Fed rejects Trump's demand for rate cut

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The US Federal Reserve has kept interest rates on hold for the fifth meeting in a row, rejecting pressure from the Trump administration for a major cut. But there were dissenting votes from two Fed governors who both favoured reducing rates by a quarter of a percentage point.

The Federal Open Market Committee of 12, which sets rates, is made up of seven governors appointed by the president and five others drawn from the 12 regional Fed branches on a rotating basis. It was the first time since 1993 that there were two dissent votes from governors.

The Fed meeting was preceded by a further barrage of criticism from the White House on its interest rate policy. Speaking on CNN last Sunday, Russell Vought, Trump's budget director, said interest rates should be "dramatically lower" than present and on a number of fronts Fed chair Jerome Powell had been "too late."

Vought also took aim at what he called the "largesse monstrosity on the National Mall"—a reference to the $2.5 billion refurbishment of the Fed headquarters. Sections of the Republican party are trying to advance it as "cause" for the removal of Powell before his term expires next May.

Last week, Treasury Secretary Scott Bessent said the Fed was being inconsistent in how it approached rate decisions. "Based on the way they cut rates last fall, they should be cutting rates now," he said.

Trump has said the rate cut of one percentage point between September and December was "political" and aimed at aiding Kamala Harris in the presidential election.

Since assuming the presidency, he has unleashed a war of words against Powell, denouncing him as a "moron" and a "numbskull" while canvassing ways to secure his removal. He is looking for much more than incremental reductions, saying rates should be reduced from their present level of 4.5 percent to as low as 1 percent.

In his prepared remarks and in answers to questions at his press conference, Powell pushed back against arguments for a rate cut.

"It seems to me—and to almost the whole committee—that the economy is not performing as though restrictive policy is holding it back inappropriately."

However, he did note that "recent indicators suggest that the growth of economic activity has moderated." GDP in the first half of the year was up by 1.2 percent, compared to 2.5 percent for the same period last year.

He also said there was a "downside risk" risk to the labour market in the coming months which would "inform" the decision in setting the interest rate.

Before the meeting, Trump said he thought the Fed would cut rates in September. Powell sought to deflect the speculation, saying: "We have made no decisions about September. We don't do that in advance."

The *Financial Times* reported that Powell's "reluctance to signal a September cut was perceived as hawkish by many market participants, with some traders having expected him to hint that a September rate cut could be in play."

On the inflationary effects of the Trump tariffs, which have lifted US rates to their highest level since the 1930s, Powell adopted an 'on the one hand and on the other' approach. He is clearly anxious not to repeat the earlier mistake when the Fed characterised the inflationary impact of COVID as "transitory," when in fact it led to the biggest price hikes in four decades.

In his prepared remarks, Powell said that as changes in government policies continued to evolve, their effects were uncertain. While higher tariffs were seen in the prices of some goods, their overall effect remained to be seen.

"A reasonable base case is that the effects on inflation could be short-lived—reflecting a one-time shift in the price level. But it is also possible that the inflationary effects could instead be more persistent, and that is a risk to be assessed and managed."

Apart from the boost that it would provide to speculation on Wall Street, and thereby also to the crypto world, one of the reasons for Trump's insistent demands for rate cuts is the impact of higher rates on the escalating interest bill on the $36 trillion of US government debt, now approaching $1 trillion a year.

Trump has said a major cut in interest rates would reduce it by hundreds of billions of dollars a year.

However, in response to a question at his press conference, Powell ruled that out.

"We have a mandate and that's maximum employment and price stability," he said.

"We don't consider the fiscal needs of the federal government. No advanced economy's central bank does that. If we did do that, it wouldn't be good for our credibility nor for the credibility of US fiscal policy."

The issue is bound up with the so-called independence of the Fed from the government, with the fear that if that is compromised, it will undermine the global role of the dollar as the reserve currency. But its independence has already been called into question because, irrespective of whether or not Powell serves out his full term, his replacement, to be appointed by Trump, must be in favour of rate cuts.

Consideration of this issue may have been a factor in the two dissent votes. Governor Christopher Waller, who came out for rate cuts two weeks ago, is reportedly one of those angling to be the next Fed chair.

As for the other dissent vote by Michelle Bowman, the *Wall Street Journal* stated that it "marked a notable shift for someone who had been a leading advocate for tighter policy in recent years and who opposed an initial cut from higher levels last September."

While Powell said the full impact of the Trump tariffs was yet to be seen, they are already having a major effect on the economy as can be seen from the GDP report also issued yesterday, which the *Journal* said in an editorial may be the "weirdest ever."

The first quarter showed a 0.5 percent decline in GDP, largely a result of increased imports as business stocked up to try to offset expected tariff hikes. GDP then rose in the second quarter because of the fall in imports by 30 percent, with GDP for the six months coming in at 1.2 percent.

The *Journal*, which has been an opponent of the tariffs as well as Trump's attacks on Powell, said the "crazy swing" in imports showed "how much Trump's up-and-down trade policies have disrupted business decisions and left companies scrambling to adapt." It also noted that private domestic investment had fallen by 15.6 percent in the second quarter after surging in the first.

One of the most significant areas to be hit by tariffs is the auto industry. Yesterday, Ford reported a quarterly loss of $36 million, compared with a profit of $1.8 billion a year earlier. It has said it expects to take a $3 billion hit for the full year because of the tariffs on imported auto components. General Motors has said it will take a $1 billion hit in the second quarter.

These figures underscore that for all Trump's declaration about how tariffs are boosting the US economy, their real impact is to raise the internal cost structure of industry which companies must seek to counter by jobs cuts and attacks on working conditions.