

Jan 30, 2008

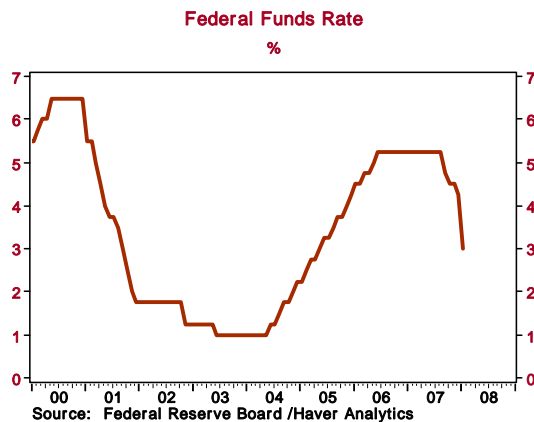
Economic Commentary

The Fed Cuts Another 50

The Federal Reserve cut both the federal funds rate and discount rate by 50 basis points today. The funds rate is now 3.00%; the discount rate is now 3.50%.

The Fed's statement was more optimistic about the prospects for economic growth than the one released early last week when the Fed made an emergency rate cut of 75 bps. Unlike last week's statement there was no reference to "increasing" or "appreciable" "downside risks to growth." In addition, the statement reverted to language last used on December 11 – language that was absent last week – saying the accumulation of rate cuts implemented so far "should help promote moderate growth over time."

Regarding inflation, the Fed's statement was a carbon copy of last week's. Again, there was no reference to the goal of price stability. In other words, any fears the Fed has about inflation are still firmly on the back-burner.



The Fed's statement on the balance of risks continued to assert a willingness to act in a timely manner, suggesting sudden changes in financial markets could be met with another inter-meeting rate cut. Notably, Dallas Reserve Bank President Richard Fisher dissented from the Fed's decision, preferring no change in the federal funds rate.

Partial Text of the Federal Reserve's Statement:

The Federal Open Market Committee decided today to lower its target for the federal funds rate 50 basis points to 3 percent.

Financial markets remain under considerable stress, and credit has tightened further for some businesses and households. Moreover, recent information indicates a deepening of the housing contraction as well as some softening in labor markets.

The Committee expects inflation to moderate in coming quarters, but it will be necessary to continue to monitor inflation developments carefully.

Today's policy action, combined with those taken earlier, should help to promote moderate growth over time and to mitigate the risks to economic activity. However, downside risks to growth remain. The Committee will continue to assess the effects of financial and other developments on economic prospects and will act in a timely manner as needed to address those risks.

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