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Central Banks' Big Week Ahead

Other influential central banks are making monetarypolicy decisions next week: **Thursday, Dec. 18**

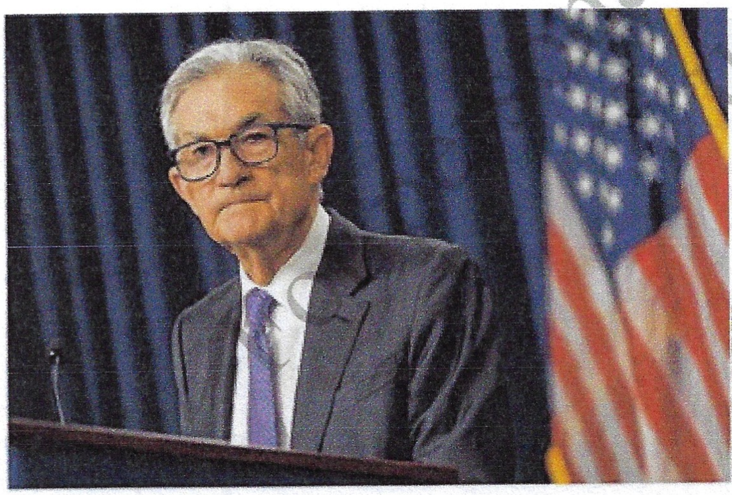
The Bank of England is forecast to cut by 0.25 percentage point. The U.K. economy shrank for a second month in October.

The European Central Bank is expected to keep its key rate at 2%. ECB President Christine Lagarde has said the bank might raise eurozone economic forecasts. Sweden's Riksbank and Norway's Norges Bank are expected to keep rates unchanged, but the latter may signal it is likely to ease policy next year.

Friday, Dec. 19

Analysts are split on the Bank of Japan's likely move, but on balance, most expect it to buck the global trend and hike by 0.25 percentage point.

—Katy Barnato



'You've got one tool. You can't do two things at once,' Fed Chair Jerome Powell said Wednesday. JACQUELYN MARTIN/ ASSOCIATED PRESS

Fed Officials Diverge Over Inflation Risks

Public comments underscore why recent meeting was so contentious

BY NICK TIMIRAOS AND MATT GROSSMAN

Note

Federal Reserve officials reinforced Friday why this past week's rate cut was so contentious. In public comments, one argued that the central bank had room to keep cutting if the labor market softens, and others warned that rate cuts could threaten the Fed's hard-won work on inflation. Note

The central bank voted 9-3 Wednesday to cut its benchmark rate by a quarter point, to a range between 3.5% and 3.75%. Two voters favored no cut, and one preferred a larger reduction. It was the first time since 2019 that three policymakers had formally dissented.

One of this past week's dissenters, Kansas City Fed President Jeff Schmid, said Friday he opposed cutting rates because he doesn't see evidence that interest rates are putting downward pressure on inflation by slowing economic activity, on balance. "Right now, I see an economy that is showing momentum and inflation that is too hot, suggesting that policy is not overly restrictive," he said.

Chicago Fed President Austan Goolsbee, who also voted against cutting, suggested his disagreement centered more on tactical considerations. He backed cuts in September and October and said Friday he thought the Fed could continue lowering rates but didn't want to move so aggressively because inflation has been stubborn.

"If we can just get the dust out of the air, fundamentally, rates can go down a fair amount from where they are today," Goolsbee said at a conference in Chicago.

The Fed's 12-person ratesetting committee is composed of all seven Washington-based governors, the New York Fed president, and then four of 11 other regional presidents who vote on a rotating basis. Schmid and Goolsbee will hand off their votes next year, but two of the presidents replacing them, Beth Hammack of the Cleveland Fed and Lorie Logan of the Dallas Fed, have recently sounded cautious about bringing rates lower as well.

Hammack said Friday she thought rates were close to a neutral level that neither spurs nor slows growth and that she thought a more restrictive stance was warranted.

Philadelphia Fed President Anna Paulson, also a 2026 voter, largely echoed the case Fed Chair Jerome Powell made Wednesday in support of the cut and suggested the bank should leave all of its options open at its coming meetings.

"On net, I am still a little more concerned about labor market weakness than about upside risks to inflation," she said in a speech Friday.

Recent divisions reflect a dilemma the Fed hasn't faced in more than 15 years: stubborn inflation that calls for higher rates paired with a softening job market that suggests a need for lower rates. "So what do you do?" Powell said Wednesday. "You've got one tool. You can't do two things at once."

Paulson said she is more focused on the job market because she sees a "decent chance" inflation will decline next year as the effects of tariff increases fade and housing costs contribute to slower price growth. At the same time, demand for workers has fallen faster than the supply of available workers, pushing the unemployment rate higher. While the job market is "OK," the risks of a sharper slowdown are elevated, she said.

Note

By cutting rates by a combined 0.75-point at its last three meetings, "we've taken out some insurance against further labor market deterioration," she said. She said the current level of rates, together with the cumulative effect of past restrictiveness, should contribute to a "somewhat restrictive" policy stance that helps bring inflation down.

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