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Weekly Commentary

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A novel approach

As is well known, President Trump would like the Fed to lower interest rates. He has been demanding that since he took office—for his first term—but has upped the ante in the last few months. His case is that higher interest rates, especially compared to other major central banks, hurt the US economy. Powell is concerned that cutting them could allow inflation to re-accelerate or at least remain above its 2% target. The latest annualized Consumer Price Index and Personal Consumption Expenditures Index "all-items" numbers increased 2.7% and 2.3%, respectively.

Trump has tried all sorts of tactics to pressure Powell, including threats he would try to fire the Chair, which the Supreme Court essentially forbade. The latest has been the suggestion Powell committed fraud when he approved spending on construction on its headquarters on the National Mall in Washington, D.C. That would allow Trump to dismiss Powell "for cause." This is highly unlikely, especially as the bond market pushed back against Trump's post that "[Powell's] termination can't come soon enough" in April. Yet the president decided to bring more attention to it by touring the construction last week. He apparently did so in the hope of influencing Powell ahead of the Fed policy-setting meeting July 29-30. Few think the Federal Open Market Committee will change rates from the 4.25-4.5% target range. Reports are that Trump needled Powell about rates (again) but got nowhere.