But markets have turned jittery in recent days because of worries that the outbreak of the coronavirus in China could further slow the Chinese economy, with repercussions for global demand.

"There are grounds for what I would call cautious optimism for the global economy," said Mr. Powell. "We are not at all assured of a global rebound but there are signs and reasons to expect it—and then comes the coronavirus."

The Fed became especially sensitive to global developments last year, shelving in January 2019 plans to continue lifting rates before turning toward cutting them in July amid declines in market-based rates and unexpectedly soft inflation readings.

Mr. Powell said it was too soon to say how the virus would affect Chinese, global and U.S. growth. "There will clearly be implications of course in the near term for Chinese output, and I would guess for their close neighbors," he said. "We'll just have to see what the effect is globally."

Speaking more broadly, he said the Chinese economy—the world's second-largest—was very important for the global economy. "When China's economy slows down, we do feel that," he said.

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