



Federal Reserve Issues Emergency Interest Rate Cut on Coronavirus Fears

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March 3, 2020

THE FEDERAL RESERVE ON Tuesday cut its benchmark interest rate 50 basis points – its first unscheduled, inter-meeting rate reduction since the financial crisis – as America's central bank braces for the economic impact of the ongoing coronavirus outbreak.

"The fundamentals of the U.S. economy remain strong. However, the coronavirus poses evolving risks to economic activity," the Fed said in a statement on Tuesday morning.

The decision was unanimous among Federal Open Market Committee officials. This represents their largest single rate reduction since 2008, when the U.S. economy was in the throes of the Great Recession.

"As the coronavirus outbreak is spreading throughout the world and the number of cases in the U.S. surpassed the 100 mark, the damage on economic output is becoming increasingly visible," Gregory Daco, chief U.S. economist at Oxford Economics, wrote in a research note on Tuesday.

Daco notes that, until last week, international central bankers had "showed little concern in the initial phase of the outbreak." But the spread of the disease – which has now sickened more than 90,000, leading to 3,000 deaths – led to a rapid deterioration in global investment markets last week, with Wall Street slogging through its worst week since the financial crisis. Ongoing economic and investing concerns are believed to have prompted the Fed into action.

Fed Chairman Jerome Powell issued an unscheduled statement last week, indicating America's central bank was ready to "act as appropriate" to support the economy. Investors widely interpreted Powell's remarks to mean a rate cut would come at or before the Federal Open Market Committee's March meeting. Those expectations were realized on Tuesday, as the Fed lowered rates in a non-meeting setting for the first time in more than a decade.

"Consequently, had the Fed not announced a cut, the decision would have amounted to disappointing news, which would have fueled further panic," George Selgin, a senior fellow at the Cato Institute, said in a statement on Tuesday, noting that the cut was "not surprising." "Still, what matters most isn't what the Fed has done today, but what actions it signals for the future."

Several analysts in recent days have projected the Fed would lower interest rates by 100 basis points through the end of the year – reducing rates to their lowest levels since 2016, just as the central bank was beginning to lift them off of recession-era lows.

International monetary policy officials are expected to follow suit, especially after Australia's central bank lowered interest rates this week to record lows. Tuesday's Fed decision comes on the heels of an emergency Group of Seven teleconference focused on the spread of the coronavirus. In a statement published Tuesday morning, G7 officials indicated they were "ready to take actions" to prop up the global economy as the virus continues to spread.

"At issue is how much this inoculation can protect the economy and support the financial markets from a public health crisis and supply constraints radiating out from China," Mark Hamrick, senior economic analyst and Washington bureau chief at Bankrate.com, said in a statement on Tuesday. "Lower interest rates do little to make consumers and businesses feel substantially more confident about the future when a health crisis is spreading around the world. It also cannot address the hobbled supply chains, including manufacturing capability in China and South Korea. Still, the Fed is doing what it can to try to keep the economy out of recession."