Fed Unlikely to Cut Rates Again Unless Economy Shows Signs of Weakening
Fed Plans to Hold Interest Rates Steady

(Nov. 2019) Federal Reserve officials do not plan to cut interest rates again unless economic data begins to show cracks, a message reinforced by the minutes from their October meeting.

After the Fed cut interest rates last month — its third reduction this year — most officials thought that policy "would be well calibrated" to support the economy, according to the minutes, unless something were to cause "a material reassessment" of the outlook.

A "couple" of officials even thought that the Fed should make it clear that another rate cut was unlikely "unless incoming information was consistent with a significant slowdown in the pace of economic activity."

The meeting notes, released Wednesday, underline that the central bank plans to leave its policy unchanged for some time, even as President Trump urges it to slash borrowing costs to zero or below.

While Mr. Trump has urged the Fed to stimulate the economy and cheapen the dollar, the central bank operates independently. Officials set policy to achieve stable inflation and maximum employment over time, and their job is to smooth over business cycles.

Fed policymakers were raising interest rates steadily as recently as December 2018 to rein in a growing economy, but they changed their approach this year as tensions from Mr. Trump's trade war and slowing growth abroad weighed on the United States economic outlook and inflation languished below the Fed's target. They have cut interest rates three times since late July, to a range between 1.5 and 1.75 percent.

"A number of participants were concerned that weakness in business spending, manufacturing, and exports could spill over to labor markets and consumer spending and threaten the economic expansion," the minutes note.

Now, consumer spending is holding up, the labor market is strong, and trade tensions could ease — so policymakers have been making it clear that they want to pause and watch how the economy is shaping up before taking further action.

"My own thinking is that the committee has made a pretty substantial adjustment in the path of rates," Lael Brainard, a Fed governor, said Wednesday, speaking in a CNBC interview. "It will take some time to see that work through the economy. I certainly want to monitor and assess how the economy is reacting to those cuts."

The Fed's patient outlook is predicated on the assumption that the economy, helped along by lower rates that are fueling the housing market, will continue to grow at a moderate pace. Risks from trade could re-emerge, however, if talks between the United States and China break down and tensions reignite.

Mr. Trump has given mixed signals about whether he wants to strike a deal with China, and if any of his tariffs on $360 billion worth of Chinese goods will be removed. Asked what could spur the Fed into renewed action at an event on Tuesday, the president of the Federal Reserve Bank of New York pointed to global risks.
"Are global factors or other things causing the U.S. economy to slow more than expected, and slow below trend growth on an ongoing basis?" said the New York Fed president, John C. Williams. "That would be an argument for somewhat more accommodation."

While they plan to take a break from lowering rates, officials are not inclined to start lifting them soon assuming price increases remain muted.

Unemployment, currently at 3.6 percent, is hovering near a 50-year low, wage growth has been increasing at a moderate pace and companies have been slow to lift prices. That has kept inflation below the central bank's 2 percent goal.

"The reason why we raise interest rates, generally, is because we see inflation as moving up, or in danger of moving up significantly," Jerome H. Powell, the Fed chair, said at a news conference after the October move. "We really don't see that now."

Weak price increases may be good news for shoppers, but they pose a risk for the central bank. If inflation is mired at low levels for an extended period, expectations for future price changes can drift lower, locking in the muted increases. That leaves the Fed with less room to cut interest rates in a recession, since interest rates include inflation.

The newly released minutes show that officials are concerned as price indexes continue to miss their mark.

“Weakness in the global economy, perceptions of downside risks to growth and subdued global inflation pressures were cited as factors tilting inflation risk to the downside,” the minutes note. “A few participants commented that they expected inflation to run below 2 percent for some time.”

And while they painted an improving picture of the United States economic outlook overall — the labor market “remained strong,” and “there were some tentative signs that trade tensions were easing” — officials at the last Fed meeting also flagged risks.

“Some further signs of a global slowdown in economic growth emerged,” the minutes said, and participants noted that “the risk that the weakness in domestic business spending, manufacturing and exports could give rise to slower hiring and weigh on household spending remained prominent.”

The Fed meets next on Dec. 10-11 in Washington.

The Fed is likely to continue disappointing Mr. Trump. Officials discussed negative interest rates, which Mr. Trump has called for, at their October meeting. Japan and the euro area have slashed borrowing costs below zero, but such a policy remains unlikely in the United States even if the economy sours.

Given financial market differences, “foreign experience may not provide a useful guide in assessing whether negative rates would be effective in the United States,” the Fed staff said in a presentation. Committee members themselves drove the final nail into the coffin, for now.

“All participants judged that negative interest rates currently did not appear to be an attractive monetary policy tool in the United States,” according to the minutes.

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Summary: The Fed has stated that it does not intend to cut interest rates below current levels. This may change if there is some major change to the global economy. The Fed has already cut interest rates 3 times since July of this year, most recently in October. Rates are already down to 1.5-1.75% If rates stay this low, it will limit the Fed's options for dealing with future recessions.

Analysis: This article discusses macroeconomic[1] (the scientific study of economy-wide phenomena such as inflation, unemployment, and economic growth) topics, primarily monetary policy[2] (the use of money and credit controls to influence macroeconomic activity). It discusses cutting interest rates, such as the discount rate[3] (the interest rate that the Fed charges commercial banks to borrow reserves). Cutting interest rates is a tool that the Federal Reserve[4] (the central bank of the United States, created in 1913 by the Federal Reserve Act) can use to stimulate aggregate demand[5] (the total quantity of goods and services consumers are willing and able to buy at alternative price levels in a given time period, ceteris paribus). The Fed cannot directly affect aggregate supply[6] (the total quantity of goods and services producers are willing and able to supply at alternative price levels in a given time period, ceteris paribus), nor can Congress through fiscal policy[7] (the use of government taxes and spending to alter macroeconomic outcomes) changes such as adjusting taxation[8] (a component of the consumption aspect of GDP, consisting of income tax and autonomous taxes). This is largely due to the structure of the U.S. economy, which is a mixed[9] (having elements of traditional, command, and market economies) capitalist[10] (productive resources are owned by private individuals) economy. The president has been attempting to pressure the Fed to reduce rates further still, but the Fed is independent from both the president and congress. The Fed's goals are to achieve stable inflation[11] (an increase in the overall level of prices in the economy) and full employment[12] (all available resources are used) over time, smoothing the ebb and flow of business cycles[13] (alternating periods of economic growth and contraction). Prior to this year's rate cuts, the Fed was implementing an expansionary policy[14] (government policy actions intended to increase planned spending and output) by slowly raising interest rates to restrain the growing market economy[15] (allocation of resources through decentralized decisions of many firms and households), but the president's trade war with China forced the Fed to adjust their policies to account for slower-than-expected growth and below-target inflation. According to Lael Brainard, one of the seven Governors of the Fed[16] (the key decision makers for monetary policy), the Fed's decision to cease cutting rates is to monitor the effects of the existing changes on the economy. Concerns among participants at the Fed included weakness in several factors of consumption, such as fewer investment goods[17] (productive implements made by people to make more things), and reduced exports[18/] (goods produced domestically and sold abroad). In particular, they were concerned that certain markets[19] (a group of buyers and sellers, same place and time) such as labor[20] (the productive effort, both mental and physical, of human beings) might be impacted by that weakness. One possibility mentioned for revisting the possibility of further rate cuts is if tensions between the United States and China reignite over trade[21] (the transfer of goods and services from one person or entity to another in exchange for money, or other goods and services, in the case of barter) disputes and the president's tariffs[22] (taxes applied to imported goods). Despite the earlier efforts to raise rates, and the current intentions to halt rate cuts, the Fed does not intend to increase rates either. This is because inflation is below the Fed's target of 2 percent, in part due to low unemployment[23] (the state a person is in if he or she cannot get a job despite being willing to work and actively seeking work).