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Fed again cuts its key rate

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WASHINGTON>> The Federal Reserve reduced its key interest rate by a quarter-point for the third time in a row Wednesday but signaled that it may leave rates unchanged in the coming months.

Chairman Jerome Powell signaled at a news conference that the Fed likely would hold off on further rate cuts in the coming months while it evaluates the health of the economy. And in a set of quarterly economic projections, Fed officials signaled they expect to lower rates just once next year.

Wednesday's cut reduced the rate to about 3.6%, the lowest it has been in nearly three years. Lower rates from the Fed can bring down borrowing costs for mortgages, auto loans and credit cards over time, although market forces also can affect those rates Fed officials "will carefully evaluate the incoming data," Powell said, adding that the Fed is "well-positioned to wait to see how the economy evolves." The chairman also said the Fed's key rate was close to a level that neither restricts nor stimulates the economy.

Three Fed officials dissented from the move, the most dissents in six years and a sign of deep divisions on a committee that traditionally works by consensus. Two officials voted to keep the Fed's rate unchanged, while Stephen Miran, whom President Donald Trump appointed in September, voted for a half-point cut.

December's meeting could usher in a more contentious period for the Fed. Officials are split between those who support reducing rates to bolster hiring and those who would prefer to keep rates unchanged because inflation remains above the central bank's 2% target. Unless inflation shows clear signs of coming fully under control, or unemployment worsens, those divisions likely will remain.

"What you see is some people feel we should stop here and we're in the right place and should wait, and some people think we should cut more next year," Powell said. He did rule out a rate hike next year.

Trump on Wednesday criticized the cut as too small, and said he would have preferred "at least double." The president could name a new Fed chair as soon as this month to replace Powell when his term ends in May. Trump's new leader is likely to push for sharper rate cuts than many officials may support.

Stocks jumped in response to the Fed's move, in part because some Wall Street investors expected Powell to be more forceful in shutting down the possibility of future cuts. The broad S&P 500 stock index rose 0.7% and closed near an all-time high reached in October.

Powell was also optimistic about the economy's growth next year and said consumer spending remains resilient while companies are still investing in artificial intelligence infrastructure. He also suggested growing worker efficiency could boost growth as well.

A stark sign of the Fed's divisions was the wide range of cuts that the 19 members of the Fed's rate-setting committee penciled in for 2026. Seven projected no cuts next year, while eight forecast that the central bank would implement two or more reductions. Four supported just one. Only 12 of 19 members vote on rate decisions.

The Fed met against the backdrop of elevated inflation that has frustrated many Americans, with prices higher for groceries, rents and utilities. Consumer prices have jumped 25% in the five years since the beginning of the pandemic.

"We hear loud and clear how people are experiencing really high costs," Powell said Wednesday. "A lot of that isn't the current rate of inflation, a lot of that is imbedded high costs due to higher inflations in 2022-2023."

In a delayed report last week, the government said the Fed's preferred inflation gauge remained high in September, with overall and core prices rising 2.8% from a year earlier. That is far below the spikes in inflation three years ago but still painful for many households after the big run-up since 2020.

The Fed typically keeps its key rate elevated to combat inflation, while it often reduces borrowing costs when unemployment worsens to spur more spending and hiring.

Adding to the Fed's challenges, job gains have slowed sharply this year and the unemployment rate has risen for three straight months to 4.4%. While that is still a low rate historically, it is the highest in four years. Layoffs are muted, so far, as part of what many economists call a "low hire, low fire" job market. Note

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Still Powell said the committee reduced borrowing costs out of concern that the job market is even weaker than it appears. While government data shows the economy has added just 40,000 jobs a month since April, Powell said that figure could be revised lower by as much as 60,000, which would mean employers have actually been shedding an average of 20,000 jobs a month since the spring.

"It's a labor market that seems to have significant downside risks," Powell said. "People care about that. That's their jobs."

At the same time, Powell noted that there are signs inflation is continuing to cool. Tariffs have made many goods more expensive, but that could peak early next year, he said, while the cost of services — hotel rooms, entertainment and restaurant meals — has been flat.

"If you get away from tariffs, inflation is in the low 2s," Powell said, near the Fed's target.

The lack of economic data since the government shutdown ended Nov. 13 has contributed to the divisions at the Fed. But when Fed officials next meet in late January, they'll have up to three months of backlogged reports to consider. If those figures show the job market has worsened, the Fed could reduce rates again in January.

By contrast, if hiring has stabilized while inflation remains elevated, they may hold off on additional cuts for several months.

Powell will preside over only three more Fed meetings before he steps down. He was asked about his legacy.

"I really want to turn this job over to whoever replaces me with the economy in really good shape," he said. "I want inflation to be under control, coming back down to 2%, and I want the labor market to be strong."