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Fed Cuts Rates by Quarter Point

Chair Powell says he has no intention of leaving before the end of his term

BY NICK TIMIRAOS

The Federal Reserve approved a quarter-point interest rate cut Thursday but signaled a little more uncertainty over how quickly it would continue lowering rates, as it seeks to prevent large rate increases of the prior 2½ years from unnecessarily slowing the economy.

At a news conference after the meeting, Chair Jerome Powell said the election wouldn't have any effect on the Fed's immediate policy decisions. He also reaffirmed his intention to stay at the Fed until his four-year term as chair expires in May 2026; he said he wouldn't step down if President-elect Donald Trump asked him to resign.

Asked if he thought a president could remove him or other senior personnel from their positions before their terms end, Powell repeated his longstanding view with an uncharacteristically terse answer: "Not permitted under the law."

Separately, advisers to Trump said the incoming president wouldn't seek to make a change at the top of the Fed.

Thursday's rate decision followed an initial cut of a half-point in September and will bring the benchmark federal- funds rate to a range between 4.5% and 4.75%. All 12 Fed voters backed the cut.

Officials have said those moves are warranted because

they are more confident that inflation will return to the central bank's target and because they believe rates are still high enough, even with the latest cuts, to dampen economic activity.

The move was expected. The S& P 500 and the Nasdaq Composite kept their gains after the announcement and ended at records.

Trump's election victory this week has the potential to reshape the economic outlook, with presumed GOP majorities on both sides of Capitol Hill enabling a broad shift on taxes, spending, immigration and trade. Economists are divided over whether the mix of policies will boost or weaken growth and drive up prices.

The shift in the outlook, in turn, has fueled questions on Wall Street over whether the Fed will alter its earlier expectation that rates could be steadily dialed lower over the coming year or two.

Powell said it was too soon to say how the next administration's policies would reshape the economic outlook.

"We don't guess, we don't speculate, we don't assume" what policies will get put into place, Powell said. "In the near term, the election will have no effects on our policy decisions."

Since the Fed cut rates in September, longer-dated bond yields have climbed notably, meaning the cost to borrow for a mortgage or car loan has gone up. Yields have increased in large part because better economic data has led investors to reduce their worries about a recession, which could have triggered larger rate cuts.

But some analysts think the bond-market selloff might also reflect concerns by some investors about higher deficits or inflation in a second Trump administration.

Either way, the market has generated an unusual result: Borrowing costs rose after the Fed cut rates. The average 30year mortgage rate has jumped since mid-September, to 6.8% this week from 6.1%, according to Freddie Mac.

Over a similar time frame, investors in interest-rate futures markets have steadily reduced their expectations over how much the Fed will cut rates over the next year or so. They now see the Fed cutting rates to around 3.6% by 2026, up from an estimated trough of 2.8% in September, according to Citi.

Officials are trying to bring rates back to a more "normal" or "neutral" setting that neither spurs nor slows growth. But they don't know what constitutes a normal rate. Policies that boost economic activity or prices could also lead officials to conclude that they should maintain a moderately restrictive rate stance. That means they would hold rates somewhat higher than a normal or neutral level.

Before the 2008- 09 financial crisis, many thought a neutral rate might be around 4%, but after the crisis and an extremely sluggish recovery, economists and Fed officials concluded the neutral rate might be closer to 2%.

Interest-rate projections that officials submitted in September show most of them expected that if the economy expanded solidly with inflation continuing to cool, they could cut rates to around 3.5% next year.

Inflation based on the Fed's preferred index was 2.1% in September. A separate measure of so-called core inflation that strips out volatile food and energy prices was 2.7%. The Fed targets 2% inflation over time.

Because officials don't have much conviction over where the neutral rate sits, they are likely to be guided by how the economy performs in the months ahead. If inflation keeps slowing and the demand for workers looks soft, officials could conclude it makes sense to continue cutting rates along the path they envisioned in September.

Officials are "trying to steer between the risk of moving too quickly and perhaps undermining our progress on inflation, or moving too slowly and allowing the labor market to weaken too much. We're trying to be on a middle path," Powell said.

'In the near term, the election will have no effects on our policy decisions.'

Fed Chair Jerome Powell after the central bank meeting Thursday