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U.S. ECONOMY

## Fed, Facing Pressure on Rate Cut, to Decide on Next Move

Escalating global trade tensions have clouded the outlook since officials affirmed their rate stance last month



Federal Reserve Chairman Jerome Powell speaking during a news conference in Washington, D.C., last month. Fed officials could cut interest rates at their two-day meeting ending Wednesday. PHOTO: TING SHEN/ZUMA PRESS

By *Nick Timiraos*

Updated June 19, 2019 8:29 am ET

Federal Reserve officials will wrap up their two-day meeting Wednesday after discussing whether they will need to lower the benchmark interest rate, if not now, then in summer.

The Fed faces unusual pressure right now. Market participants increasingly expect it to lower interest rates more than once this year, in part due to concerns that President Trump's trade policies are hurting global growth. Mr. Trump has repeatedly called on Fed Chairman Jerome Powell to cut the central bank's benchmark rate, meaning any decision could be viewed by financial markets through a political lens.

The central bank releases its new policy statement at 2 p.m. EDT along with updated economic projections and any potential addendum to its balance sheet plans. Mr. Powell will start his press conference at 2:30 p.m. Here's what to watch:

## The Rate Decision

The argument for leaving rates unchanged goes something like this: even though global growth has weakened, the U.S. economy still looks relatively resilient. Trade tensions have intensified recently and clouded the outlook suddenly, but they could resolve themselves in the weeks ahead. If the outlook has worsened by the time Fed officials meet again at the end of July, the Fed could cut rates then.

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interest rates at this week's meeting boils down to this: why wait? If officials think the outlook is making a July rate cut more likely, an unexpected move now could give the economy a bigger boost. During periods of high uncertainty in the 1990s, the Fed cut rates as a type of insurance policy to prevent a potential recession.

Market participants expect the Fed to cut rates at least twice this year, but futures markets on Tuesday afternoon implied less than a 25% probability of a cut at this meeting, according to CME Group . Because market participants widely expect the Fed to cut rates in July, a rate cut at Wednesday's meeting could deliver a bigger market impact given the surprise factor.

## Patient No Longer

Even if officials hold rates steady, they are likely to retire language in their statement that since January has said they would be "patient" in making further changes. This word has grown stale because it originally signaled a shift away from raising rates toward a stance with no bias toward moving rates up or down.

One possibility is for the statement to include language similar to Mr. Powell's remarks earlier this month that the central bank would "act as appropriate to sustain the expansion." Officials could more forthrightly acknowledge how risks to growth have increased.

## The Dot Plot

The central bank began releasing quarterly interest-rate projections, the so-called dot plot, in 2012, which means the communications tool has yet to live through a period where the Fed may be more likely to cut rates than to raise them. Also, given rising uncertainty over the economic outlook, the potential for the dot plot to confuse is high at this meeting.

The bottom line: don't pay much attention to the chart.

Do watch to see if officials' projections of the longer-run interest rate has declined. This could be one way for them to show that their policy is closer to neutral—a level that neither spurs nor stimulates growth—than previously anticipated, even if the benchmark rate doesn't change at this meeting.

Another sign that policy makers may be primed toward easier policy is if they lower their projections for inflation and growth this year as well as the unemployment rate they expect is likely to prevail over the long run.

## What Comes After June

Mr. Powell will likely face questions over how the Fed considers various factors that could warrant a change in rates, including uncertainty over the trade outlook and the signal from declining long-term government bond yields.

At the Fed's press conference last month, Mr. Powell played down softer inflation readings during the first quarter as transitory. How Mr. Powell characterizes more recent readings in the context of a less certain growth outlook could yield important clues about the Fed's thinking.

## Odds and Ends

If the Fed surprises markets with a rate cut on Wednesday, officials are likely to also end early the runoff of the Treasury holdings in their \$3.8 trillion asset portfolio. That process is now set to conclude in October.

Also, no Fed officials have dissented on any rate decision during Mr. Powell's term as chairman, which began in Feb. 2018. St. Louis Fed President James Bullard called earlier this month for the Fed to cut rates and could be a candidate to dissent if the Fed doesn't cut rates or indicate it is leaning toward a possible cut.

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