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## [Fed raises key rate for 13th time in 18 months Benchmark goes to 4.25% as policy-setting panel hints upward movement may end soon](#)

- Tom Abate, Chronicle Staff Writer

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The Federal Reserve raised a benchmark interest rate to 4.25 percent Tuesday, while giving what financial markets interpreted as a wink that it was close to ending an 18-month campaign of quarter-percentage-point increases.

Tuesday's action was the 13th consecutive time since June 2004 that the Fed's policy-setting committee has lifted the federal funds rate, which is what financial institutions charge each other for overnight loans. That boost drives up the prime rate, the benchmark for many business loans, and increases many consumer borrowing instruments, such as credit cards and adjustable-rate mortgages.

The Fed kicked off this tightening cycle in June 2004 when its benchmark rate was at a 46-year low of 1 percent, where it had been set to shock the nation out of an economic funk caused by recession and the Sept. 11 terrorist attacks.

Market watchers, who had expected Tuesday's increase, focused their attention on the statement that was issued after the meeting of the Fed's policy committee, looking for clues to future rate policy.

In Tuesday's statement, officials made a major revision in language that has barely changed in months. Noticeably absent was a phrase that had signaled the Fed's view that interest rates were still low enough to stimulate the economy. That raised hopes that Fed rate increases are near to ending.

That speculation sent stocks higher, while long-term bond prices rose and yields moved slightly lower, an indication that investors feel inflation remains under control despite a possible end to the central bank's tightening campaign.

"The equity markets said: 'Low inflation, moderate growth, like it,' " quipped San Francisco money manager Christopher Browne with the California Investment Trust. "The bond markets said: 'Inflation contained, Fed near done, like it.' "

The language that the Fed did not use was the phrase "monetary policy accommodation" to describe its interest rate policy.

For more than a year, Fed officials had used the phrase to suggest that, even as they pushed up short-term interest costs, rates were still low enough to stimulate the economy, by boosting home sales for example. As recently November, Fed officials said this "policy accommodation can be removed at a pace that is likely to be measured."

Federal Reserve Chairman Alan Greenspan and his colleagues know their words speak volumes. Economist Brian Bethune with the Global Insight consulting firm said by removing that phrase, Fed officials were signaling that they thought interest rates were approaching the point where they are neutral,

neither stimulating nor retarding economic activity.

"There is a light at the end of the monetary-tightening cycle," Bethune said. "They're near the neutral zone."

But economists cautioned that Fed officials added a phrase, "some further measured policy firming is likely to be needed," to signal that they weren't quite done yet, without specifying how much higher they intend to take rates.

Golden Gate University business school Dean Terry Connelly, a former investment banker, said there has been speculation about whether the Fed would stop before or after the benchmark hit 5 percent. "This is probably going to narrow the range more to the 4.5 percent to 4.75 percent," he said.

Adding to the uncertainty, the Fed statement warned that "possible increases in resource utilization as well as elevated energy prices have the potential to add to inflation pressures."

David Berson, chief economist for giant mortgage lender Fannie Mae, said that new sentence suggests that Fed policymakers are concerned enough about inflation to crank rates considerably higher if prices surge.

Jared Bernstein, with the liberal Economic Policy Institute in Washington, said the Fed should have already quit increasing rates because the inflationary pressures are coming from oil prices -- over which it has no control -- rather than wage increases or booming business investment.

"I would have liked to see them stop at 4 percent to give the job market a chance to catch up with the economy," he said.

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Fed statement Nov. 1

"Policy accommodation can be removed at a pace that is likely to be measured."

Fed statement Tuesday

"Some further measured policy firming is likely to be needed."

Analysts said the Federal Reserve's move to drop the word accommodation from its post-meeting statement could be a signal that the central bank is nearing the end of its 18-month campaign to raise interest rates.

Source: Federal Reserve, Chronicle research

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