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Fed Says Three Rate Cuts Are Enough, Keeps Interest Rates Unchanged

No Additional Interest Rate Cuts Expected in 2020

U.S. Federal Reserve Bank Chairman Jerome Powell speaks at a press conference in Washington, D.C., on Wednesday. (ERIC BARADAT/AFP via Getty Images)

At its last scheduled meeting of the year, the Federal Reserve Open Market Committee decided to keep the target range for its Fed funds interest rate unchanged at 1.5% - 1.75%. The Fed's official post-meeting statement released on Wednesday afternoon contained only minor changes from its October statement underscoring its 'stay the course' stance.

The decision to keep rates unchanged follows a series of three interest rate cuts in the past few months that lowered rates by 75 basis points. The cuts were meant to support the economy amid trade war-related uncertainties and a slowdown in global growth. The easing in monetary policy has helped to boost the stock market, increase commercial real estate valuations, and breathed life into the ailing single-family housing market.

The FOMC's decisions to cut rates earlier this year were not unanimous. Some committee members believed the economy was strong enough to withstand slowing economic growth abroad and the trade war without additional support from the Fed. Others thought that more aggressive rate cuts were warranted given the risks and uncertainties, as well as recession warnings from the yield curve inversion and the already low level of interest rates.

Fed Chairman Jerome Powell framed this year's interest rate cuts as a mid-cycle adjustment, meant to ensure the U.S. economy continues to grow while the global economy sputters. Trade-related uncertainties and softening foreign demand for U.S.-made products have weighed on American manufacturing and business investment this year. The Fed's goal was to prevent weaknesses in those sectors from tipping the U.S. economy into a recession.

Thus far, the strategy has worked as the broader U.S. economy has been able to withstand the global headwinds. The labor market has remained strong, boosting consumer confidence and fueling consumer spending.

In recent weeks, Fed officials have clearly indicated that, given the economic outlook, the current level of interest rates is appropriate and there would need to be a "material reassessment" of the outlook to further change rates. Recent stellar employment data, and signs of strength in consumer spending during the holiday season, appear to have cemented the Fed's decision to keep its current policy in place.

On Wednesday, the Fed also released its Summary of Economic Projections, which includes information on committee members' forecasts for the economy and the appropriate path of interest rates.

No significant changes were made to the economic forecast compared to the previous one issued in September. Fed officials continue to expect some deceleration in economic growth in the next few years, as well as inflation approaching its 2% target and the unemployment rate holding close to current levels.

As a result, most officials believe Fed policy rates won't change next year if the economy grows as expected.

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