# Fed can’t agree on how to keep economy humming

By **Larry Edelman** Globe Staff,September 18, 2019, 9:04 p.m.

Olivier Douliery/AFP/Getty Images FEDERAL RESERVE BOARD CHAIRMAN JEROME POWELL SPOKE AT A NEWS CONFERENCE AFTER A FEDERAL OPEN MARKET COMMITTEE MEETING ONWEDNESDAY./AFP/GETTY IMAGES

Federal Reserve officials agree that the economy is in good shape, with a strong job market and low inflation. They just can’t agree on how to keep it that way.

Central bankers on Wednesday approved a quarter-point reduction in interest rates, the second cut in seven weeks intended to inoculate the United States from an ailing global economy and rising trade tensions. The move will mean lower borrowing costs for consumers and businesses but will trim already paltry interest rates on savings.

The rate drop, to a range of 1.75 percent to 2 percent, was widely expected by investors, but some were disappointed that the Fed didn’t signal it would quickly follow up with more reductions. Fed chairman Jerome Powell said policy makers would closely monitor the job market, inflation and growth data, financial markets, and global developments to determine their next step.

“Sometimes the path ahead is clear, sometimes less so,” he said at a news conference after the Fed wrapped up its two-day policy meeting in Washington. “We will act appropriately to sustain the expansion.”

The economy is growing at an annual rate of about 2 percent, above what is estimated to be maximum sustainable output over the long term, and the consensus of Fed and private forecasters is that growth will hold near that level through next year. At such times, the Fed would normally not be easing credit, especially with consumers spending freely.

But the risk of recession is elevated thanks to the US trade war with China, slowing economies in Asia and Europe, and the prospect of a messy divorce between Britain and the rest of the European Union. These threats have prompted the Fed to cut rates twice since the end of July, a sort of insurance policy as business investment and exports weaken.

A split over how to proceed emerged Wednesday among the 17 voting members of the rate-setting Federal Open Market Committee. In forecasts released after their meeting, seven officials indicated that another quarter-point drop in the benchmark federal funds rate will be needed this year, while 10 were divided evenly between those who expect rates to remain the same, and those who think rates should be higher.

Looking to 2020, nine committee members forecast rates at 2 percent or higher, while eight expected next year would end with rates at 1.5 percent to 1.75 percent.

Three FOMC officials dissented on Wednesday’s quarter-point cut, the first time that has happened since Powell took over as chairman. As they did in July, Boston Fed president Eric Rosengren and Esther George, his counterpart at the Kansas City Fed, voted to keep rates unchanged. Meanwhile, St. Louis Fed president James Bullard wanted a half-point cut.

“As long as growth remains at 2 percent, I don’t see the need for policy action,” Rosengren said in a Sept. 3 speech at Stonehill College.

While Rosengren and others believe there is no reason to panic, President Trump continues to blast the central bank for not quickly cutting rates to zero, a step he thinks would supercharge growth.

“Jay Powell and the Federal Reserve Fail Again. No ‘guts,’ no sense, no vision! A terrible communicator!” he tweeted Wednesday after the Fed announced its move.

An economic slowdown or recession could cripple the president’s reelection campaign. Trump’s position and rhetoric is extreme; taking rates to zero quickly would leave the Fed no room to cut when the economy actually starts to slow down significantly, economists have said.

But others believe the Fed should act preemptively by continuing to ease credit.

"The bond market is saying that more cuts are warranted," said Matt Miskin, co-chief investment strategist at John Hancock Investment Management, referring to falling yields on government bonds, a sign that investors expect the economy to weaken. "The Fed is pushing back on that."

Stocks fell 200 points following the release of the Fed's rate statement, but they recouped those losses once Powell concluded his press conference.

The Dow Jones industrial average ended the day up 36 points, or 0.1 percent, to 27,147. The S&P 500 rose less than 0.1 percent. The yield on the benchmark 10-year US Treasury note dipped to 1.777 percent from 1.805 percent on Tuesday.

The debate over whether the Fed should be aggressive or cautious comes down to an assessment of where we are in the business cycle. Powell has characterized the past two rate cuts as "mid-cycle" adjustments, a booster shot for an expansion that still has legs.

Others believe the economy is in its "late cycle," or nearing contraction.

Late cycles can last anywhere from a couple of months to more than two years, according to Dirk Hofschire, a team leader of asset allocation research at Fidelity Investments. He said past mid-cycle easing has been successful, but not late-cycle rate cuts.

"The late cycle is a very uncertain period," he said.

And investors hate uncertainty. Their main worry: that the slowdown in business investment will lead to less hiring, which will erode consumer confidence, which will push the economy into a recession. Consumer spending accounts for 70 percent of economic activity.

Powell has gotten praise in some quarters for resisting Trump's political pressure.

"The Fed remains an independent organization, and they are taking what they see as necessary actions to sustain the economy and prevent us from going into a recession in the near term," said Cindy Kuppens, a senior adviser at O'Brien Wealth Partners in Boston. "They've definitely left the door open to further rate cuts. But right now . . . their job is to steer and monitor the economy but have leverage to jump in if necessary."

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