Fed leaves rates unchanged, sees no hurry to cut again

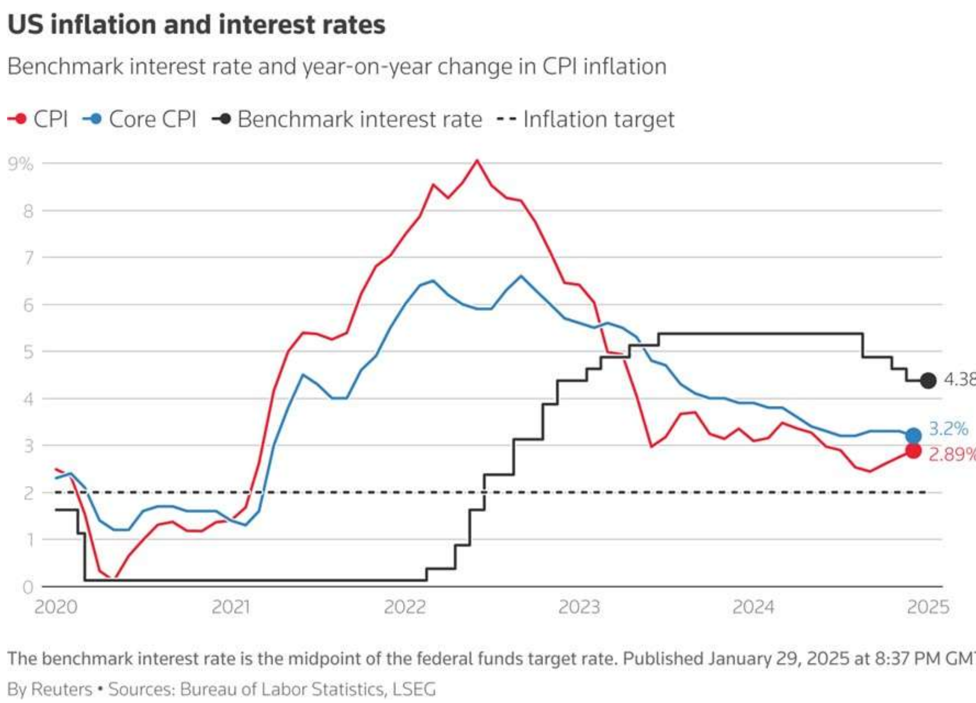
By Howard Schneider and Michael S. Derby, Reuters, January 29, 2025

- US central bank leaves policy rate in 4.25%-4.50% range
- Officials still waiting for clarity on Trump policies
- 'We do not need to be in a hurry,' Powell says

WASHINGTON - The U.S. central bank held interest rates steady on Wednesday and Federal Reserve Chair Jerome Powell said there would be no rush to cut them again until inflation and jobs data made it appropriate. The decision and Powell's comments put Fed policy in a holding pattern at a time when the U.S. economic landscape seems both stable and wildly uncertain - with a healthy set of macroeconomic fundamentals that have changed little in recent months, but coming decisions from the Trump administration on immigration, tariffs, taxes and other areas that could prove disruptive. Emerging from their first policy meeting during President Donald Trump's second term in the White House, Powell said Fed officials are "waiting to see what policies are enacted" before judging the effects on inflation, employment and overall economic activity, with no reason to adjust rates further until data either show a renewed decline in inflation or rising risks to the jobs market.

"I think our policy stance is very well-calibrated," Powell said in a press conference after the end of the Fed's latest two-day policy meeting. "The unemployment rate has been broadly stable for six months ... The last couple of inflation readings ... have suggested more positive readings." In comments on his Truth Social media platform, Trump did not directly call for rate cuts, as he said he would do, but attributed the inflation that spiked in 2021 in the aftermath of the COVID-19 pandemic to the Fed spending too much time "on DEI (Diversity, Equity, and Inclusion), gender ideology, 'green' energy, and fake climate change." Trump returned to power last week with promises of import tariffs, an immigration crackdown, tax cuts and looser regulation. Powell declined to respond to the Republican president's previous statements, but said, as he often has, that the central bank reacts to economic developments to try to maintain the lowest unemployment rate consistent with 2% annual inflation.

INFLATION 'REMAINS ELEVATED'



After the Fed lowered rates three times in the latter part of last year, inflation has largely moved sideways in recent months, but "remains elevated," the central bank's policy-setting Federal Open Market Committee said in a statement after a unanimous decision to keep the benchmark overnight interest rate in the current 4.25%-4.50% range.

Recent key inflation readings remain about half a percentage point or more above the Fed's target, far lower than the 40-year highs seen in the aftermath of the pandemic. Fed officials say they largely believe the progress in lowering inflation will resume this year, but have now put rates on hold as they await data to confirm it. "Economic activity has continued to expand at a solid pace. The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid," the Fed's statement said.

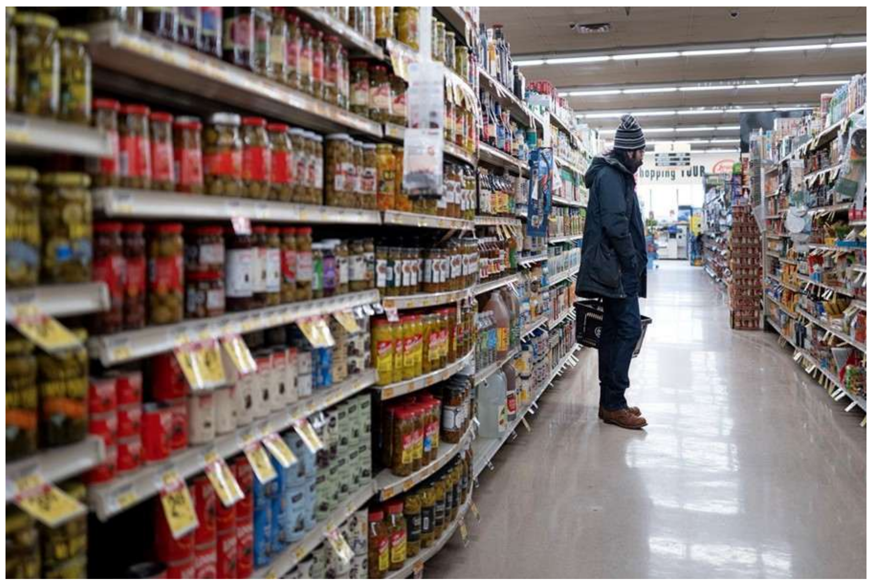
"In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks," it added. Powell told reporters "we do not need to be in a hurry to adjust our policy stance" and monetary policy is "well-positioned" for the challenges at hand. He noted there are risks to cutting rates too aggressively, saying "we know that reducing policy restraint too fast or too much could hinder progress on inflation." Short-term interest rate futures showed that investors expect the central bank to hold off on cutting rates again until June. U.S. stocks closed down on the day but off their lows, while U.S. bond yields were little changed. The dollar (.DXY) was steady against a basket of currencies.

'MILDLY HAWKISH'

The Fed's rate decision on Wednesday was widely anticipated following its rate cuts in 2024, which reduced the benchmark rate by a full percentage point. There is debate at the central bank about how much further rates may need to fall, with policymakers anticipating perhaps two quarter-percentage-point rate cuts over the course of the year. "The Fed seems to think the economy is stuck with a low unemployment rate and elevated inflation," said Brian Jacobsen, chief economist at Annex Wealth Management. "The statement could be read to be mildly hawkish, suggesting that a little jolt to rates could kick the economy out of this equilibrium." Lindsay Rosner, head of multi-sector fixed-income investing at Goldman Sachs Asset Management, said, "while we continue to think the Fed's easing cycle has not yet run its course, the FOMC will want to see further progress in the inflation data to deliver the next rate cut, highlighted by the fact they removed the reference on inflation making progress."

Trump pledged to bring down food prices on Day One. Instead, eggs are getting more expensive

By Alicia Wallace, CNN, Tue January 28, 2025



In August 2024, then-candidate former President Donald Trump delivered a press conference surrounded by packaged foods, meats, produce, condiments, milk and eggs. "When I win, I will immediately bring prices down, starting on Day One," he said at the time. It was a pledge he repeated on the campaign trail, often followed by the phrase, "drill, baby, drill." And to many voters, inflation was a justifiable target: Years of sharply rising prices had taken a toll on their hard-earned pay and their livelihoods. But Day One has turned into Day Seven, and those eggs are getting even more expensive.

Despite a flurry of executive actions, Trump's price-related promises have gone unfulfilled, Democratic lawmakers wrote in a letter addressed to the president. "You have instead focused on mass deportations and pardoning January 6 attackers, including those who assaulted Capitol police officers," according to the letter signed by Sen. Elizabeth Warren and 20 congressional Democrats. "Your sole action on costs was an executive order that contained only the barest mention of food prices, and not a single specific policy to reduce them." In fact, the lawmakers added, Trump appears to be "backtracking" on those promises, conceding in recent weeks that it's "hard to bring things down."

On Sunday, Vice President JD Vance made a similar comment to CBS's Margaret Brennan when asked about grocery prices. "Prices are going to come down, but it's going to take a little bit of time," he said, adding that the way to lower prices is "to encourage more capital investment into our country." Trump's frequent price-dropping pledges have long been countered by economists who have noted that broad-based price declines not only would be outright dangerous for an economy by creating a deflationary "doom loop," but, also, that they'd be improbable to achieve. "No president is able to lower prices in a week, and some of the promises that were made about how quickly prices were going to come down were probably never achievable," said Tyler Schipper, economist and associate professor at the University of St. Thomas, in St. Paul, Minnesota. "Some of the most stark things that people are still seeing at the grocery store are almost entirely due to price dynamics that were in place before."

Egg prices, for example, have been driven higher as a result of a deadly bird flu that has constricted supply; meat prices have been on the rise because of ongoing drought; coffee prices are expected to jump because of severe weather in South America; and housing costs will continue to rise because of a long-running shortage of inventory. Trump has argued that he can help bring down food prices by drilling for more oil domestically; however, the US already is producing more oil than any country in history. "The incentives [to drill more] aren't great for oil companies," Schipper said. "They certainly want the rights to drill; but given the price of oil right now, there's not a lot of incentive for them to open up a bunch more oil capacity and push prices down further." Plus, Schipper noted, it takes time to increase production.

While more oil might not be as immediate a solution as the president may hope, Schipper said there may be potential in reducing housing regulations. However, that takes time, too, he said. "There are lags between changing the policy and then developers seeing changes in policy and then gaming out how much that saves them, then actually building the apartments, and people moving into them," Schipper said. "But a lot of that regulation is not at the federal level. A lot of that regulation is at the city and state level." While slowing down inflation takes time (just ask the Federal Reserve), the Democratic lawmakers did offer potential solutions as well as an olive branch. "If you are indeed committed to lowering food prices, we stand ready to work with you," according to the letter. "Last year, we put forward several recommendations for executive action to lower food prices by encouraging competition and fighting price-gouging at each level of the food supply chain."

Inflation has slowed significantly since peaking in June 2022; however, it still hovers above the Fed's target rate of 2%. US central bankers meet this week and are expected to hold rates steady, economists say, noting both inflation's stubborn retreat trajectory as well as uncertainty around Trump's tariff and immigration policies that could ultimately raise prices. "Tariffs have the effect, especially for goods that are more concentrated in individual countries, to raise prices," Schipper said, noting Trump's floated 25% tariffs on Canada and Mexico. "Particularly with Mexico, we import about 60% of fresh fruit and 40% of fresh vegetables. It's one of those things where the argument for preserving American jobs is just weaker in some of those categories; because in winter in the United States, we don't have the ability to grow some of those fruits and vegetables."