Economic Research Department

BBVA

Fedwatch

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FOMC meeting outside the regular schedule

- The action taken by the FOMC is the more aggressive rate cut, in a single move, since October 1984
- Today's rate cut is a response to the ongoing deterioration on financial market conditions and credit tightening for some businesses and households
- Risks to the short-term economic outlook are clearly tilted towards the downside
- The Fed's action was approved with eight votes in favor and one against

Fed Funds: 3.50%
Next FOMC Meeting: January 29-30
Minutes Release: February 20

The Fed's emergency interest-rate cut, one week before their scheduled meeting, was aimed at reestablishing investors' confidence following a week of sizable losses in Wall Street and various markets in Europe and Asia.

Today's FOMC rate cut is the largest response, in a single move, from the Fed since October 1984. In August 1982, the FOMC decided to cut rates by a full 100 bp as part of a series of cuts aimed to help the economy get out of the long recession that officially started in the third quarter of 1981 and ended in the fourth quarter of 1982.

Equity markets attempted a recovery today, but ended the trading session with small losses. The major indices traded in negative territory before markets closed today. It is the first time since December 1974 that a rate cut of 75 bp does not translate into equity markets' gains.

The markets are anxiously waiting for the announcement of a fiscal stimulus package. Increasing concerns of a further deterioration in the short-term economic outlook lead the Fed to make a quick action. The rate cut is consistent with a scenario of deterioration of financial market conditions and the Fed is taking measures to help markets return to a stable path; however, monetary policy alone is not enough and a serious fiscal stimulus package is necessary to help revive economic growth.

The downside risks to growth offset the upside risks to inflation. Fed officials indicated that "appreciable downside risks to growth remain" and they "expect inflation to moderate in coming quarters."

The Fed's action was approved with eight votes in favor and one against; William Poole, president of the Federal Reserve Bank of St. Louis objected. The FOMC statement indicated that Mr. Poole objected because he did not believe current conditions justified a rate move before the FOMC regularly scheduled meeting next week.

If economic weakness and the financial turmoil continue, the Fed could lower rates even further in coming meetings.