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Neutral Int. Rate

Minutes Signal Fed to Move Cautiously on Rate Cuts

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Federal Reserve officials discussed potentially slowing down or pausing interest-rate cuts if progress on lowering inflation stalled out when they met earlier this month.

Officials thought that if the economy performed in line with their expectations that inflation would continue to decline steadily, "it would likely be appropriate to move gradually toward a more neutral" interest- rate setting, according to a written account of the Fed's Nov. 6-7 meeting released Tuesday.

The meeting summary indicated that all 19 officials who participated in the deliberations approved of the decision to cut the Fed's benchmark short-term rate by a quarterpercentage point to a range between 4.5% and 4.75%. That followed a larger cut of a half percentage point in September.

Some policymakers saw the risks of a more pronounced slowdown in the labor market or the economy as having diminished since the September meeting. And many of them flagged greater uncertainty over where, exactly, to set rates for an economy that requires neither stimulus nor monetary restraint.

Those considerations, the meeting minutes said, "made it appropriate to reduce policy restraint gradually."

The minutes suggested officials remain confident that inflation will return to their 2% target because prices of goods and non-housing services were rising at levels consistent with the Fed's goal. Housing prices, meanwhile, have been stubbornly high, but the rate of increase is expected to slow given a more recent slowdown in the pace of rent increases.

Officials are trying to pull off a delicate balancing act. They want to prevent the aggressive rate increases of the past two years from unnecessarily cooling down economic activity now that price and wage growth has cooled. But they don't want to undo recent progress on inflation by boosting asset prices or spending with rate cuts.

"In discussing the positioning of monetary policy in response to potential changes in the balance of risks, some participants noted that the committee could pause its easing of the policy rate and hold it at a restrictive level if inflation remained elevated, and some remarked that policy easing could be accelerated if the labor market turned down or economic activity faltered," the minutes said.

The Fed's next meeting is Dec. 17-18. Officials have said the decision to cut rates at that meeting could be a close call, though they have left the door open to one last rate reduction this year.

Separately, the Fed's staff revised up its assessment of the economy's capacity to produce goods and services, or what economists refer to as "potential output," due to recent gains in productivity.

Higher potential growth driven by improvements in productivity, if sustained, could allow for an increase in output without resulting pressure on prices.