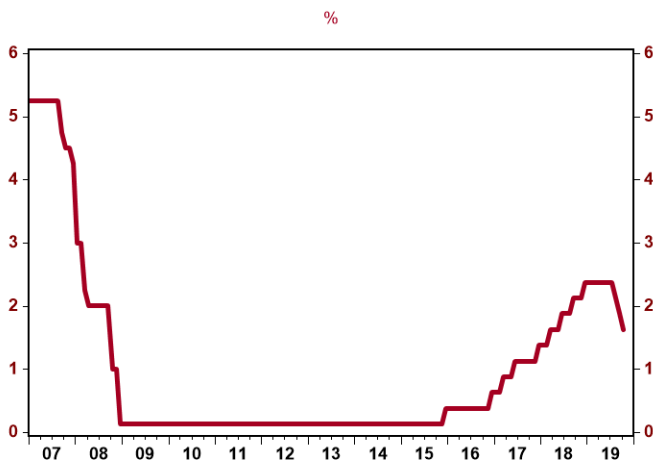


## Finally, A Pause

To little surprise, the Fed cut short-term interest rates by 25 basis points today for the third time in four months, moving the range for the federal funds rate down to 1.50 – 1.75%. What markets were looking for, and what the Fed statement did little to provide, was clarity on the path of interest rates moving forward. Thankfully, Chairman Powell addressed the path forward head-on in his press conference.

Fed Funds Target Rate



Source: Federal Reserve Board/Haver Analytics

The statement itself brought little new information, with the bulk of the text unchanged. One exception was that the Committee took out language saying it would “act as appropriate to sustain the expansion.” In addition, James Bullard, President of the St. Louis Fed, voted in favor of today’s action after dissenting at the last meeting because he wanted rates to move even lower. Meanwhile both Esther George and Eric Rosengren, of Kansas City and Boston, respectively, voted against today’s action, arguing that no rate cut was needed. So at the end of the day, no voting members felt rates should be lower than the new target range, but some feel it should be higher. That set the stage for Powell to take the mic.

The key statement from Chair Powell, and which he repeated, was that the current state of monetary policy is likely to remain appropriate if the current outlook holds. Our translation: no more rate cuts unless the economic outlook materially weakens. When asked about the types of threats that could cause the outlook to change, Powell noted the usual players such as slowing global growth and trade conflicts. If the Phase One trade agreement set to be signed next month were to completely blow up and we were to see tariff rates ratchet higher, that would be material. But it’s also unlikely. In fact, Powell made it a point to note that the

downside risks, trade in particular, have been moving in a positive direction of late.

As it currently stands, the Fed expects to see more of the same, with employment remaining strong, headline inflation (from the PCE index, anyway) slightly below the 2% target, and economy growth at a modest pace. There will be volatility along the way (including the GM strike), but the fundamentals point towards continued expansion.

Between now and the next Fed statement in mid-December, we will get plenty of data that we expect will support the plan to leave rates unchanged for the time being. Until then, the Fed will continue to roll up to \$20 billion of agency debt and mortgage-backed securities into Treasury debt each month, they will continue to operate in the repo market to combat their own overly tight banking rules, and they will continue to increase the size of the balance sheet by purchasing around \$60 billion of treasury bills a month (the quantitative easing they claim isn’t QE). But for now, at least, we will get a reprieve from un-needed rate cuts.

**Brian S. Wesbury, Chief Economist**  
**Robert Stein, Dep. Chief Economist**

### Text of the Federal Reserve's Statement:

*Information received since the Federal Open Market Committee met in September indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although household spending has been rising at a strong pace, business fixed investment and exports remain weak. On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2 percent. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed.*

*Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 1-1/2 to 1-3/4 percent. This action supports the Committee's view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective are the most likely outcomes, but uncertainties about this outlook remain. The Committee will continue to monitor the implications of incoming information for the economic outlook as it assesses the*

*appropriate path of the target range for the federal funds rate.*

*In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.*

*Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michelle W. Bowman; Lael Brainard; James Bullard; Richard H. Clarida; Charles L. Evans; and Randal K. Quarles. Voting against this action were: Esther L. George and Eric S. Rosengren, who preferred at this meeting to maintain the target range at 1-3/4 percent to 2 percent..*