Fed slashes rates to near-zero and unveils sweeping program to aid economy

By Jeanna Smialek and Neil Irwin
March 15, 2020 – *The New York Times*

With the fast-spreading coronavirus posing a dire threat to economic growth, the Federal Reserve on Sunday night took the dramatic step of slashing interest rates to near-zero and unveiled a sweeping set of programs in an effort backstop the United States economy.

In addition to cutting its benchmark interest rate by a full percentage point, returning it to a range of 0 to 0.25 percent, the Fed said it would inject huge sums into the economy by snapping up at least $500 billion of Treasury securities and at least $200 billion of mortgage-backed debt "over coming months."

The remarkable Sunday afternoon action — a drastic move unlike any since the depths of the global financial crisis a dozen years ago — reflected the imminent peril facing the global economy as the virus shutters factories, quarantines workers and disrupts everyday life.

President Trump, who has been vocal in his criticism of the Fed, praised the central bank's move and sought to assure worried Americans that food supplies would not be disrupted. After weeks of problems, the administration promised again to expand access to testing for the virus, but a top official added, "I'm not going to say that the lab testing issue is over."

The virus is wreaking havoc across the world, with Italy reporting 368 new deaths, bringing the toll there to 1,809 on Sunday — the largest one-day uptick yet of any country, and, some experts warned, a harbinger of the threat to the United States if the government does not take swift action. The Centers for Disease Control and Prevention recommended Sunday that no gatherings with 50 people or more be held in the United States for the next eight weeks.

Germany announced it would close its borders with Austria, Denmark, France, Luxembourg and Switzerland, following several other European Union member states in restricting the freedom of movement across the Continent.

The Vatican said on Sunday that its traditional services during the week before Easter, which usually draw tens of thousands of people, would not be open to the public next month, interrupting a historic tradition. Ireland closed pubs for two weeks, including on St. Patrick's Day, while Austria banned gatherings of more than five people.

In the United States, more than 3,100 cases of the virus have been reported across 49 states as of Sunday, and public officials scrambled to enact stricter measures to slow the virus's spread, including the shuttering of schools, restaurants, bars and other businesses.

New York City's public school system, the nation's largest with 1.1 million students, will begin shutting down this week, Governor Andrew M. Cuomo said, in the city's most aggressive and disruptive effort to slow the coronavirus. Minnesota, Rhode Island and South Carolina also closed schools.

Ohio ordered restaurants and bars to close starting Sunday night and Maryland ordered casinos, racetracks and betting facilities to close "indefinitely." Starbucks said it would close some stores in malls and cities with outbreaks, including New York and Seattle, and shift to a "to-go" model in all other locations.

Gov. Gavin Newsom of California called for everyone 65 and older to shelter at home and asked all bars, nightclubs and wineries to close.

Dr. Anthony Fauci, the director of the National Institute of Allergy and Infectious Diseases, said that people were "going to have to hunker down significantly more than we as a country are doing."

He suggested a 14-day national shutdown might eventually be warranted and urged people to practice social distancing. "There are going to be people who are young who are going to wind up getting seriously ill," he said.

There was chaos over the weekend at some of America's biggest airports, as the U.S. government rushed on Saturday to enact Mr. Trump's restrictions on travel from Europe. In Dallas, travelers posted photos on Twitter of long winding lines in the airport. In New York, customs agents in paper and plastic masks boarded a flight from Paris. And in Chicago, where travelers reported standing in line for hours, Gov. J.B. Pritzker of Illinois tagged Mr. Trump in a series of angry tweets about the long waits, saying, "The federal government needs to get its s@#t together. NOW."

At a news conference on Sunday afternoon, Mr. Trump said he had held a phone call with chief executives of several food suppliers who said they were committed to staying open through the pandemic. He said the call was "very reassuring" and said there was no need to "hoard" essential food supplies.

"You don't have to buy so much, take it easy, just relax," Mr. Trump said. "We're doing great, it all will pass."

Earlier in the day, Mr. Trump seemed to be trying to divert attention from a disease that could plunge the United States into a recession during an election that is predicated on his economic stewardship. Mr. Trump, on Twitter, said he was "strongly considering" pardoning his former national security adviser, Michael J. Flynn, who pleaded guilty to lying to the F.B.I. about his dealings with Russia's ambassador.

And Mr. Trump once again lashed out at Senator Chuck Schumer, Democrat of New York, over comments he had made at a rally in front of the Supreme Court this month, in which he attacked Mr. Trump's two Supreme Court appointees, Justices Neil M. Gorsuch and Brett M. Kavanaugh.

With economic activity in the United States coming to a virtual standstill and a recession looking increasingly likely, the Fed has become America's first line of economic defense.

"The coronavirus outbreak has harmed communities and disrupted economic activity in many countries, including the United States," the central bank said in a statement. "The Federal Reserve is prepared to use its full range of tools to support the flow of credit to households and businesses.

Chair Jerome H. Powell and his Fed colleagues are trying to prevent the near-term disruptions caused by allowing businesses to default on loans or close permanently, which could inflict long-term damage that could take years to shake off. They are also working to make sure that the inner workings of financial markets function smoothly at a time of intense volatility.

"The virus presents significant economic challenges," Mr. Powell said in a news conference on Sunday evening. In the past week, he said, "several important financial markets" have "shown signs of stress," pointing specifically to the Treasury market. The Fed's bond purchases are squarely aimed at keeping the market for government debt, which forms the backbone of the broader financial system, functioning smoothly.

The Fed's move comes on the heels of a House bill, passed early Saturday morning, that aims to provide free testing for the coronavirus and sick pay for some workers.

The measure, which the Senate is expected to take up on Monday, is just the first in what lawmakers have said will be a series of relief legislation.

On Sunday, Mr. Powell reiterated that Congress had a large role to play in combating the economic impact. "Typically fiscal policy does pay a major role when there are downturns," he said. "That will probably need to be the case here as well."

Mr. Trump, who has jawboned the Fed for months to slash rates and accused Mr. Powell of putting the United States at a disadvantage, offered rare praise on Sunday. "I want to congratulate the Federal Reserve," he said. "People in the market should be very thrilled." He added, "We got it down to potentially zero."

Economists also applauded the Fed's decision to move early and aggressively.

"They really went to extremes here to find as many ways as possible to ease credit," said Michael Feroli, chief U.S. economist at J.P. Morgan. "They're trying to do all they can do — and do it quick, do it now."

But markets were unimpressed, concerned instead about growing evidence that the coronavirus will amount to far more than a blip. Stock futures plummeted on Sunday evening, and a key Japanese equity index opened lower.

In addition to buying bonds and cutting rates, the Fed also took steps to ensure that banks are able to continue lending and that credit markets don't seize up the way they did in 2008.

The Fed encouraged banks to use its discount window, which provides ready access to financing, and said it was "encouraging banks to use their capital and liquidity buffers as they lend to households and businesses." The Fed also eliminated a requirement that banks stash a certain level of reserves — essentially customer deposits — at the Fed. The suite of efforts was meant to free up cash so that banks can keep lending at a time when companies are tapping their lines of credit and even regular consumers are scrambling for cash.

"We've given broad general guidance to the banks," Mr. Powell said, adding that the banks are saying that they "have every intention" of lending and "that's a good thing."

On Sunday, the eight largest American banks, including JPMorgan Chase, Bank of America, Goldman Sachs and Wells Fargo, announced that they would suspend their practice of buying back shares for the first half of the year, in order to "provide maximum support to individuals, small businesses, and the broader economy through lending and other important services" during the outbreak.

Some lawmakers, including Senator Sherrod Brown, Democrat of Ohio, had demanded banks end buybacks during the crisis. "Banks need to be investing in their communities right now, not investing in their C.E.O.s' stock portfolios," Mr. Brown said last week.

The central bank also announced that the Fed, along with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank and the Swiss National Bank would sweeten the terms on arrangements that help to keep dollar funding flowing globally.

The Fed has a history of using "swap lines" to help foreign central banks deliver U.S. dollar funding to financial institutions in their regions amid market stress. Swap lines essentially allow the Fed to lend dollars to foreign central banks in return for their local currency, for a limited time. They were used extensively during the financial crisis, and are needed again as market strains make American cash harder to come by — including for companies that need them to service dollar-denominated debt.

The Fed's actions on Sunday were on top of previous crisis measures. The Fed slashed interest rates by half a percentage point at an emergency meeting on March 3, and has rolled out a number of initiatives to keep markets flush with cash and chugging along.

But the Fed now has little room should things worsen. The central bank had nudged rates higher after slashing them to near zero during the financial crisis, but ushered in three cuts in 2019 to protect the economy amid Mr. Trump's trade war and a global slowdown that preceded the virus.

Mr. Powell did not use the word "recession" but said he expected the second quarter of U.S. economic growth to be "weak."

After that, he said, "it's very hard to say how big the effects will be or how long they will last. That's going to depend on how widely the virus spreads," he said, adding that the answer to that is "unknowable."

While the central bank has exhausted perhaps its most powerful recession-fighting tool, Mr. Powell pointed out that very low rates will make it cheaper for consumers to borrow and spend even as the United States bounces back from the virus, and underlined that the Fed stands ready to use asset purchases and liquidity tools — its backup options when rates are at rock-bottom.

"We knew that there was going to be a day when the Fed was going to be constrained again," Mr. Feroli said. "This is that day."