Federal Reserve Cuts Interest Rates Amid Uncertainty, White House Pressure

The rate cut is America's first since the Great Recession and some analysts believe more could follow.

By Andrew Soergel, Senior Reporter July 31, 2019

THE FEDERAL OPEN MARKET Committee reversed course on Wednesday after more than three years of gradual interest rate hikes, announcing America's first rate cut since the economy was in the throes of the Great Recession in 2008.

Citing lackluster inflation and "the implications of global developments," Federal Reserve Chairman Jerome Powell and his monetary policy colleagues struck a dovish tone, saying in a statement published Wednesday afternoon that they have "uncertainties" about their future policy outlook.

The announcement will likely be viewed favorably by President Donald Trump, who for months has railed against the Fed for periodically raising rates, an act that benefits those with bank savings but makes it more expensive for companies and consumers to borrow money. On Tuesday, the president tweeted that the Fed had "made all the wrong moves" and that "a small rate cut is not enough, but we will win anyway."

The optics of America's politically independent central bank reducing its benchmark interest rate amid pressure from the White House has drawn criticism from some experts who believe the shift was more rooted in politics than economics.

"Time and time again the Fed's mantra has been that it is data dependent in how it conducts monetary policy. But I'm afraid that is about to become a vacuous phrase," **Bernard Baumohl, chief global economist at the Economic Outlook Group**, wrote in an email Monday, describing a rate cut as "political capitulation."

The Fed has historically focused policy decisions on keeping inflation in check and labor markets buoyant. And, especially on the latter front, recent jobs reports and economic indicators continue to hum, suggesting the economy isn't in need of additional support.

But Greg McBride, a senior vice president and chief financial analyst at Bankrate.com, says there are enough clouds gathering on the economic horizon to credibly give central bankers pause. Soft business investment in recent months has worried some analysts - particularly in the aftermath of a 2017 corporate tax cut that theoretically should have spurred companies along. Slowing growth in China is also a concern.

And although McBride notes that "it's difficult to refute the idea that there's a little bit of pressure from the White House coming into play," he points to the sheer scope of international uncertainty on the horizon that has been particularly difficult for central bankers to ignore.

U.S.-China trade tensions have yet to fully abate, tariffs and tariff threats from the White House continue to complicate international trade, the U.K.'s departure from the European Union has yet to be fully fleshed out under new Prime Minister Boris Johnson, and major economies around the world appear to have eased their pace of expansion in recent months.

"(The economic data) are not suggestive of a rate cut. But sagging business confidence and increased uncertainty about trade disputes and slower global growth are the factors the Fed is pointing to," McBride says.

Although the U.S. is still consistently producing well in excess of 100,000 new jobs in an average month, with unemployment sitting at just 3.7 percent, several analysts believe there are enough concerns on the horizon to justify Powell's interest rate course adjustment.

"There's so much uncertainty in the rest of the world that it's impacting us here," says Steve Rick, a director and chief economist at CUNA Mutual Group. "From Jerome Powell's point of view, what they're basically doing is buying a little insurance to prevent the next recession."

Though opinions on the validity of the rate cut vary, analysts had widely predicted its announcement, as several Fed officials in recent months had made comments suggesting an easing in the monetary policy trajectory. As far back as January, St. Louis Federal Reserve President James Bullard warned that the FOMC was near "the end of the road" in its ability to raise rates, warning that "we are on the precipice of a policy mistake."

Where analysts are less certain, however, is where the Fed goes from here. McBride notes that central bankers have initiated nine rate hikes since the end of 2015. A one-off rate reduction on Wednesday, he says, would be "inconsequential" to most consumers.

But the Fed's recently dovish tone has several monetary policy spectators bracing for additional moves before the end of the year. Researchers at The PNC Financial Services Group, Nomura, and Wells Fargo Securities said in research notes this week that they expect at least one more cut in the months ahead.

Rick says two more decreases before year's end wouldn't be outside the realm of possibility, as the Fed looks to stave off global uncertainty and sustain the longest economic expansion in U.S. history.

"If the trade disputes don't come to some conclusion that's favorable between us and China, and if Brexit doesn't work itself out by October, we could actually see three rate cuts this year," he says. "So you have a political economy coming into play. It's not just pure economics (for the Fed) anymore."

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