Fed Cuts Interest Rates for First Time Since 2008 Crisis

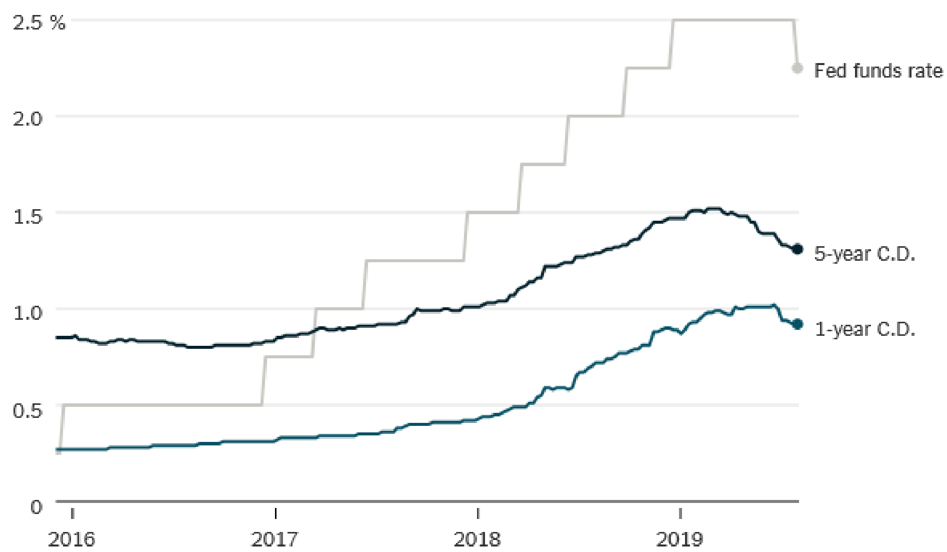
The Federal Reserve cut interest rates on Wednesday for the first time in more than a decade, as it tries to keep America's record-long economic expansion going by insulating the economy from mounting global risks. The rate cut was expected as a precautionary effort to protect the US from slowing growth, unlike the cuts in 2008, which were intended to rescue a failing economy.

It was a turning point, but one that disappointed the markets, who were hoping for a bigger rate cut. Not everyone agreed with cutting rates at a moment when the economy continues to grow, unemployment is at a 50-year low and wages are beginning to rise. Officials also announced an early end to their efforts to shrink the Fed's balance sheet (quantitative tightening), another attempt to keep the economy moving. Even with unemployment rates, it has yet to push wages drastically higher in a way that forces companies to lift prices more quickly. Inflation is under the Fed's 2% goal since the central bank formally adopted it in 2012. A little inflation helps to oil the wheels of a healthy economy, allowing businesses to raise wages faster and lifting interest rates, giving the central bank more room to cut in the event of a downturn.

What does a rate cut mean for you and me? Americans juggle a lot of interest rates in their daily lives. They pay interest on car loans, credit card balances and mortgages. They earn interest, at least a little, on the money they save. Technically speaking, Federal Reserve officials did not touch any of those rates when they announced a quarter-point interest-rate cut on Wednesday. The rate they reduced is the federal funds rate, which is what banks and other financial institutions charge one another for very short-term borrowing. Most consumers don't do that sort of overnight borrowing, but the Fed's moves still affect the borrowing and saving rates they encounter every day.

The effect is not always direct or immediate, so consumers probably will not wake up to find that all of their favorite rates have changed by a quarter of a point. One of the biggest potential impacts of the Fed's cut may be one you don't see: heading off a recession. If the move works, it could prevent the economy from weakening and forestall layoffs and other economic damage that could hurt workers and consumers. Fed officials have raised rates nine times since 2008 by a quarter-point in each instance. The increases have lifted savers, though not by that much. The average yield on a one-year C.D. briefly cracked 1 percent this year. But it has fallen since then, as has the average yield on the five-year C.D., amid bigger hints from Fed officials that a rate cut was in the works. The trend could continue.

Average yields on savings accounts



Note: Fed funds rate reflects the upper limit of the target range. | Source: Bankrate.com and Federal Reserve | By The New York Times

Data as of 8/1/19

One interest rate that has risen by as many percentage points as the federal funds rate in the past few years is the one you probably wish would stay lower: the interest rate on credit-card debt. It is now nearly 18%, and unlike savings yields and mortgage rates, it has not fallen in recent months. That probably means you should not expect it to fall immediately after Wednesday's cut.

Rates on car loans have risen since 2016, but they fell back slightly this year. After peaking near 5 percent at the end of last year, the rate on the average five-year loan for a new car is now around 4.75%. Like rates on credit cards, the rate on car loans does not always move in line with the Fed. It fell in 2016 even as the Fed raised rates.

Those rates help explain, in part, why most economists do not expect that a single Fed rate cut will be enough to change consumers' spending habits. The impact on the household budget of one rate cut is inconsequential. It likely will not lead to increased consumer activity.

If you borrowed money to buy a house late last year, you were unlucky — and it cost you. In November, as the Fed neared what appears to have been the end — for now at least — of its slow march of interest-rate increases, the average rate on a 30-year mortgage was nearly 5 percent. It has since fallen to 3.75 percent. The slide was tied to expectations that the Fed was going to cut rates, and for consumers, it is probably the most consequential effect of the shift in the Fed's policy path. It is also likely fully priced in, unless the Fed shows a strong hint that more rate cuts are coming. Since mortgage rates are tied to long-term rates, they move well in advance. If there are any further movements in mortgage rates they will be tied to the outlook ahead. In the past half-century, the average 30-year rate has never dipped below 3.3 percent, so we would not expect them to fall much further. If you are looking to refinance, let's talk to see if it makes sense for you.

In other words: By moving to reduce rates, now and possibly again this fall, policymakers are trying to reduce the risk that millions of Americans could be thrown out of work. They are trying to ward off the prospect of a job-killing recession by giving the economy a little extra boost.

We watch the accounts closely and many of our indicators (as of this morning) are still showing a green light. There are some that have a caution warning, but for now our attitude can be summarized as:

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