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Fed relaxes inflation target in policy shift

The Federal Reserve has signalled a major shift in its approach to managing inflation, as it tries to do more to aid the US economy's recovery. The Central Bank will now target an 'average' of 2% inflation, rather than making 2% a fixed goal, giving it more flexibility, boss Jerome Powell said.

It will allow the bank to keep interest rates lower for longer, stimulating growth to help tackle unemployment.

It comes as millions are out of work due to the economic hit of coronavirus.

"It is hard to overstate the benefits of sustaining a strong labour market, a key national goal that will require a range of policies in addition to supportive monetary policy," Powell said. The Federal Reserve has for years set 2% as an optimal level of inflation to maintain a healthy economy.

If it feels inflation could go above that level, it can raise interest rates - however, this makes borrowing money more expensive for consumers and businesses.

With the US in a sharp recession due to the pandemic, the Fed has cut rates to almost zero and launched a $700bn stimulus program to help revive growth.

But speaking at Jackson Hole, the Fed's annual economic symposium, Powell said the bank needed to go further to tackle unemployment, which is currently above 10%.