THE WALL STREET JOURNAL.

https://www.wsj.com/articles/powell-says-outlook-hasnt-improved-in-recent-weeks-setting-stage-for-rate-cut-11562761822

U.S. ECONOMY

Jerome Powell Says Outlook Hasn't Improved in Recent Weeks, Setting Stage for Rate Cut

Fed chairman says trade uncertainties and concerns about global growth weakness continue to weigh on economy

By Nick Timiraos

Updated July 10, 2019 9:56 pm ET

WASHINGTON—Federal Reserve Chairman Jerome Powell signaled the central bank is ready to cut interest rates later this month to cushion the U.S. economy against the risks of slower global growth and trade-policy uncertainty.

In testimony Wednesday on Capitol Hill, Mr. Powell said the economic outlook hadn't improved in recent weeks and emphasized several risks. He played down developments that might have buoyed expectations such as the strong June jobs report and the recent trade truce between the U.S. and China.

"The bottom line for me is the uncertainties around global growth and trade continue to weigh on the outlook," Mr. Powell told the House Financial Services Committee.

Mr. Powell also warned of risks that weak inflation could prove more persistent than previously anticipated, a development that "strengthened the case for a somewhat more accommodative policy," meaning lower rates, he said.

He said separately, in response to a question, that he wouldn't leave his office if President Trump tried to replace him.

Stock indexes rose, reflecting growing expectations of a Fed rate cut. The Nasdaq Composite climbed 0.75% to close at a record 8202.53. The S&P 500 briefly eclipsed the 3000 level for the first time before ending the day at 2993.07, 0.5% higher. The Dow Jones Industrial Average gained 0.3% to 26860.20

The yield on 10-year U.S. Treasurys rose to 2.062% from 2.058% Tuesday. Yields and prices move in opposite directions.

Investors in interest-rate futures markets expect the central bank will reduce its benchmark rate by a quarter percentage point from its current range of between 2.25% and 2.5% at the July 30-31 meeting.

Minutes of the Fed's June 18-19 policy meeting released Wednesday showed its officials expected then they would cut rates soon if trade difficulties and slower growth in Europe and Asia didn't quickly reverse.

The officials held rates steady at that meeting and didn't foresee an imminent downturn, but the minutes said many of them "attached significant odds to scenarios with less favorable outcomes."

They discussed signs of economic cooling, including weak shipments and orders of new capital goods, lower profit growth forecasts from private-sector analysts, declines in manufacturing activity, weaker global growth, soft U.S. export sales and elevated policy uncertainty.

The Fed is "looking to cut before they see confirmation in the U.S. data that those risks have softened growth," said Michelle Meyer, head of U.S. economics at Bank of America Merrill Lynch.

The minutes suggest the Fed's rate-setting committee is "more skewed in the direction of cuts than we had previously known," she said.

Notably, officials last month indicated a growing awareness that financial markets hadn't shown greater signs of stress largely because investors anticipated the Fed would cut rates soon, according to the minutes.

Mr. Powell wouldn't answer in detail a question about what would swing Fed officials toward considering a half-point rate cut instead of a quarter-point cut. Only one official, Minneapolis Fed President Neel Kashkari, has endorsed such a move.

In 1995 and 1998, the Fed made a series of quarter-point cuts to guard against rising recession risks despite few obvious signs of a slowdown, taking out what amounted to an insurance policy. This could serve as a template for officials to follow now.

In 2001 and 2007, the Fed initiated easing cycles with half-point cuts when faced with clearer signs of weakness. Both times the economy fell into recession within months of the first cut.

Fed officials face a mixed economic picture today. The U.S. labor market remains healthy, and consumer spending has been steady. Last week's payroll report, which showed employers added 224,000 jobs in June, had led markets to reduce the odds that the central bank might deliver a half-percentage-point cut at their meeting in three weeks.

But Mr. Powell, when pressed on whether that jobs report suggested potential improvement in the economy, replied, "The straight answer to your question is 'no.'"

Data on growth in Europe and China have continued to disappoint relative to expectations since Fed officials met in June, Mr. Powell said.

And while an agreement by President Trump and President Xi Jinping of China to restart trade negotiations last month was a "constructive step," Mr. Powell said, "It doesn't remove the uncertainty that we see as, overall, weighing on the outlook."

Mr. Powell's comments on labor markets and inflation also signaled openness to reducing interest rates. Fed officials last year raised rates four times on the belief that tighter labor markets and stronger growth would boost inflation.

Rather than holding at the Fed's 2% target, inflation has declined this year. Core inflation, which excludes volatile food and energy prices, rose 1.6% in May from a year earlier, compared with 2% in December, using the Fed's preferred gauge.

"There is a risk that weak inflation will be even more persistent than we currently anticipate," Mr. Powell said. That was a notable shift from two months ago, when he suggested it was likely to be transitory.

Dormant inflation pressures make it easier for the central bank to justify lower rates because its officials see fewer risks from providing more stimulus.

Fed Chair Jerome Powell Faces Congress

0:00 / 12:33

SUBSCRIBE

Mr. Powell also pushed back against a characterization that the labor market is hot, or so tight it could fuel excessive inflation. "We don't have any evidence for calling this a hot labor market," he said, pointing to solid but steady wage gains. "To call something hot, you need to see some heat."

Several central banks in other nations—many with less room to cut interest rates than the Fed—have also shifted toward an easing posture, and others have underscored alarm about threats to growth from trade tensions.

Mr. Trump's threats to raise tariffs on China and impose new ones on Mexico and Europe "raise the possibility that trade tensions could be far more pervasive, persistent and damaging than previously expected," Bank of England Governor Mark Carney said last week. "The quality of global growth has deteriorated."

The Fed and Mr. Powell have faced unusually sustained public criticism from the president in recent weeks. Mr. Trump wants the Fed to cut rates, in part out of concern that a stronger dollar will derail his efforts to boost economic growth. Mr. Trump tapped Mr. Powell for a four-year term that began in February 2018 but hasn't ruled out trying to remove him. The law isn't clear on whether he could do so.

Rep. Maxine Waters (D., Calif.), chairwoman of the House Financial Services Committee, asked Mr. Powell what he would do if the president called him and said, "I'm firing you. Pack up. It's time to go."

RELATED COVERAGE

- What to Watch in Powell's Congressional Testimony
- Powell: Stress Tests Must Evolve
- Fed's Powell Spoke With Trump in May Amid White House Criticism of Rate Policy
- Analysis: June Jobs Report Weakens Case for Larger Fed Rate Cut This Month
- Powell Says Fed Won't Bend to Political Pressure
- Fed Signals Hold on Rate Increases
- Plain-Spoken Fed Chairman Sometimes Leaves Markets Confused
- Trump Steps Up Attacks on Fed Chairman Jerome Powell

Mr. Powell responded quietly, "Of course I would not do that."

"I can't hear you," Ms. Waters replied, to laughter in the packed committee hearing room. "My answer would be 'no,'" he said.

Mr. Powell has avoided any direct confrontation with the president. When asked Wednesday to respond to Mr. Trump's statement last weekend that the central bank doesn't know what it is doing, Mr. Powell replied, "Let's take a look at the economy and let that be the report card."

Lawmakers from both parties largely applauded Mr. Powell's leadership. Republicans didn't echo Mr. Trump's Fed criticism, and Democrats encouraged Mr. Powell to ignore the president's commentary.

“Have no fear,” said Rep. David Scott (D., Ga.). “We in Congress, both Democrats and Republicans, got your back.”

Write to Nick Timiraos at nick.timiraos@wsj.com