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Fed had serious debate about the September cut

If you recall, Federal Reserve Governor Michelle Bowman dissented from the 50 basis-point rate cut delivered in September. Her preference for a 25 basis-point reduction was the first dissent by a Fed governor since 2005. In his post-meeting press conference, Chair Jerome Powell shrugged that off, saying “There is a lot of common ground.” Well, maybe not.

Released last week, the minutes from that Federal Open Market Committee (FOMC) meeting revealed serious debate about the magnitude of the first cut: “[N]oting that inflation was still somewhat elevated while economic growth remained solid and unemployment remained low, some participants observed that they would have preferred a 25 basis point reduction of the target range at this meeting, and a few others indicated that they could have supported such a decision. Several participants noted that a 25 basis-point reduction would be in line with a gradual path of policy normalization that would allow policymakers time to assess the degree of policy restrictiveness as the economy evolved.” Sounds like a lively discussion.

It is unlikely that the September inflation reports, also released last week, will alter this debate. The Consumer Price Index barely changed from the month prior. At 0.2% it rose at the same rate in September as in August. Similar case for the Producer Price Index, which did not rise at all in September compared to August’s 0.2%.

This development, along with the robust figures of the September jobs report, all but guarantees the next cut will be a quarter point. But will that even come when the FOMC meets November 7? Perhaps not. On Thursday, Atlanta Fed President Raphael Bostic told the Wall Street Journal he is, “totally comfortable with skipping a meeting if the data suggests that’s appropriate.”

Bowman’s dissent might not be the last this year.

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