Fed leaves interest rates unchanged

By Jeanna Smialek
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Federal Reserve officials left interest rates unchanged at their first meeting of 2020 on Wednesday, upholding their patient stance after an active, and often tumultuous, 2019.

Jerome H. Powell, the Fed chair, walked a careful line in his post-meeting news conference, painting a picture of a solid economy that is fueled by strong job gains and a confident consumer willing to spend. But he noted that global risks remain, including the outbreak of a deadly new Coronavirus — and price gains remain surprisingly soft.

Fed officials, whose job is to maintain both full employment and stable inflation, think the current economic situation merits a wait-and-see approach before they adjust rates again. The federal funds rate is currently set in a 1.5 to 1.75 percent range, and the decision to keep it steady was unanimous.

That patient approach contrasts sharply with the Fed's experience in the second half of last year. The Fed cut borrowing costs three times from July to October as trade tensions and slowing global growth weighed on the economic outlook. That move itself marked a pivot from 2018, when the Fed was steadily raising rates to fend off higher inflation as unemployment sank steadily lower.

Mr. Powell has now signaled that the central bank does not plan move policy in either direction unless something fundamentally shifts. Central bankers do not expect to cut interest rates as long as the economy shapes up as expected, and do not intend to raise them unless inflation moves up and stays there.

That is unlikely to sit well with President Trump, who has been pushing the central bank to slash rates further. In a tweet on Tuesday, Mr. Trump said "the Fed should get smart & lower the Rate," arguing that comparatively high rates in the United States are putting the country at a disadvantage.

The central bank does not answer to the White House, and officials regularly reiterate that they set a policy with an eye toward their twin goals, which are given to them by Congress.

But they are facing a complicated backdrop when it comes to achieving those targets.

Expectations of a global growth turnaround have been climbing, helped along by an initial trade deal between the United States and China that brings some certainty and forestalls additional tariffs between the world's largest economies. Mr. Trump also signed a revised North American Free Trade Agreement on Wednesday, bringing more than two years of fraught negotiations to a close.

But those positive signs could be dampened by the outbreak of the new coronavirus, which is forcing quarantines in China, shuttering multinational operations in the country and causing nervousness around the world.

Mr. Powell pointed to the new virus as a potential economic threat at his news conference, though he said it was too early to know what its macroeconomic effect would be.

"It's a very serious issue," Mr. Powell said. "There is likely to be some disruption to activity in China and perhaps globally," he said, adding that the Fed was "very carefully monitoring the situation."

The chair also noted other persistent weak spots, including soft business investment and exports, which he attributed to "sluggish growth abroad and trade developments." Manufacturing is also continuing to see a falloff, though Mr. Powell suggested that weakness might be bottoming out.

"It hasn't gone away," Mr. Powell said of trade uncertainty. "We need to be a little bit patient about the effect on the economy."

Mr. Powell struck an optimistic tone about the United States economy overall, pointing out that employers are still hiring and unemployment continues to hover near a half-century low.

But he sounded cautious about inflation, which continues to fall short of the Fed's 2 percent target. It has not hit that rate of change sustainably since the central bank formally adopted the goal in 2012.

The annual price increase, as measured by the Fed's favored index, came in at just 1.5 percent in November.

While sluggish price gains might sound positive, the Fed sees steady, gradual increases as better for the economy. Weak inflation leaves officials with less room to cut rates — which include price increases — in a downturn. And if consumers begin to expect slower increases, that outlook could become self-fulfilling, dragging inflation down further.

Fed policymakers themselves do not expect it to eclipse 2 percent this year, based on their most recent set of economic projections.

Mr. Powell said the Fed was "not comfortable with inflation running persistently below our 2 percent symmetric objective."

"In theory, inflation should be moving up," he added, given that the United States economy is in its 11th year of an expansion and unemployment is very low, at 3.5 percent.

If inflation expectations slipped and dragged actual increases lower, "we would have less room to reduce interest rates to support the economy in a future downturn, to the detriment of American families and businesses," Mr. Powell said Wednesday.

Some analysts interpreted his wary tone as a sign that the Fed was still oriented more toward cutting rates than raising them.

In a purely technical tweak, the central bank did nudge up the interest rates it pays on excess reserves — bank deposits stashed at the Fed. The move was meant to keep the Fed funds rate trading within its target range.

It also affirmed that it will continue purchasing Treasury bills "at least into" the second quarter of 2020. It has been purchasing short-term Treasury securities at a pace of $60 billion per month since October in a bid to keep the financial system flush with cash and to prevent money market ruptures, like one that reared its head in the repurchase market — or repo market — in September.

Fed officials, in a note released Wednesday, said the ultimate goal was to "maintain over time ample reserve balances at or above the level that prevailed in early September 2019."

The Fed said it would continue to conduct operations in the repo market "through April 2020 to ensure that the supply of reserves remains ample" even in stressful periods.

The Fed has repeatedly said its ongoing interventions are not the type of mass bond-buying programs the central bank used to prop up the economy during and after the Great Recession. While those programs, known as quantitative easing, were meant to bolster the economy, the new interventions have been structured differently and are simply meant to fix a market-plumbing problem.

Investors have turned a skeptical eye on that claim, and equity analysts regularly argue that the purchases are pushing up stock prices, as markets take a cue from the Fed to buy.

Mr. Powell declined to speculate on whether that was the case in his comments, saying that "it's very hard to say what is affecting financial markets with any precision or confidence at a given time."