Market Update – Part 1: 12/16/2015 – Federal Reserve Bank Raises Interest Rates
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Good afternoon – a few minutes ago, the Federal Reserve Bank, in a unanimous decision, announced an increase in overnight lending rates.

This move was absolutely expected by the financial markets.

I have cut and pasted an article from Bloomberg Newswires below which provides some details behind the move and will loop back once Fed Chairwoman, Janet Yellen finishes her press conference which is set to begin @ 2:30pm ET.

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http://www.bloomberg.com/news/articles/2015-12-16/fed-ends-zero-rate-era-signals-4-quarter-point-2016-increases

By Christopher Condon
(Bloomberg) -- The Federal Reserve raised interest rates for the first time in almost a decade in a widely telegraphed move while signaling that the pace of subsequent increases will be "gradual" and in line with previous projections.

The Federal Open Market Committee unanimously voted to set the new target range for the federal funds rate at 0.25 percent to 0.5 percent, up from zero to 0.25 percent. Policy makers separately forecast an appropriate rate of 1.375 percent at the end of 2016, the same as September, implying four quarter-point increases in the target range next year, based on the median number from 17 officials.

"The committee judges that there has been considerable improvement in labor market conditions this year, and it is reasonably confident that inflation will rise, over the medium term, to its 2 percent objective," the FOMC said in a statement Wednesday following a two-day meeting in Washington. The Fed said it raised rates "given the economic outlook, and recognizing the time it takes for policy actions to affect future economic outcomes."

The increase draws to a close an unprecedented period of record-low rates that were part of extraordinary and

controversial Fed policies designed to stimulate the U.S. economy in the wake of the most devastating financial crisis since the Great Depression. The FOMC lowered its benchmark rate to near zero in December 2008, three months after the collapse of investment bank Lehman Brothers Holdings Inc. and 10 months before unemployment in the U.S. peaked at 10 percent. While the vote was unanimous, the rate forecasts show that two officials among the full group of voters and non-voters saw no rate increases as appropriate in 2015, without identifying them.

"The committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate," the FOMC said. "The actual path of the federal funds rate will depend on the economic outlook as informed by incoming data."

Balance Sheet

The FOMC said it expects to maintain the size of its balance sheet "until normalization of the level of the federal funds rate is well under way."

The quarter-point increase in the target fed funds rate, the overnight interbank lending rate that influences other borrowing costs in the economy, was forecast by 102 of 105 analysts surveyed by Bloomberg News.

The Fed gave a largely positive assessment of the U.S. economy, saying that expansion continued at a "moderate pace" and that a "range" of job-market indicators "confirms that underutilization of labor resources has diminished appreciably since early this year."

The central bank also said that the risks to the outlook for economic activity and the labor market are now "balanced," changing from a previous reference to being "nearly balanced." The Fed said monetary policy is still "accommodative after this increase, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation." The central bank acknowledged the state of low inflation, saying that it plans to "carefully monitor actual and expected progress toward" its 2 percent target.

As part of the decision, the Fed increased the interest it pays on overnight reverse repos to 0.25 percent from 0.05 percent to put a floor at the lower end of the range. It also raised the interest it pays on excess reserves held at the Fed to 0.5 percent from 0.25 percent to mark the upper end of the range.

In a related move, the Fed's Board of Governors unanimously voted to raise the discount rate, which covers direct loans to banks, by a quarter point to 1 percent.

Press Conference

Fed Chair Janet Yellen is scheduled to hold a press conference at 2:30 p.m. in Washington.

In addition to setting rock-bottom short-term interest rates during the crisis, the Fed engaged in three rounds of bond purchases aimed at suppressing long-term rates to stimulate borrowing and spending. Officials also provided unusually explicit guidance, assuring investors for years they intended to keep rates low well into the future.

Prior to 2008, the effective fed funds rate had never dropped below 0.63 percent, according to data compiled by the St. Louis Fed dating back to 1954.

In Dec. 3 remarks Yellen drew attention to how much the economy had mended since the darkest days of the recession, noting that unemployment had fallen by half to 5 percent, close to Fed estimates for the long-run normal level.

Still, the recovery has been disappointing for many. Household incomes remain lower than they were a decade ago when adjusted for inflation, and wages have climbed only sluggishly even as firms hired back workers. Hourly earnings have risen by about an average 2.2 percent annual pace over the past seven years, compared with 3.3 percent in the 20 years through 2008.

GDP Forecast

Gross domestic product expansion hasn't topped 3 percent since the third quarter of 2010, on a year-on-year basis. It's

projected to grow 2.2 percent in the three months through December.

Representing another symptom of weakness, inflation hasn't reached the Fed's 2 percent target since April 2012. The core version of the central bank's preferred gauge of price pressures, which strips out volatile energy and food prices, was just 1.3 percent in the 12 months through October.

Yellen said Dec. 3 that continued labor-market improvement this year had bolstered her confidence that inflation would move back toward the Fed's 2 percent goal.

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