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.

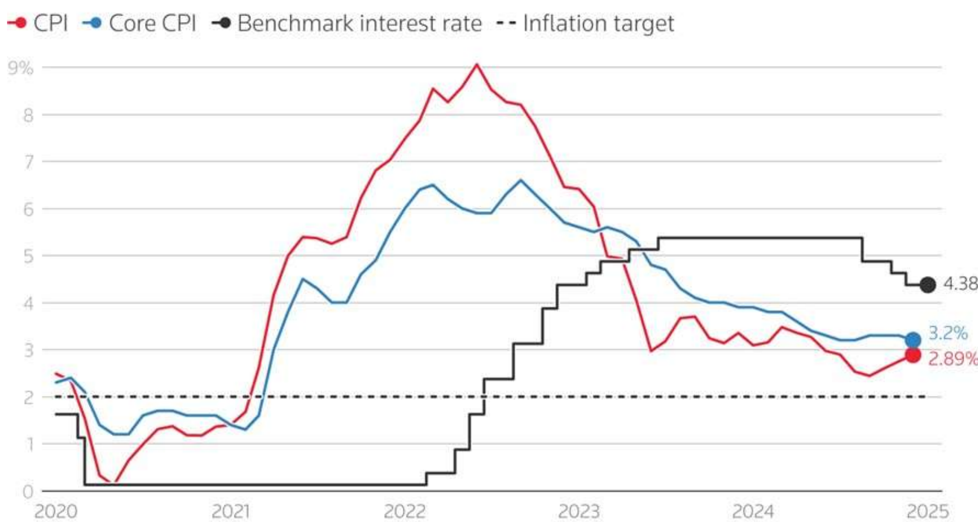
"I think our policy stance is very well-calibrated," Powell said in a press conference after the end of the Fed's latest two-day policy meeting. "The unemployment rate has been broadly stable for six months ... The last couple of inflation readings ... have suggested more positive readings." In comments 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.

US inflation and interest rates

Benchmark interest rate and year-on-year change in CPI inflation



The benchmark interest rate is the midpoint of the federal funds target rate. Published January 29, 2025 at 8:37 PM GMT

By Reuters • Sources: Bureau of Labor Statistics, LSEG

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.

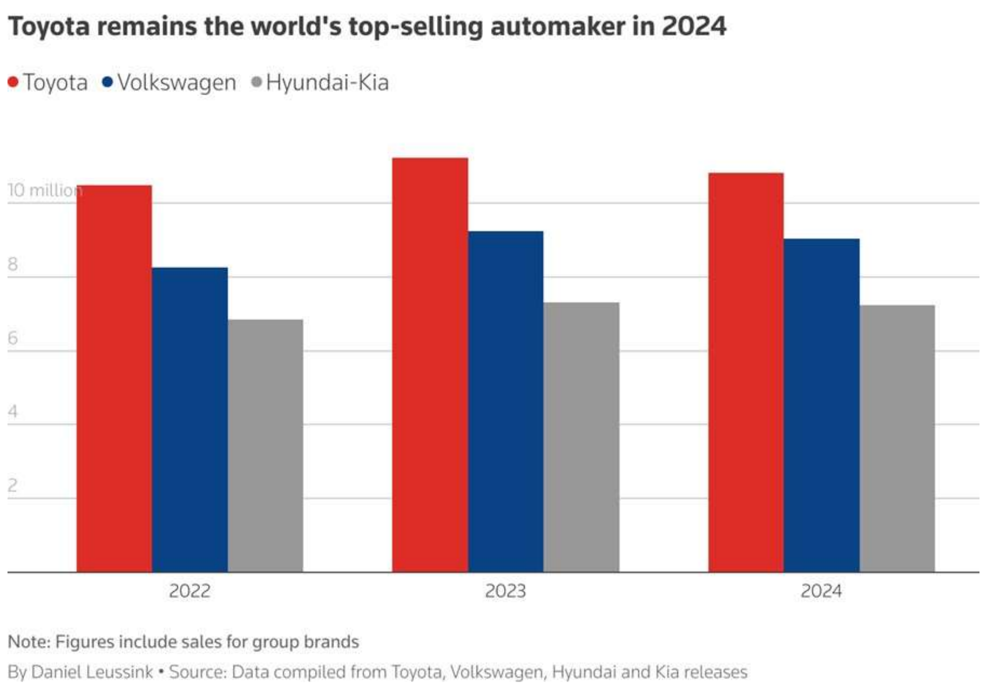
'MILDLY HAWKISH'

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."

Toyota sells 10.8 million vehicles in 2024 to remain world's top-selling automaker

By Reuters, January 29, 2025

TOKYO - Toyota Motor (7203.T) sold 10.8 million vehicles in 2024, it said on Thursday, remaining the world's top-selling automaker for a fifth straight year. The Japanese automaker posted a 3.7% drop in global group unit sales last year, including those of compact car maker Daihatsu and truck unit Hino Motors (7205.T).



The decline was largely due to a steep slump in sales in Japan where the automaker faced fallout from governance issues over certification test procedures, especially at Daihatsu.

Second-ranked German rival Volkswagen Group (VOWG_p.DE) earlier this month reported a 2.3% decline in unit sales last year to just over 9 million vehicles, as it seeks to cut costs at home and fight a price war in key market China. Sales of Toyota's parent-only vehicles, which include those of its namesake and Lexus brands, fell 1.4% from a year earlier in 2024 to 10.2 million vehicles due to a double-digit decline in Japan. While Toyota sold a record number of cars overall, thanks in part due to demand for its hybrid vehicles in the United States, it saw unit sales in China decline by 6.9% amid heavy price competition in the world's top car market. Of its parent-only sales, gasoline-electric hybrids made up a record 40.8%. Battery electric vehicles accounted for 1.4%.

Tesla Results Miss Estimates, Citing Lower Vehicle Prices

By John BIERS, IBTimes, 01/29/25 AT 5:12 PM EST
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Tesla reported lower than expected profits Wednesday, citing declining vehicle prices as a factor as it projected a return to volume growth in 2025. Elon Musk's electric car company reported fourth-quarter profits of $2.3 billion, down 71 percent from the year-ago quarter, where profits were boosted by a one-time tax benefit. Revenues rose two percent to $25.7 billion, also missing analyst estimates. The results -- the first since the return of Musk ally Donald Trump to the White House -- capped a mixed year for Tesla in which Musk's big bet on US electoral politics was countered by profit pressures as Tesla's streak of annual car volume growth came to an end. Full-year auto sales fell one percent to just under 1.8 million vehicles. Tesla has been confronted by intensifying EV competition in leading markets, including China and the United States, where General Motors and Ford have introduced more models. Another factor has been lower than expected volumes from the Cybertruck, Musk's futuristic auto giant that has won cheers from Tesla fans and jeers from critics. But Tesla expects growth in 2025. "With the advancements in vehicle autonomy and the introduction of new products, we expect the vehicle business to return to growth in 2025," Tesla said. "The rate of growth will depend on a variety of factors, including the rate of acceleration of our autonomy efforts, production ramp at our factories and the broader macroeconomic environment." The company also confirmed plans to unveil new, more affordable vehicles in 2025 and described as on track the launch this year of a new robotaxi venture in parts of the United States.

Tesla watchers have been keen to hear more details from Musk on new vehicles and the latest projections on production. In October, Musk said he expected auto sales to increase 20 to 30 percent in 2025. There is also much curiosity about how Musk's alliance with Trump -- part of the billionaire's increasingly assertive advocacy on behalf of far-right politicians worldwide -- will affect Tesla. But among the deluge of opening-day White House executive orders, Trump last week took direct aim at EVs, vowing to undo policies that disadvantage gasoline-powered cars and signaling a potential rollback of US tax credits for EVs. Yet shares of Tesla have surged since the election. Market watchers believe Tesla could benefit from new policies from Washington to promote autonomous driving, which Musk has described as a potentially huge market for his company. Thus far, Tesla driver-assistance programs like "autopilot" and "full self-driving" (FSD) have lagged other companies, such as Waymo, in achieving driverless functionality without human supervision. On Wednesday, Tesla described 2025 as a "seminal" year for the company in terms of the venture." FSD (Supervised) continues to rapidly improve with the aim of ultimately exceeding human levels of safety," Tesla said. "This will eventually unlock an unsupervised FSD option for our customers and the Robotaxi business, which we expect to begin launching later this year in parts of the US." Shares of Tesla rose 3.3 percent in after-hours trading.

Microsoft shares slide as cloud forecast, AI spending disappoint

By Stephen Nellis and Deborah Mary Sophia, Reuters, January 29, 2025

Microsoft (MSFT.O) on Wednesday forecast disappointing growth in its cloud computing business, sending its shares down 4.5% in after-hours trading as investors worry about big spending, elusive artificial intelligence revenue and competition from cheaper AI models from China. Azure results for the fiscal second quarter also fell below Wall Street expectations. Despite beating quarterly overall sales estimates, investors want better results from the hundreds of billions of dollars that Wall Street heavyweights have been spending to build AI data centers and infuse their products with the emerging technology. Chinese rivals have recently claimed to produce competing AI technologies at lower costs than U.S. rivals, sparking fears of a price war. For more than a year, Microsoft and its Big Tech peers have tested Wall Street's patience by plunking down huge amounts of cash in pursuit of profits from AI that have yet to satisfy investors.

"It's OK if that is a few years out, three to five years into the future," said Brian Mulberry, portfolio manager at Zacks Investment Management. "But we really want to start to see a clear road map to what that monetization model looks like for all of the capital that's been invested." On a conference call with investors, Chief Executive Satya Nadella said costs were coming down, with models showing 10 times better performance for the price as Microsoft irons out the algorithms. "As AI becomes more efficient and accessible, we will see exponentially more demand," Nadella said. Microsoft Chief Financial Officer Amy Hood said Azure would grow between 31% and 32% in the current fiscal third quarter, below the 33% Wall Street expects, according to data from Visible Alpha. Microsoft's Azure unit reported revenue growth of 31% in the quarter, missing Visible Alpha estimates of 31.8%. Microsoft's capital expenditures hit $22.6 billion, above analysts' consensus estimate of $20.95 billion, according to data from Visible Alpha.

Overall, investors still appear to view Microsoft as a leading bet on AI. Its stock has gained about 8% over the past year, trailing a 29% rally in Alphabet and a 50% surge in Amazon. It is trading at about 32 times expected earnings, slightly above its five-year average of 30, according to LSEG. Microsoft also posted 67% growth in what it calls commercial bookings, a measure of new contracts signed with large customers. Brett Iversen, Microsoft's vice president of investor relations, said that figure was mostly driven by large new Azure contracts with OpenAI. While OpenAI announced a new data center deal with Oracle last week, Microsoft still retains the rights to most of the hosting of OpenAI's models for commercial purposes. At the company's Intelligent Cloud unit, which includes the Azure platform, revenue rose to $25.54 billion, missing expectations of $25.76 billion. Total revenue rose 12% to $69.6 billion in the fiscal second quarter ended December, compared with analysts' average estimate of $68.78 billion, according to data compiled by LSEG. Redmond, Washington-based Microsoft reported a profit of $3.23 per share, beating expectations of $3.11 per share.