

# WSJ Print Edition

*The central bank cuts rates again even as it admits prices are sticky.*

## The Fed Admits an Inflation Mistake

Well, that was ugly. We mean the big selloff in stocks and bonds Wednesday following the Federal Open Market Committee's decision to cut its target interest rate by another 25 basis points.

Wall Street is calling this a "hawkish cut" because the Fed's potentates rolled back their expectations about future rate cuts. But the real way to think about Wednesday's monetary news is that the Fed now all but admits it has underestimated the staying power of inflation.

In September, Fed Chairman Jerome Powell sounded like a man who thought he'd whipped inflation when he cut rates by 50 basis points. Long bond rates popped after that Fed meeting in a vote of skepticism. But Mr. Powell plowed ahead anyway with another 25-point cut in November.

Wednesday's cut takes the fed funds rate down to 4.25%- 4.5%, but at the same time Fed officials revealed that they think inflation isn't falling and will rise next year by more than they anticipated. The Fed's favorite price measure—personal consumption expenditure inflation—will rise to 2.5% next year, up from a 2.1% forecast in September, according to the Fed's famous "dot plot" projections by governors and Fed regional bank presidents.

This makes that 50-basis-point cut in September look like a mistake. Worse, policy makers now expect it will take until 2027 to hit the Fed's 2% annual target, a milestone they thought in September they'd be able to achieve in 2026. While the FOMC's rate cut signaled easing, the dot plots signaled less easing—only two cuts next year compared to four predicted in September. Mr. Powell was also far from clear in his justification for the rate cut. While he called it a "closer call" than recent decisions, he explained one goal was to prevent the jobless rate from rising any more. With inflation no longer falling as he thought, this suggests he and the Fed are willing to live with higher inflation for a longer period of time.

Markets got the message, as bond yields rose and stocks took a header, with the Dow Jones average falling 2.58% and the Nasdaq 3.56%. The 10-year Treasury hit 4.52%.

There's also evidence that some at the Fed didn't agree with the FOMC rate cut this time around. The dots suggest four officials wanted to stand pat on Wednesday, though only Beth Hammack of the Cleveland Fed formally dissented. The other three may have been regional Fed bank presidents who don't have votes on the FOMC this year, or perhaps one or more board governors swallowed their skepticism to unite behind Mr. Powell when it came time to vote.

Mr. Powell and his mates bet on a smooth disinflation path to their 2% target, but prices aren't cooperating. This raises doubts about whether the Fed really knows when its policy is tight. Financial conditions haven't looked tight to us, and Wednesday's message is that some at the Fed may agree.

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