Fed cuts interest rate as US economy weakens

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The US Federal Reserve cut its interest rate by a quarter of a percentage point yesterday and indicated more cuts could come later this year, after a tense buildup to the meeting arising from efforts by US President Trump to change the composition of its governing body in support of his drive for a much lower rate.

On Monday, on the eve of the meeting, one of Trump's leading economic advisers, Stephen Miran, took his place as Fed governor after his confirmation for the post had been rushed through the Senate and carried in a 48–47 vote.

But his efforts to remove Fed governor Lisa Cook failed—at least for the present—when an appeals court, also on Monday, upheld a lower court ruling against Trump's efforts to sack her for "cause" over claims she had falsified a mortgage application for properties she bought before her appointment in 2022.

The decision by the 12 voting members of the 19-member Federal Open Market Committee (FOMC) was carried 11–1, with Miran recording his dissent, advocating a cut of half a percentage point. Two other Trump appointees from his first term, Michelle Bowman and Christopher Waller, who had registered their dissent in July when the interest rate was kept on hold, voted with Fed Chair Jerome Powell on this occasion.

But deliberations at the Fed's next two meetings for the year—in October and December—could be more contentious, as indicated by the so-called dot plots in which all members of the FOMC indicate what they think the trajectory for rates will be.

A slim majority indicated two additional rate cuts this year while seven expected no further reductions and two projected one further cut.

In support of its decision, the FOMC said that unemployment had "edged up" and inflation had moved up and remained somewhat elevated, and that "in light of the shift in the balance of risks," it had decided to make a rate cut—the first since December last year.

In his prepared remarks at the press conference following the meeting, Powell noted that job gains had slowed and downside risks to employment had risen, while at the same time inflation had risen and remained "somewhat elevated."

"In the near term," he said, "risks to inflation are tilted to the upside and risks to employment to the downside—a challenging situation."

Both these phenomena are the result to a significant degree of the tariff hikes of the Trump administration.

On the inflation front, while trying to tread a careful line because of the bogus claims by Trump and his supporters that tariffs are not inflationary, Powell said higher tariffs "have begun to push up prices in some categories of goods, but their overall effect on economic activity and inflation remains to be seen."

He said a "base case" could be made that their effects on inflation would be "short-lived," but it was also possible that "the inflationary effects could instead be more persistent, and that is a risk to be assessed and managed."

Those concerns appear to be the motivation for those on the FOMC who took the view there should be no further rate cuts this year.

In a comment on the eve of the meeting, *Financial Times* (FT) columnist Robert Armstrong cited analysis that "tariff pass-through to prices appears to be picking up rather than subsiding."

Coming down on the side of the "hawks," he underscored the potential for major turbulence in financial markets as Wall Street continues to hit record highs.

"Resurgent inflation is the scariest risk right now," he wrote, warning that "another bout of inflation could cause a market crash. Risk asset valuations are bubbly and the US fiscal position is precarious. Unmoored inflation expectations could lead to a spiral in long-term interest rates that would make the US debt burden unmanageable and crush risk markets."

With US government debt at $37 trillion and rising, such fears are not misplaced.

While he referred to the effect of tariffs on inflation, Powell made no reference to their impact on jobs, which has been no less significant. Since the July meeting of the Fed, new data has shown that the number of jobs created in the US economy in the year to last March was more than 900,000 fewer than previously estimated.

Since then, job growth has slowed markedly, with Powell acknowledging that "labor demand has softened and the recent pace of job creation appears to be running below the 'breakeven' rate needed to hold the unemployment rate constant."

A report in the FT this week noted that goods-producing industries most exposed to the effect of tariffs "led the decline in last week's bleak August jobs report, which showed the US economy added just 22,000 jobs as hiring slowed to a trickle."

Manufacturing, supposed to be the biggest beneficiary of tariff hikes, lost 12,000 jobs, bringing the total this year to 78,000. The mining sector, including oil and gas—contrary to Trump's mantra of "drill, baby drill"—lost 6,000 jobs in August. Employment in wholesale trade has fallen by 32,000 so far this year.

The industrial and agricultural machinery giant John Deere has said tariffs had cost it $300 million so far this year and that figure would most likely double by the end of the year. It has started to lay off workers and has reported that its net income for the third quarter fell by 26 percent compared to the same period last year.

Treasury Secretary Scott Bessent has claimed that for every John Deere, there were companies telling the administration that tariffs had helped them and capital expenditure and employment were increasing—without citing any examples.

In fact, the situation across the economy, as has been widely reported, is that companies are putting expansion plans on hold because of the uncertainty generated by tariffs and are trying to implement cost-cutting measures because of the rise in their costs.

The Fed meeting was held under what the *Wall Street Journal* characterised as "unprecedented political pressure" as part of Trump's drive to take control of its governing body and secure major interest rate cuts, repeatedly citing the need to cut the interest bill on the rising US government debt.

That pressure will intensify because yesterday's reduction and even the indication that more cuts may be coming are nowhere near the reduction of three percentage points Trump has been demanding.

The attempt to remove Lisa Cook, part of the drive to put open Trump supporters in charge of the Fed, will continue, with the administration taking the case to the Supreme Court to have the two rulings against it overturned.

And the circumstances around the appointment of Miran to fill the position vacated by the sudden resignation of Fed Governor Adriana Kugler before her term expired in January next year go in the same direction.

Miran did not resign his position as chair of the Council of Economic Advisers, but merely took a temporary leave of absence. This meant that for the first time, someone at least nominally employed by the administration has sat on the governing body of the supposedly "independent" Fed.