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Fed makes big rate cut, forecasts more

Pivot comes in response to months of fading inflation, and it is meant to prevent the economy from slowing so much that the job market begins to weaken more

By Jeanna Smialek, The New York Times Updated Sep 18, 2024 7:50 p.m.



Anna Moneymaker/Getty Images WASHINGTON — The Federal Reserve cut interest rates Wednesday by half a percentage point, an unusually large move and a clear signal that central bankers think

Washington, DC. The Federal Reserve announced that it will cut the central bank's benchmark interest rate by 50 basis points to

Open Market Committee at the William McChesney Martin Jr. Federal Reserve Board Building on September 18, 2024 in

a new range of 4.75%-5%. (Photo by Anna Moneymaker/Getty Images)

end of the year.

they are winning their war against inflation and are turning their attention to protecting the job market. "Our patient approach over the past year has paid dividends," Jerome Powell, the Fed chair, said during his news conference. But now "the upside risks to inflation have

The Fed's decision lowers rates to 4.9%, down from a more-than-two-decade high.

economy from slowing so much that the job market begins to weaken more painfully.

Officials have been keeping a careful eye on a recent uptick in the unemployment rate,

The pivot comes in response to months of fading inflation, and it is meant to prevent the

diminished, and the downside risks to unemployment have increased."

and by starting off with a big cut, the Fed is in effect taking out insurance against a bigger employment slowdown. Reinforcing that cautious message, the decisive reduction came alongside economic projections that suggested a swifter pace of rate cuts than officials had envisioned just

a few months ago. Officials now expect to make another half-point reduction before the

"We're going to take it meeting by meeting," Powell said. "We made a good, strong start to this, and that is frankly a sign of our confidence, confidence that inflation is coming down."

While Powell said the Fed was not yet ready to declare "mission accomplished" on

taming inflation, he added that officials were encouraged by the progress that they had seen.

Wednesday's rate cut marks a preliminary victory. So far, Fed officials have managed to

rate has crept up, but it hasn't jumped significantly. Hiring persists, though it has slowed.

slow inflation notably without causing major economic problems. The unemployment

Consumer spending remains strong. Overall growth is still robust.

The resilience has made Fed officials hopeful that they might be able to pull off a historically rare "soft landing," in which they manage to put the economy on a healthy and sustainable track without causing a recession.

painful increase in unemployment that has come sometimes," Powell said, after saying that he had "greater confidence" that the Fed could do it.

High interest rates slow the economy by making it more expensive to borrow to buy a

also hold back hiring. Given that, the Fed has been trying to strike a careful balance.

Officials have aimed to slow growth enough to ensure that price increases return to

"We're trying to achieve a situation where we restore price stability without the kind of

house or expand a business, which weighs on demand and price increases. But they

But the central bank's task is not yet complete.

normal without cooling it so much that the unemployment rate soars and the economy tips into a recession. Policymakers must still decide how much and how quickly to lower interest rates in the coming months and years to reach that goal. That's why Wednesday's economic projections are notable: They provide a snapshot of what Fed officials expect to do next.

Fed officials predicted that they would cut interest rates to 4.4% by the end of the year — much lower than the 5.1% they had been expecting in June, when they last released economic estimates. And by the end of 2025, they expect to lower borrowing costs another full percentage point, to 3.4%.

Capital Region insight Businesses may be the biggest winners in light of Wednesday's decision, said Thomas Amell, president and CEO of Pioneer Bank, which operates 22 branches in the

Typically, businesses rely on borrowing to expand or get through slow seasons and the

cut reduces their costs, allowing them to grow faster. That in turn can lead to more

"It's a significant benefit to the businesses, which is good," Amell said.

payments can decline, and bills can be paid off more quickly.

deposits or similar investments, Amell said.

money.

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economic growth and jobs.

There are losers though, noted Amell. Mostly it is the savers, often retirees who may have paid off their homes, carry no debt and may be living off of interest on various bank or other deposits.

When rates fall like they did on Wednesday, those people will get a lower return on their

Also coming out ahead are consumers who carry debt, whether it's a mortgage, auto

loan, credit card balance or other obligation. When rates drop, monthly minimum

"They don't talk as much about the consumers that have savings accounts," Amell said, explaining that much of the discussion around interest rates focuses on people who owe

into savings accounts or certificates of deposits. Political perspective

For the White House, the Fed's announcement Wednesday was encouraging. After

years of rapid prices increases, the move marked a powerful declaration that a return to

But Amell said banks serve significant numbers of people who, if their house is paid and

their children are out of school, may have minimal expenses, meaning that the rest goes

"While this announcement is welcome news for Americans who have borne the brunt of high prices, my focus is on the work ahead to keep bringing prices down," Vice President Kamala Harris, the Democratic nominee, said in a statement.

normal inflation was in sight.

By contrast, the Fed's decision to cut rates just weeks before the 2024 presidential election could draw the ire of former President Donald Trump. The Republican candidate has already suggested repeatedly that a rate move would be a "political" attempt to

Fed officials make their decisions independently of politics, and policymakers have been

adamant that they ignore the political calendar when making decisions. But even if they

have little to no ability to control the Fed's actions, incumbents typically want to see low rates on their watch. Besides sending a positive signal about the economy — at least in this case — lower Fed rates also help consumers. Mortgage rates have already been coming down in

anticipation of the central bank's rate cuts, making buying a home a bit easier for the typical household. (They are unlikely to return to the rock-bottom levels that prevailed in 2020, because the Fed is not expecting to cut rates back to near zero.) Longer view

help Democrats.

The Fed will have to proceed with caution in the months ahead. Some economists have worried that the central bank is already at risk of falling behind,

because unemployment has risen to 4.2%, which is low by historical standards but up

notably from 3.4% in early 2023. Others have worried that by cutting interest rates rapidly, the Fed might speed the economy back up, causing inflation to get stuck at an uncomfortably high level. One Fed governor, Michelle W. Bowman, voted against Wednesday's cut. She would have

Powell made clear during his news conference that the Fed was willing to speed up or slow down its path of rate cuts if the economy proves weaker or stronger than expected. Policymakers want to nail the landing, he suggested, and are increasingly hopeful that

they can. "The U.S. economy is in a good place, and our decision today is designed to keep it

But while the Fed cut marked a big moment — and a step along the way — economists and analysts said that it was still too early to declare that the Fed had pulled off the soft

"Saying that right now is like saying you've landed as you're still in the middle of a ski

jump," said Gennadiy Goldberg, head of U.S. rates strategy at T.D. Securities. "We're still very much up in the air."

preferred a smaller rate move.

there," Powell said.

landing.

Rick Karlin contributed.

Jeanna Smialek

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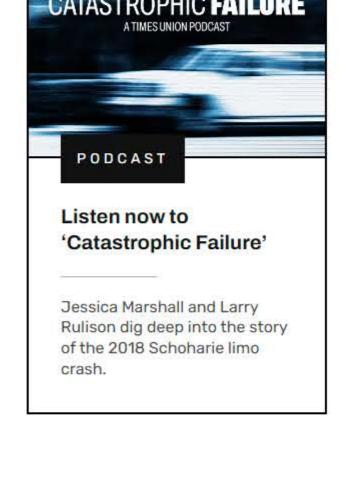
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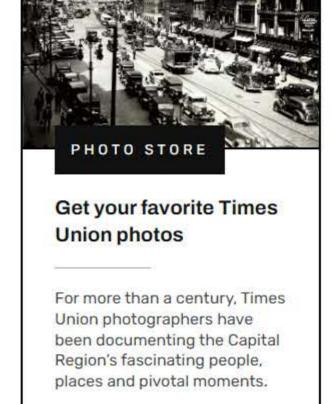
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