

Federal Reserve Cuts Interest Rates for Third Time in 2019

The quarter-point cut comes as the economy continues to show signs of slowing, but the Fed signaled that it may pause to weigh incoming data before adjusting rates again.



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WASHINGTON — The Federal Reserve cut interest rates Wednesday for the third time this year while signaling that it may pause to weigh incoming data before adjusting borrowing costs again.

The decision to lower rates to a range of 1.5 to 1.75 percent came as a global manufacturing slowdown and uncertainty stemming from President Trump's trade war continue to pose risks to the domestic economy.

The Fed's vote was not unanimous, with two officials voting against another cut.

Fed officials cut rates in both July and September, and they have likened their recent moves to taking out insurance. Although the economy is holding up — growth remains near potential, consumers are spending and the unemployment rate is at a half-century low — central bankers are trying to inoculate the economy against any future slowdown.

While risks to the outlook remain, the Fed hinted Wednesday that it is now shifting into a more patient mode. The central bank dropped a key line from its post-meeting statement in which it pledged to “act as appropriate to sustain the expansion,” language it had been using to signal a willingness to lower interest rates.

“The committee will continue to monitor the implications of incoming information for the economic outlook as it assesses the appropriate path of the target range for the federal funds rate,” the Fed’s statement said, explaining that while the Fed expects to hit its inflation and employment goals, “uncertainties about this outlook remain.”

The Fed has now cut its policy rate by a cumulative 0.75 percentage point this year, just as it did during two mid-business cycle interest rate adjustments in the 1990s. Because central bank policy changes act on the economy with a lag, some officials have indicated that they would like to see how incoming data shape up before making further adjustments.

Chair Jerome H. Powell will speak at a news conference at 2:30 p.m., and could clarify how the Fed is thinking about recent economic developments and risks to growth.

The central bank has the task of maintaining maximum employment and stable inflation, and it does so primarily by lowering or raising borrowing costs to stoke or slow borrowing and spending. It is currently working against a complicated economic backdrop.

Unemployment is historically low, the labor market is expanding and consumer spending is strong. But job gains are cooling off, wage growth has shown early signs of weakening and consumer sentiment is slipping.

The Fed has failed to sustainably hit its 2 percent inflation target since formally adopting it in 2012, and various measures of consumer and market inflation expectations have recently drifted lower. That creates a risk that price increases will become mired permanently below the central bank's goal, leaving it with less room to cut interest rates — which include inflation — in a downturn.

Overall economic growth is also slowing from a stronger pace in 2018 and early 2019, a Commerce Department report showed earlier Wednesday, though it remains close to the Fed's estimate of its longer-run potential. That is consistent with what the policymakers expected: They have long believed that the economy would slow down once the effects of Mr. Trump's tax cuts and higher government spending had played out.

Still, stock prices are soaring, and the housing market has stabilized as mortgage rates have fallen. While it is not obvious how or even whether the trade war will end, Mr. Trump has said that negotiators are making progress toward a first-phase deal with China.

Those hopeful signs could help the economy find a more solid footing. Some officials are also wary of stoking asset price bubbles and unhealthy risk-taking by lowering interest rates too much and too early.

Both Esther George, the president of the Federal Reserve Bank of Kansas City, and Eric Rosengren, the president of the Federal Reserve Bank of Boston, voted against Wednesday's rate cut. They have both previously dissented against the rate cuts, saying that they would prefer to see a more pronounced deterioration in economic data before lowering rates.

James Bullard, the president of the Federal Reserve Bank of St. Louis, had dissented in favor of a larger rate cut in September, but voted in favor of October's quarter-point adjustment.

