

[Print](#) | [Close this window](#)

Fed cuts rates by quarter point

Wed Oct 31, 2007 2:42pm EDT

By Mark Felsenthal

WASHINGTON (Reuters) - The Federal Reserve cut interest rates on Wednesday, but said the risk of inflation was roughly equal to downside risks to growth, suggesting further rate reductions are far from a sure bet.

The decision by the central bank's Federal Open Market Committee to lower the overnight federal funds rate by a quarter-percentage point to 4.5 percent was widely expected in financial markets.

In announcing its decision, which follows an aggressive half-point reduction in rates made last month, the policy-setting Federal Open Market Committee said its actions should put the economy on better footing and had brought inflation and growth risks into rough balance.

"Today's action, combined with the policy action taken in September, should help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and promote moderate growth over time," the central bank said.

U.S. stocks pared gains, while prices for U.S. government debt extended losses as traders saw the Fed's statement as suggesting a lower likelihood of further rate cuts. The value of the dollar was little changed.

TENSION IN THE RANKS

The Fed's vote was not unanimous. Kansas City Federal Reserve Bank President Thomas Hoenig dissented, preferring to hold borrowing costs steady.

"Recent increases in energy and commodity prices, among other factors, may put renewed upward pressure on inflation," the Fed said. "In this context, the committee judges that some inflation risks remain."

"After this action, the upside risks to inflation roughly balance the downside risks to growth," it added.

Prices for U.S. interest rate futures contracts showed dealers were scaling back bets on further rate cuts on the back of the Fed's announcement, implying a 50 percent chance the Fed will lower rates again in December down from 64 percent overnight.

Credit markets, which were roiled in August as concerns mounted over rising delinquencies in the U.S. mortgage market, have regained some stability since the Fed lowered rates by a half-percentage point on September 18.

Fed officials have said they expect the housing slump and the after-effects of tighter credit to weigh on the economy into next year.

A string of gloomy economic reports in recent weeks, including slipping consumer confidence and tumbling home sales, had raised fears the economy might be weaker in coming quarters than the Fed had anticipated.

SO FAR, SO GOOD

However, as policy-makers convened on Wednesday, a government report showed that growth in the third quarter was considerably stronger than most economists expected.

U.S. gross domestic product, which measures total production within the country's borders, grew at a 3.9 percent annual rate in the July-September period, the strongest advance since the first quarter of 2006.

Despite signs consumer confidence was weakening, consumer spending rose at a 3 percent rate in the third quarter, up from a modest 1.4 percent gain in the prior three months. About two-thirds of U.S. economic activity is fueled by consumers.

Also, a separate report showed private sector employers added more jobs than expected in October, implying more underlying strength to the economy than previously thought.

In general, the employment situation looks much more robust than when the Fed last met. A government report earlier this month showed the economy added a solid 110,000 jobs in September, while August hiring was revised dramatically upward to a gain of 89,000 from an originally reported loss of 4,000.

(Additional reporting by Glenn Somerville)

© Reuters 2006. All rights reserved. Republication or redistribution of Reuters content, including by caching, framing or similar means, is expressly prohibited without the prior written consent of Reuters. Reuters and the Reuters sphere logo are registered trademarks and trademarks of the Reuters group of companies around the world.

Reuters journalists are subject to the Reuters Editorial Handbook which requires fair presentation and disclosure of relevant interests.