Tuesday, Sept. 17, 2024 / The return of easy money

[HALF SECOND OF SILENCE]

[BILLBOARD]

NOEL: Happy interest rate cut week to all who celebrate.

*<*[*CLIP*](https://www.tiktok.com/@tonysrealestatetips/video/7415302065888447786?q=interest%20rate%20cuts&t=1726578003462)*> Tony’s Real Estate Tips.”So, the feds are supposed to cut rates this Wednesday. We’ve all be waiting for it. Everybody’s been going crazy, it’s like, my life’s gonna change, I’m gonna have so much money in my pocket.”*

NOEL: Fed Chair Jerome Powell, you wanna say a few words?

*<*[*CLIP*](https://www.youtube.com/watch?v=nfpvJ1qR6Jg)*> Fed Chair Jerome Powell: “The time has come for policy to adjust.”*

NOEL: Inspired and inspiring! Thank you, sir.

The Fed is expected to announce a rate cut tomorrow. A move it hasn’t made since March of 2020, when we were in our pandemic era.

NOEL: After that, it spent years RAISING rates to fight inflation.

NOEL: So what does a rate cut mean for you: COULD mean lower mortgage payments, cheaper car loans, cheaper business loans.

NOEL: All that and more on Today, Explained.

*<CLIP> TikTok: I might not have money for food or to hang out with my friends, but I always have money for candles.*

[THEME]

KIMBERLY: My name is Kimberly Adams. I am a host at the Public Radio Business and Economy Program Marketplace. I'm also a senior Washington correspondent and I co-host our podcast, Make Me Smart.

NOEL: Kimberly, why is this week such a big deal on your beat?

KIMBERLY: It is a big deal because we are expecting the Fed to cut interest rates for the first time since the pandemic and that is a huge deal. So there were, as people might remember, a series of emergency meetings at the start of the pandemic where the Federal Reserve basically cut rates down to zero. Then all the things happened in between. And then we've been a high interest rate environment since then and we've been there for a while. Now we're finally expecting rates to go down again.

*<CLIP> JEROME POWELL: “The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of incoming rate cuts will depend on incoming data, evolving outlook, and balance of risks…”*

NOEL: So the first rate cut since the pandemic. Take us back in time and just walk us through how we got to this point where we're all so excited about the Federal Reserve and its business.

KIMBERLY: I know the Fed, the most exciting thing in the world

NOEL: laughs

KIMBERLY: So…

SCORING IN—STACKING LADDERS

KIMBERLY: back in early 2020 when the pandemic was just getting going. In March of that year, the Fed saw that the coronavirus pandemic was going to be a big risk to the economy. They held an emergency meeting and cut rates, which were already pretty low, even lower.

*<CLIP> MSNBC: excuse me in all the excitement I realized that I’ve taken off my microphone so im gonna just slide it up here…”*

KIMBERLY: And then they had another emergency meeting and cut rates to zero.

*<CLIP> MSNBC: overall its an indication that people at the federal reserve are very concerned about the state of the economy and what coronavirus can do to not just the US economy, but a global slowdown.”*

KIMBERLY: You know, by April, unemployment had hit more than 14% and the economy was in a freefall. So the Fed was trying to make it as easy as possible to borrow money so that there was some stimulus in the economy so that businesses could get loans to bridge them if they needed it, so consumers could borrow money at lower rates if they needed to sort of cover themselves for a while. And we kept interest rates pretty close to zero for a couple of years.

SCORING OUT

KIMBERLY: In January of 2022, things were starting to really get back to their normal, the sort of pre-pandemic reality. So in January of 2022, the Federal Reserve said that we had finally reached a period of maximum employment.

*<CLIP> POWELL, 2022: “Today, in support of these goals the FOMC kept its policy interest rate near zero, and stated its expectation that an increase in this rate would soon be appropriate.”*

KIMBERLY: And if you remember, the Fed has a dual mandate. It wants maximum employment and price stability.”

NOEL: Alright, so the Fed cuts rates to near zero. Things evened out. It's easy money, but that easy money is necessary because we're in a worldwide pandemic. And then at some point, the Federal Reserve says, okay, wait, conditions have changed and we need to move in a different direction. Why and when did the Fed start raising the interest rate again?

KIMBERLY: The Fed starts raising interest rates in the spring of 2022 because several things started happening. During the pandemic, a lot of people were at home. More people were at home. At the same time, many people were getting stimulus checks

*<CLIP> TIK TOK: “you my stimmy hit boy! Me too! Yay!”*

KIMBERLY: And so they typically had more cash on them than they might have otherwise.

*<CLIP> YOUTUBE: The stimulus check..I’m using it to pay off bills, OK? So we’re not worried about them anymore.’*

KIMBERLY: And that increased the just amount of money that people had to spend and people started spending it.

*<CLIP> YOUTUBE REEL: “Pokemon cards I am going to buy with my Stimmy check: this copy of PSA9 Hitmon top.”*

KIMBERLY: And then once people got back out into the world, they were spending it even more.

*<CLIP> NBC: “Among Americans topped searched destinations for 2022 are domestic spots like Orlando, and Maui…”*

KIMBERLY: At the same time, there were major supply chain disruptions. So if you remember how hard it was to get certain things like appliances, I remember I needed to fix my dishwasher, which stopped working at one point. And the wait for the part was so long and it was so impossible to get that it ended up making more sense for me to eventually get a new dishwasher because it was just impossible to get the part. And that was just so emblematic of the supply chain disruptions that we were seeing.

NOEL: Tried to buy a bed. I tried to buy a bed.

KIMBERLY: Tried to buy a bed.

NOEL: I slept on the floor. I slept in a sleeping bag for, like six months..

KIMBERLY: Exactly. And so there were really long waits and that drove prices up. And so that contributed to inflation.

*<CLIP> NBC NEWS, 2022: “President Biden Tuesday called inflation the country’s top economic challenge, and pointed the finger at two causes. BIDEN: The first cause of inflation is a once in a century pandemic. The second cause: Mr. Putin’s war in Ukraine.”*

KIMBERLY: So you had a lot of different things contributing to rising prices. And the Fed was watching all of this and started to see that inflation was creeping up.

SCORING IN—BIG STUPID WOLLY

KIMBERLY: Now, at first, the Federal Reserve kind of had this idea that these supply chain shocks and these sort of pent the pandemic stimulus influencing people's spending habits and people sitting on all these savings that all of that was going to work its way out of the system and that the inflation we were seeing was going to be

NOEL: Transitory.

KIMBERLY: Transitory.

*<CLIP> JEROME POWELL: “What I mean by transitory is something that doesn't leave a permanent mark on the inflation process..”*

KIMBERLY: I know they regret that so much because that came back to bite them.

NOEL: laughs

KIMBERLY: And it turned out that it wasn't for a bunch of reasons. Number one, people seem to just keep spending. The U.S. consumer is a resilient character. And even as savings went down, even as people spent down any reserves they'd built up over the stimulus, they still kept spending. They kept traveling, they kept going out. I mean, people were really trying to make up for lost time, you know, seeing everybody going to Greece on social media. People got FOMO and just wanted to travel and all of these things. And this kept driving up prices.

SCORING OUT

NOEL: All right so the inflation sticks around. And this is when the Fed decides its time to raise rates?

KIMBERLY: Before we get to the Fed raising interest rates, I do want to bring up one of the things that held the Fed back from raising interest rates, which was this desire to make sure that the benefits of the low interest rates reached everyone. One of the other things that was happening during the pandemic, while the Fed was keeping interest rates low to try to stimulate the economy is that George Floyd was murdered, kicking off the Black Lives Matter protests throughout the country. And as part of those protests, there was a big economic justice narrative about economic inequality in this country. And it was highlighted then, and is often highlighted, that black unemployment often far outpaces white unemployment. So one of the reasons that the Fed was pretty open about holding back on raising rates was this desire to make sure that the economic recovery reached lower income and marginalized groups.

NOEL: All right. So inflation persists. Some of it persists because of global economic factors. Some of it persists because of spending patterns. Some of it persists because of decisions that the Fed itself has made. And then the Fed says, okay, inflation is making us nervous. The era of easy money has to end. We've got to raise the interest rate. And what happens to the American economy at that point?

SCORING IN—TOOTHBRUSHING DRONE

KIMBERLY: One of the ways that interest rates tend to show up the most obviously, is in mortgage interest rates. It's a pretty clear connection. When the Fed raises interest rates, mortgage rates go up, and that made home buying less affordable for many, many people,

*<CLIP> CBS NEWS: What is keeping you up at night? WOMAN: Trying to find a house with the mortgage prices going up and everything else. It’s just been a bit of a nightmare honestly.”*

KIMBERLY: You also saw, you know, people's credit card payments were going up because those credit card interest rates are linked to the Federal Reserve interest rate.

NOEL: Hmm.

*<CLIP> TIK TOK: “For anyone with a Macy’s credit card I just got a notice in the mail that my APR is going up..wait until you hear this… 34.49 percent”*

KIMBERLY: For businesses, it's been really challenging. So if you are a small business and you want to expand your business, you might want to get a loan. Now, in the era of low interest rates, that's fine. You can get your loan and not really have to worry about, you know, it being an astronomical cost to pay it off. But now, because money is a lot more expensive, with these higher interest rates, you might be a bit more cautious about taking on that additional loan to expand your business or to hire an additional person who you think might help your business grow. And so you see businesses really kind of tightening their belts. Another way it shows up is in the commercial real estate market,

*<CLIP> PBS NEWSHOUR: “decreased demand for offices coupled with high interest rates have put some serious pressure on leaseholders and smaller banks in particular….”*

KIMBERLY: It's driving up the cost of keeping these office buildings going. And so you see these rates start to ripple through, you know, different sectors of the economy.

*<CLIP> KPRC Houston: [GUY GETTING OUT OF CAR] THe fact is right now the average instant rate on a new car loan stands at a staggering 7.4 percent. Just a year ago it was 4 percent!”*

SCORING OUT

NOEL: So because of rising interest rates, the American economy starts to feel dicier. What is the conversation like behind closed doors at the Fed and what is the conversation about the Fed?

KIMBERLY: So, the Fed has been waiting all this time for a little bit of movement on unemployment, for the unemployment rate to go up a little bit - the Fed has been waiting for inflation to cool enough for the Fed to feel like these interest rates have really worked. And it's finally to the point where the Fed feels like they've waited long enough.

SCORING— TOOTHBRUSH DRONE RETURNS

NOEL: Coming up next: the era of easy money is back, baby. What it means for you. We’ll have more with Kimberly.

[BREAK]

[BUMPER]

NOEL: It's Today, Explained. We're back with Kimberly Adams of Marketplace and Marketplace's Make Me Smart. Okay. So, Kimberly, the Fed is expected to cut interest rates this week for the first time in a very long time. You've laid out why they're doing it, what kind of forced their hand. There's a lot of excitement here. Is the excitement justified? Are we going to see a pop now?

KIMBERLY: you may see a pop in the markets just because the stock market reacts to everything.

NOEL: hmmm

KIMBERLY: But in terms of a major change in the economy right away, probably not.

NOEL: huh!

SCORING IN—Disco Infernal

KIMBERLY: A lot of the things that would be affected by a change in interest rate have already adjusted to the fact that they know this interest rate is coming.

*<CLIP> CNBC: “The markets are very dovish, expectations are 25 to 50 basis points at that September meeting..”*

KIMBERLY: Fed Chair Jerome Powell has gone out of his way to message everything that's coming.

*<CLIP> POWELL: With an appropriate dialing back of policy restraint there is good reason to think that the economy will get back to 2 percent inflation while maintaining a strong labor market.”*

KIMBERLY: So that he doesn't want anybody to be surprised by anything that he does. And so he and the other Fed officials, the other Fed presidents, the members of the Federal Open Market Committee, have been messaging for a while that an interest rate cut is coming.

*<CLIP> CNBC: “So the market right now is pricing in 50-50 odds that they cut 50 basis points instead of 25, and we think that Chair Powell is probably sympathetic…”*

SCORING BUMP

KIMBERLY: What is going to be the most interesting is what Fed Chair Jerome Powell says in the press conference when he announces whatever this rate cut is going to be; what he says about what comes next. Is he going to give any kind of indication of, you know, how many rate cuts are coming or whether they're planning to wait and see with this, you know, likely relatively small rate cut, you know, for now. And we're not talking about a massive rate cut. We're talking about a pretty small rate cut, just to get a sense of how the economy reacts.

SCORING OUT

NOEL: Kimberly, we know that Joe Biden has been blamed for what Americans feel like are real problems in the economy.

*<CLIP> BIDEN: come on folks…”*

NOEL: Let's say Jerome Powell comes out this week and says this is the beginning of an easing cycle. It's not just going to be one, guys; we're moving forward from here. Is that better news for candidate Harris or candidate Trump?

KIMBERLY: It's likely better news for candidate Harris because it's a signal that inflation, you know, is going down. In some sectors, you actually are seeing prices go down in addition to the rate of inflation going down. And it's also, you know, we've got still historically low unemployment, even though it's, you know, going up a little bit. But it's a sign that the economy has, you know, had a really successful recovery from the pandemic. And, you know, could mean that the Fed is taking a bit of a victory lap or a cautious one, but one nevertheless, and, for better or worse, presidents get blamed for the economy.

*<CLIP> RONALD REAGAN: “ I think when you make that decision it might be well if you would ask yourself: are you better off than you were four years ago?”*

KIMBERLY: or sometimes get credit for a good economy.

*<CLIP> TRUMP: I created one of the greatest economies in the history of our country. I’ll do it again, and even better…”*

KIMBERLY: And this would be a signal that the economy is, you know, continuing to do better, that prices are going to be easing and that could help candidate Harris, you know, in terms of voter perceptions on the economy.

NOEL: All right. So that's what this may mean for politicians. What would an easing cycle mean for the rest of us?

KIMBERLY: If you're lucky enough to be in a position to buy a home, it'll mean that you'll probably see continued decreases in mortgage rates.

*<CLIP> YAHOO FINANCE: I think as the Fed starts to cut rates we will see some additional tailwinds for rates to move lower as interest rates normalize more broadly speaking..”*

KIMBERLY: You know, if you're somebody with credit card debt, you're not going to see a huge drop in your interest payments, but maybe a little bit. If you are a business owner and you are thinking about expanding and you need to get a loan to do that, it may be a little bit easier to get a loan at a rate that feels affordable to you.

NOEL: What does it mean for the economic vibe of the country? Right now, we’re kind of in a headspace – I mean, I noticed this – I'm sure you noticed this, where when we talk about the economy, we sort of say it's not a very good economy, even if our brains and training tell us no, in fact, it is. The vibe is bad. What do you think a rate cut cycle could mean for the vibe?

KIMBERLY: A lot of people look to the Fed for just sort of a signal of how they think the economy is doing, right?

SCORING IN —BIRDS Dress me in the Morning

KIMBERLY: And so for many more months than I care to recall, people were predicting a recession was going to come from all of these rate increases.

*<CLIP> LARRY SUMMERS: “The recession risks through the year 2022 have to have gone up in a quite material way..”*

KIMBERLY: it was just it was nonstop. Every news channel you turned on, they're like, “Oh, with these high interest rates,”

*<CLIP> CNBC: We are going into a recession, aren’t we luke? LUKE: That’s my base case…”*

KIMBERLY: And it didn't happen.

*<CLIP> TODAY, EXPLAINED: “soft landing….”*

KIMBERLY: And we did, all these stories at Marketplace about whether we could talk ourselves into a recession.

NOEL: Oh yeah, I remember.

*<CLIP> MARKETPLACE: Being an economist right now is a little like being a doctor talking to a totally healthy patient who keeps insisting they’re sick. “You’re saying like, ‘Your EKG is fine. Your blood work looks fine,' The problem is that the patient keeps saying, ‘No, I’m not fine! I’m really not fine. I don’t feel good.'”*

KIMBERLY: And so once people stopped talking about, my gosh, a recession is coming, my gosh, a recession is coming. Consumers started to feel a little bit less worried about a recession coming and maybe felt a little bit more comfortable spending. And therefore, that kind of continued this trend of consumer spending.

*<CLIP> CBS: US Consumer Confidence grew for the month of August. The Conference board says both the long term consumer consumer confidence index, and the short term expectations index are up for this month…”*

KIMBERLY: And then to have the Feds say: okay, well, now we're well into the recovery. We seem to be doing all right and now we're ready to lower interest rates and make it easy to borrow money again. That is just going to sort of add to people feeling pretty good about it.

SCORING OUT

NOEL: You've been covering the economy for a long time. What are you thinking about, big picture? Like, what does this mean for the Federal Reserve and the long maligned Jerome Powell, whose name has been a cuss word for the past couple of years?  
  
 *<CLIP> TRUMP: “He has so far made a lot of bad decisions in my opinion…”*

KIMBERLY: It could mean a cautious victory lap. If we look back on this period and say that, this Fed took us from the worst economic collapse since the Great Depression and engineered a soft landing in this economy. That is going to be quite the feat. And there will be many books and dissertations and papers written about this for years to come, because this was a really hard thing to do. I mean, think about just how many moving parts there are in this economy. And the Fed had to navigate all of those with this one tool that it has of setting interest rates~~.~~ And if they if it turns out that they did it and we do get this soft landing, that's going to be quite something for them to celebrate, even though I'm sure they'll keep it pretty low key.

SCORING IN—BIRDS DRESS ME RETURNS

NOEL: Kimberly Adams, you can hear on the radio at Marketplace, on podcasts at Make Me Smart, both great shows. Kimberly, thank you so much for joining us.

KIMBERLY: Thanks for having me, Noel.

NOEL: Miles Bryan produced today’s show. Matthew Collette RIP and Miranda Kennedy edited. Patrick Boyd and Andrea Kristinsdottir engineered. Laura Bullard fact-checked. I’m Noel King. It’s Today, Explained.

[10 SECONDS OF SILENCE]