

The Washington Post

Federal Reserve expresses concern about U.S. economy and signals interest rate cuts are likely coming

Heather Long

June 19, 2019

The Federal Reserve did not change interest rates Wednesday but strongly signaled a willingness to cut soon to prevent the economy from slowing further. President Trump has urged the central bank to cut rates for months to boost growth.

Business investment is slowing, uncertainty has increased, and the U.S. economy is growing at a “moderate” pace, the Fed said Wednesday, a notable downgrade from last month when the central bank characterized the economy as “solid.”

The Fed indicated it would take action “as appropriate” if the economy shows any more signs of decline.

“Many on the committee do see a strengthened case for cutting rates,” Fed Chair Jerome H. Powell said Wednesday. “News about trade has been an important driver of sentiment... We’re also looking at global growth.”

Wall Street investors are widely anticipating a rate reduction when Fed leaders meet next in late July because of Trump’s trade war and slumping business investment, especially in manufacturing. Stocks rallied with the Dow jumping about 100 points after the Fed’s decision.

The Fed removed the word “patient” from the statement, the clearest indication yet that the central bank is likely to cut rates soon. One Fed leader voted to cut rates at this meeting but was overruled.

The Fed didn’t specify when it would decrease rates, but nearly half of Fed leaders now predict rates will fall by the end of the year, a significant change from March when none of the 17 Fed policymakers anticipated a cut this year.

Seven of the 17 are forecasting two rate decreases by the end of 2019, according to projections that were also released Wednesday.

While Wall Street and Trump are likely to welcome a cut, some economists feel the Fed is going too far before there are genuine signs of concern.

“I fear that the FOMC has raised expectations of a July rate cut to the point where it will find it hard to avoid when the time comes even if conditions don’t really call for it,” said George Selgin, a senior fellow at the libertarian Cato Institute.

Powell has been clear that he will do whatever it takes to keep the economy thriving for as long as possible, but he noted that the committee did not act Wednesday because it wasn't yet clear that the trade tensions were having a deep impact.

“Some of these developments are so recent that we want to see whether they are sustained,” Powell said.

Trump suggests he might remove Federal Reserve chair

“Let's see what he does,” President Trump said June 18 when a reporter asked whether Federal Reserve Chair Jerome H. Powell should be removed. (C-Span)

On Tuesday, Trump suggested he might try to remove Powell from the top leadership post at the Fed if Powell does not lower rates soon. Powell, a Republican who was nominated by Trump for the job, but has been a frequent target of the president's ire after raising interest rates four times last year.

Fed leaders are only allowed to be removed “for cause,” which has been interpreted as criminal wrongdoing. Having a central bank that makes decisions independent of politics is widely viewed by Wall Street and business leaders as fundamental to a strong economy, but Trump believes lower interest rates could help the economy and boost his chances of reelection in 2020.

Powell reiterated that he does not believe he can be fired and he does not intend to step down.

“I think the law is clear that I have a four-year term and I fully intend to serve it,” Powell said. “My colleagues and I have one overarching goal to sustain the economic expansion... for the benefit of the American people.”