US Federal Reserve cuts interest rate in split decision

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The US Federal Reserve again lowered its interest rate by a quarter percentage point yesterday—for the third time in a row—to bring it to the lowest level in three years. But it was a split decision: Two members of the committee voted against another cut and Trump supporter Stephen Miran called for a cut of half a percentage point.

With two members of the Federal Open Market Committee—Austan Goolsbee of the Chicago Fed and Jeffrey Schmid of the Kansas City Fed—voting to keep rates on hold and others leaning in that direction, expectations of a further cut in January have been lowered.

Prior to the meeting, as many as five of the 12 voting members of the committee and 10 of all its 19 members had indicated that they did not see a strong case for a further cut. But in the event, most went along with the decision.

The so-called dot plot, in which Fed officials project where they believe interest rates will go over the next 12 months, "laid bare," in the words of the *Financial Times*, "the deep discord among policymakers."

The median projection was for only one 0.25 percentage point cut in 2026, the same as the last dot plot in September. But three members said they expected an increase in the Fed rate.

In his prepared remarks for the press conference following the meeting, Fed chair Jerome Powell said available indicators suggested economic activity had been expanding at a moderate pace.

But the readings on inflation were higher than earlier in the year, reflecting the impact of tariffs, and the labour market was weakening with job gains slowing significantly.

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

Elaborating on the job numbers during his press conference, in support of the decision for a rate cut, he said he expected a further downward revision in the employment numbers of around 60,000 a month, meaning there could be a fall in payroll numbers of around 20,000 a month.

"We'll need to watch that situation very carefully and be in a position where we're not pushing down on job creation with our policy," he said.

Estimates put the loss of manufacturing jobs at 50,000 this year as companies make announcements of significant layoffs.

Attention has been increasingly directed to what is referred to as a "K-shaped" economy, as higher income earners with stock holdings benefit from the share market rise while those on lower incomes fall further behind.

After dismissing the affordability crisis as a "hoax" and "the greatest ever con job" fostered by the Democrats, President Trump attempted to address it at a rally in Pennsylvania this week. This was under conditions where, according to a poll conducted by Politico, some 46 percent of voters said the cost of living was the worst they could recall. They included 37 percent who said they had voted for Trump in the presidential election.

So far as any economic analysis was concerned, Trump piled absurdity upon absurdity, saying while prices were too high, they were "coming down tremendously."

This followed his announcement of a $12 billion bailout for soybean farmers which he attempted to maintain was an example of the efficacy of his tariff agenda, ignoring the fact that the reason for the bailout was the decision by Beijing to cut imports of soybeans from the US in retaliation for the Trump trade war measures.

He has also claimed that tariffs will bring down US debt under conditions where the interest bill on the government debt of more than $38 trillion is running at around $1 trillion a year, compared to the revenue from tariffs estimated to be $250 billion this year.

In his prepared remarks and in comments at his press conference, Powell said there was a "reasonable base case" that the effects of tariffs on inflation would be relatively short-lived and would only result in a one-time shift in the price level.

But Powell said the same thing regarding the price hike set off by the COVID-19 pandemic, which led to the largest inflation surge in more than 40 years. The significant dissent from the decision to cut interest rates indicates there is concern in the Fed's governing body this could take place again.

Whatever their effect on inflation, tariffs are already hitting the manufacturing industry.

In an interview with the *Financial Times*, Cory Reed, the head of the agriculture and turf division at major tractor maker John Deere outlined the hit taken by the firm so far, with worse to come. He said demand for farm equipment in the US was faltering as farmers contended with lower crop prices, higher input costs and trade uncertainty.

He said that Deere, the world's biggest farm equipment manufacturer, would be "building half as many tractors this year as we did two years ago.

"Our US market has been the one under the most pressure … based on what's happening with trade flows, what's happened with tariffs and what's happening with the escalating cost structure," he said.

Wall Street welcomed the rate cut decision, with all major indexes recording increases. The Dow was up 1 percent, or 500 points, the NASDAQ rose 0.3 percent, the S&P 500 was up 0.7 percent, just shy of a record, and the Russell 2000 index of smaller companies gained 1.3 percent to reach a new record.

But in an unexpected decision, indicating fears of turbulence in financial markets, the Fed announced that it was resuming purchases of short-term Treasury securities, starting with $40 billion this month.

In its report of the decision, the *Wall Street Journal* said the decision was "a response to recent stretches of volatility in short-term lending markets that have caught traders' and policymakers' attention."

In recent weeks, it said, banks and other institutions have faced higher interest rate cuts in the overnight, repo (repurchase) markets, which "the Fed monitors closely out of concern that stress could spill over into the broader financial system," because some major players in the $30 trillion Treasury market are dependent on repo operations.