# 2024 Federal Reserve Reduce Interest Rates

Report By Portfolio Prints

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Impact on Unemployment Rates

# Background

In September 2024, the Federal Reserve (Fed) implemented its first interest rate cut in four years by lowering rates by 50 basis points, bringing the target range to 4.75% to 5%[1]. This decision was driven by a shift in focus towards supporting economic growth and stabilizing a slowing labor market, as the Fed assessed that recent labor market deceleration posed a greater risk than inflation[1]. Despite earlier caution due to higher-than-expected inflation data at the beginning of 2024, the Fed resolved to avoid past mistakes of prematurely loosening monetary policy, which had historically led to negative consequences[2].

The Fed's move to cut rates marked a significant moment in its ongoing efforts to combat inflation, which had kept interest rates at a 23-year high[3]. President Joe Biden acknowledged the Fed's achievement, noting the critical juncture reached by this policy adjustment[3]. Although there was considerable excitement and specu- lation among investors about further rate cuts, the Federal Reserve's projections indicated varying expectations, with most officials predicting at least three rate cuts in 2024 and one official anticipating up to five[4]. Despite the optimistic forecasts, the Fed acknowledged that these projections were subject to considerable uncertainty[- 4].

The initial half-point rate cut in September 2024 set the stage for anticipated further reductions, with the Fed's rate-setting committee members projecting an additional half-point cut within the same year and a full point reduction in the following year[5]. This shift in monetary policy underscores the Fed's evolving priorities, balancing its efforts to manage inflation with the need to protect the labor market[5].

# Historical Context

The Federal Reserve's decision to cut interest rates by 50 basis points in 2024 is part of a historical pattern of using monetary policy to manage economic conditions. This move is the first adjustment since July 2023, when the Fed ended a prolonged period of rate hikes aimed at curbing inflation[6]. Historically, the Fed has utilized rate cuts to mitigate economic downturns and stimulate growth.

For instance, the Federal Reserve last slashed interest rates in March 2020, an aggressive move intended to lower borrowing costs across various financial products, including mortgages and credit cards, as part of its response to the economic upheaval caused by the COVID-19 pandemic[9]. Prior to that, rate cuts have often been implemented when the Fed anticipated deteriorating economic conditions and sought to preemptively soften the impact, even though these actions have not always been successful in averting recessions[8].

The global impact of the Federal Reserve's interest rate decisions cannot be over- stated. Given the size and influence of the U.S. economy, changes in the federal funds

rate can ripple through international markets, affecting everything from bond yields to stock valuations worldwide[7]. The latest decision underscores a strategic pivot by the central bank, driven by signs of cooling inflation and a slowing economy, aiming to maintain the economic stability of the U.S.[6][7].

# Immediate Market Reactions

## Sector Analysis

The Federal Reserve's decision to cut interest rates in 2024 by 50 basis points is expected to have varied impacts across different sectors. Historically, sectors that are sensitive to interest rates, such as homebuilding and certain pockets of the financial sector, tend to benefit from such reductions. The anticipation of the cut had already boosted stocks in these industries, as lower borrowing costs can lead to increased consumer spending and investment in real estate and financial products[10].

Moreover, the rate cut is expected to affect money market funds and bonds. With $6.1 trillion still sitting in money market funds and an additional $350 billion in ultra-short bond funds, investors might need to adjust their income portfolios. Lower rates generally lead to lower yields, particularly in shorter-dated bonds, which could prompt a shift towards equities or longer-duration bonds[11].

While the broader stock market initially reacted positively, with indices like the S&P 500 and the Dow Jones Industrial Average reaching near-record highs, the long-term benefits remain uncertain. Analysts have cautioned that the substantial pre-cut gains and ongoing economic uncertainties might limit further upside in the stock mar ket[10][13].

The Fed's action also aims to support growth and stabilize a slowing labor market, which could benefit sectors reliant on consumer spending and business investments. The central bank has indicated that the slowing labor market is now a bigger risk than inflation, and this policy shift is designed to foster economic growth and maximum employment over the long run[14].

## Forex Impact on USD/JPY

A potential Federal Reserve rate cut in 2024 could significantly impact the USD/JPY currency pair. Typically, a reduction in U.S. interest rates tends to weaken the U.S. dollar against other currencies, including the Japanese yen[73]. This is due to the lower yield on U.S. assets, which can reduce the attractiveness of holding USD-de- nominated investments. Consequently, investors might move their capital into other currencies or assets, causing a depreciation of the USD. Additionally, JPMorgan Chase & Co. or its affiliates may hold positions or act as market makers in the financial instruments of issuers discussed in their reports, which could further influence the movement of the USD/JPY pair depending on their investment strategies and market activities[73].

## Forex Impact on EUR/USD

The Federal Reserve's decision to cut interest rates in 2024 is poised to significantly impact the EUR/USD currency pair. Historically, the Federal Reserve's interest rate decisions play a crucial role in shaping the trajectory of the U.S. economy, given its status as one of the largest and fastest-growing economies in the world[67]. A reduction in the federal funds rate often results in a weaker dollar, as the lower interest rates diminish the appeal of holding U.S. dollar-denominated assets. This scenario can lead to an appreciation of the euro against the dollar, especially in an environment where the eurozone is experiencing favorable market conditions[70].

In recent months, the euro has climbed to a 13-month high against the dollar, driven by the anticipation of the Federal Reserve's dovish stance and potential rate cuts[71]. This rally reflects a broader weakening of the dollar against major currencies, bolstered by the easing U.S. inflation rates and the expectation of lower borrowing costs[72]. The euro's performance is further reinforced by economic data showing that U.S. inflation had eased to 2.9% year-on-year in July, down from the previous month and below market expectations, which solidified the case for a rate cut by the Federal Reserve[70].

The Federal Reserve's substantial rate cut by 0.5% has had immediate market implications, including a shift in capital across asset classes and stock sectors[68]. The markets initially reacted with a "sell the fact" sentiment, but risk-on sentiment quickly returned with rallies across the Asia-Pacific region and futures pointing to higher openings in U.S. and European stock markets[68]. This environment is conducive to a stronger euro, as investors seek higher returns in euro-denominated assets while the dollar weakens.

Furthermore, central banks around the world have been tightening monetary poli- cies in response to inflation, causing notable movements in exchange rates. In this context, the Federal Reserve's shift towards rate cuts stands out, prompting significant fluctuations in currency pairs such as EUR/USD[69]. The convergence of these factors suggests that the Federal Reserve's interest rate cuts in 2024 will likely continue to bolster the euro against the dollar, sustaining the upward momentum in the EUR/USD exchange rate seen in recent weeks[71].

# Sectoral Impact

The reduction of interest rates by the Federal Reserve in 2024 is expected to have varied impacts across different sectors of the economy. Historically, interest rate cuts have tended to benefit rate-sensitive industries, such as homebuilding and certain segments of the financial sector[16]. The expectation of lower borrowing costs generally stimulates demand in these industries, as both businesses and consumers are more inclined to take out loans for investment and spending.

One of the primary beneficiaries of the Federal Reserve's anticipated interest rate reductions will likely be the housing sector. Lower mortgage rates can lead to increased home buying activity, thereby boosting the homebuilding industry[16]. Additionally,

the financial sector may experience positive effects, particularly in areas such as consumer banking and real estate investment trusts (REITs), where lower rates can enhance profitability and lending activities[16].

Moreover, sectors tied to consumer spending are also expected to see benefits. As borrowing costs decrease, consumers may find it more affordable to finance major purchases like automobiles and home improvements. This trend is likely to stimulate growth in retail and automotive industries[18]. Credit card debt and other forms of personal loans could become cheaper to service, increasing disposable income and potentially spurring further economic activity[18].

Employment and wage growth are expected to follow suit in these sectors. With the housing market heating up, job creation in construction and real estate services is likely to rise. Similarly, increased consumer spending could drive demand for retail and service jobs, contributing to overall employment gains[15][19]. Wage growth might also see an uptick as companies in these expanding industries seek to attract and retain talent in a tightening labor market.

# Long-Term Effects

## Impact on Bond Yields

The moment has arrived: the Federal Reserve has officially cut interest rates for the first time since March 2020. This move carries significant implications for bond yields and investor behavior in the broader financial markets. Historically, when the Federal Reserve cuts interest rates, the yields on bonds, particularly shorter-dated ones, tend to fall[21]. This inverse relationship between interest rates and bond prices means that as rates decrease, existing higher-yield bonds become more attractive, driving up their prices[24].

For investors who have held onto long-term bonds over the past few years, this could finally be their opportunity to see gains in a lower interest rate environment. As the Fed reduces rates, the prices of long-term bonds are likely to increase after a period of declining values[22]. However, despite the potential for gains, it remains crucial to maintain a diversified portfolio to mitigate risks from unexpected economic shocks or potential rises in inflation, which could disrupt bond performance[22].

Moreover, the Fed's rate cuts will also impact the Treasury market. Typically, the interest earned on a Treasury, its yield, fluctuates based on economic and market conditions. Investors usually seek higher yields on longer-duration bonds due to their extended maturity period. An inverted yield curve, which has persisted for more than two years, signals that investors expect long-term interest rates to decline. As the Fed's Open Markets Committee cuts its influential fed funds rate, economists predict this inversion will revert, affecting investor strategies in the Treasury market[23].

Ultimately, understanding the inverse relationship between interest rates and bond prices is vital for both investors and ordinary citizens. Changes in interest rates can significantly impact investment portfolios, retirement funds, and other financial

products tied to bonds, underscoring the importance of grasping this dynamic before investing[24].

## Influence on Investor Behavior

The impact of low interest rates on financial markets has been a central issue in recent years, with central banks in many countries reducing rates to historical lows[20]. A widely discussed question is whether such low interest rates may induce a greater appetite for risk taking in financial markets, a phenomenon often referred to as 'reaching for yield' or the 'risk-taking channel' of monetary policy[20]. This question is of considerable interest to policymakers, researchers, and investors[20].

The Dutch Authority for the Financial Markets (AFM) identified "search for yield in a low interest environment" as one of the top ten risks in its 2017 supervisory agenda[20]. Increased risk taking, while potentially beneficial by boosting capital markets and stimulating the economy, can also pose challenges for financial stability[20]. The potential for such risk-taking behavior highlights the dual nature of reduced interest rates; they act as an additional transmission mechanism of monetary policy but also bring associated risks that must be managed carefully[20].

# Economic Conditions Influencing Decision

The decision by the Federal Reserve to reduce interest rates in 2024 is influenced by a complex set of economic conditions, including inflation rates, employment levels, and overall economic growth.

As of August 2024, the annual inflation rate in the United States stood at 2.5%, a decrease from the peak of 9.06% in June 2022[25][26]. Despite this reduction, inflation remains above the Federal Open Market Committee's (FOMC) long-term objective of 2%[27]. This sustained level of inflation, even though moderated, continues to exert pressure on the purchasing power of consumers and presents challenges for businesses in forecasting costs[26].

In terms of employment, the U.S. labor market remains robust but shows signs

of slight weakening. In 2023, the employment level was over 161 million, with the unemployment rate at a historic low of 3.64%[28][29]. However, policymakers are now more concerned with stabilizing a slowing labor market, which has been a significant factor in the decision to cut interest rates[50]. This shift is in line with the Fed's dual mandate of achieving maximum employment and stable prices[52].

The real GDP growth also plays a crucial role in the Fed's decision-making process.

The U.S. economy experienced a growth rate of 3.0% in the second quarter of 2024, rebounding from a slower growth rate of 1.6% in the first quarter[45]. This growth is supported by solid increases in consumer spending and private domestic demand, even though underlying economic momentum remains subdued[27][53].

Historically, the Federal Reserve's monetary policy actions, such as those taken during the 2008 financial crisis, provide a context for understanding the current rate cuts. In 2008, the Fed deployed a variety of tools including aggressive interest rate cuts, which went as low as near-zero levels to stabilize the economy[37][43].

The lessons from that period indicate that substantial rate cuts can help mitigate recessions and support economic recovery[42].

## US Inflation Rate 2023

The annual inflation rate for the United States stood at 2.5% for the 12 months ending August 2024, a decline from the previous rate increase of 2.9%[25]. The U.S. Labor Department is scheduled to release the next inflation update on October 10, 2024, which will provide information on the inflation rate for the 12 months ending September 2024[25]. As of August 2024, the annual inflation rate was 2.53%[26].

Inflation has seen a significant decrease from its peak of 9.06% in June 2022. However, even moderate inflation can erode purchasing power rapidly and create uncertainty for businesses in estimating future costs[26]. The Rule of 72 suggests that at a 2.53% inflation rate, prices will double in approximately 28.46 years[26].

Despite the reduction in inflation, it remains above the Federal Open Market Committee's (FOMC) target of 2%. The labor market continues to be extremely tight, with robust job gains and historically low unemployment rates, although nominal wage growth has slowed but remains elevated[27]. The Federal Reserve's strategy to bring inflation back to the 2% target will likely necessitate a period of below-trend economic growth and some easing in labor market conditions[27].

## US Employment Levels 2023

In 2023, it was estimated that over 161 million Americans were in some form of employment[28]. The employment level increased from the previous year, reaching 161.04 million people[29]. This group includes individuals who worked for pay or profit during the survey reference week, those who performed at least 15 hours of unpaid work in a family-operated enterprise, and individuals temporarily absent from their regular jobs due to reasons such as illness, vacation, or bad weather[29]. Despite this increase in employment, the unemployment rate stood at 3.64 percent, the lowest since the 1950s, although projections suggest that these figures may rise in the coming years[28].

## Historical Comparison with 2008 Financial Crisis

During the 2008 financial crisis, the Federal Reserve employed a multifaceted ap- proach to combat the severe economic downturn. Key strategies included significant interest rate cuts, targeted assistance to failing financial institutions, quantitative easing, and forward guidance on interest rates[37]. These measures were designed to stabilize the financial system and stimulate economic activity.

The Fed's actions in 2008 were characterized by aggressive and rapid reductions in the federal funds rate. In an emergency move coordinated with other central banks, the Fed slashed rates by 0.5 percentage points to 1.5% as the crisis intensified[40]. Subsequently, the Fed continued to cut rates, including a substantial three-quarters of a percentage point reduction to lower borrowing costs for consumers and businesses, aiming to ward off recession risks[42]. Ultimately, the Fed brought rates down to an

unprecedented range of 0% to 0.25% by the end of 2008, reflecting the dire state of the economy[43].

These drastic rate cuts were essential in providing much-needed liquidity to the financial markets and in supporting consumer and business confidence. Despite these efforts, the economy experienced a severe recession, but the Fed's actions were pivotal in preventing a more catastrophic collapse.

In contrast, the Federal Reserve's recent rate cuts in 2024 have been implemented under different economic conditions. The U.S. economy, while facing challenges such as high interest rates and inflation, remains fundamentally strong, with a notable rebound in GDP growth[44][45]. The current rate cuts are perceived as part of a strategic adjustment to sustain economic growth and manage inflation, rather than a response to an immediate financial crisis.

Additionally, historical comparisons show that the Fed's interest rate policy during election years typically aligns with its dual mandate of price stability and maximum employment, maintaining political neutrality. Since 1980, the Fed has adjusted rates in most election years, highlighting its commitment to economic objectives irrespective of political cycles[89]. This historical consistency provides a framework for understanding the Fed's current actions, which are aimed at fostering economic stability rather than responding to acute financial distress as seen in 2008.

## Current Economic Conditions and Investor Sentiment

Despite persistent concerns regarding the sustainability of economic growth and interest rate policies, the US economy has shown fundamental strength in 2024. After a slowdown in real GDP growth to 1.6% in the first quarter, the second quarter saw a rebound to a strong 3.0% growth rate, based on the "third" estimate by the U.S. Bureau of Economic Analysis[44][45]. The uptick was driven by positive revisions in private inventory investment and federal government spending, although offset by downward revisions in nonresidential fixed investment and exports[45].

Policymakers appear to have managed inflation effectively, achieving what many believe to be a "soft landing"—a reduction in inflation without triggering a recession-[44][47]. Deloitte’s baseline scenario maintains an optimistic outlook, forecasting a 2.7% GDP growth for the year, bolstered by consumer spending, job market strength, and export growth[44][47].

However, executive sentiment indicates a more cautious outlook on global and domestic economic conditions. For the first time since March 2020, a majority of surveyed executives view the global economy as stable rather than improving, largely due to geopolitical instability and impending political transitions in many countries[- 46].

The Federal Reserve's recent decision to cut interest rates by 0.5% marks a significant shift in monetary policy, aimed at further stimulating economic growth. While this move led to an initial drop in Wall Street due to a "sell the fact" reaction, it has reignited risk-on sentiment, resulting in rallies in equity markets across the Asia-Pacific region and positive futures for US and European stock markets[55][56]. The long-term

impact of this rate cut is expected to influence global liquidity and capital flows, with substantial implications for investor sentiment and market dynamics[55].

# Historical Federal Reserve Rate Cuts Comparison

## Global Liquidity and Capital Flows

The Federal Reserve's decision to cut interest rates by 50 basis points to a target range of 4.75-5.00% in 2024 is poised to have significant implications for global liquid- ity and capital flows[64][105]. Historically, rate cuts by the Federal Reserve have had a pronounced impact on international liquidity conditions and the movement of capital between major economic regions such as the U.S., Eurozone, and Japan[63][65]. This reduction in rates is expected to further loosen global liquidity, prompting shifts in capital across various asset classes and stock sectors[66].

The interconnectedness of global markets, especially the extensive use of the U.S. dollar to finance international trade and financial transactions, means that changes in U.S. monetary policy can rapidly transmit across borders[65]. This phenomenon was evident in previous instances when the Federal Reserve adjusted its rates, impacting liquidity and financial conditions worldwide[66].

Money market funds, for instance, have been adjusting their strategies to lock in higher yields amidst the changing interest rate environment, delaying the full impact of lower rates on market liquidity[64]. Moreover, the Federal Reserve's continued use of quantitative tightening (QT) measures suggests a path toward reserve tightness, further influencing the liquidity landscape[64].

The 2024 rate cut could also have profound implications for capital flows between the U.S. and other major economies. The immediate market reactions have been mixed, with a noticeable sell-off in U.S. stocks, followed by a recovery in equities across the Asia-Pacific region, indicating a potential return of risk-on sentiment in global markets[66]. As investors recalibrate their portfolios in response to the new monetary policy stance, capital flows are likely to experience volatility, impacting financial markets in the Eurozone and Japan as well[66].

## Interest Rate Changes in Election Years

Historically, the Federal Reserve does not shy away from adjusting interest rates during election years, adhering steadfastly to its dual mandate of price stability and maximum employment while maintaining independence from political pressures[- 89][91]. Since 1980, the Federal Reserve has either increased or decreased rates in every election year, with the sole exception of 2012 when the rates remained at zero as the economy was still recovering from the financial crisis[89][91]. This pattern underscores the Federal Reserve's commitment to its economic objectives over political considerations.

The Federal Reserve's decisions during election years are meticulously scheduled to avoid conflicts with key political events, such as moving the November meeting to sidestep Election Day[90]. Despite external pressures, such as those from former

President Donald Trump prior to the pandemic, the Federal Reserve has consistently upheld its nonpartisan stance to maintain its legitimacy[90]. This approach is critical for ensuring that monetary policy decisions are based on sound economic evidence rather than political influence, which has been shown to result in better economic outcomes globally[92].

Moreover, in the past eight presidential elections, the Federal Reserve has cut interest rates in four election years, raised them in three, and left them unchanged only in 2012[90]. This balanced approach highlights the institution's focus on economic stability rather than electoral cycles. Understanding the rationale behind these historical actions provides valuable insights into current policy decisions, such as the recent rate reduction, which aligns with the Federal Reserve’s long-standing objective to support economic health irrespective of political timelines[88][91].

### 2008 Financial Crisis Rate Cuts

During the 2008 financial crisis, the Federal Reserve (the Fed) employed an array of monetary policy tools to combat the severe economic downturn and stabilize financial markets. One of the central measures was the aggressive reduction of interest rates. Starting in 2008, the Fed made several significant cuts to the federal funds rate, which is a key interest rate that influences various other interest rates within the economy.

The series of rate cuts began with a three-quarters of a percentage point reduction, lowering the key interest rate in an effort to reduce borrowing costs for consumers and businesses, and to ward off a recession[42]. The Fed's approach continued with an emergency interest rate cut of a half percentage point to 1.5%, made in coordination with other central banks worldwide due to the intensification of the financial crisis[40]. The series of rate reductions culminated in December 2008, when the Fed slashed its key interest rate to a range between 0% and 0.25%, marking the first time rates had been cut below 1%[43].

These unprecedented cuts were part of a broader strategy that included targeted assistance to struggling financial institutions, quantitative easing, and forward guidance about future interest rate paths[37]. This aggressive monetary policy response by the Fed aimed to restore confidence in the economy, mitigate the downside risks to growth, and address the significant threats posed by the financial crisis. The effects of these measures, both immediate and long-term, have been a subject of considerable analysis and debate, highlighting the critical role of the Fed in managing economic cr ises[38][41].

## Impact on Currency Markets

### U.S. Multinational Competitiveness

A potential 2024 Federal Reserve rate cut could have significant implications for the global competitiveness of U.S. multinational corporations. Historically, the U.S. dollar serves as a global benchmark for economic growth and stability[76]. A decrease in interest rates often leads to a depreciation of the U.S. dollar, making American goods

and services cheaper and more competitive on the global market[79]. This could enhance the global demand for U.S. products, potentially boosting the revenues of U.S. multinationals[76].

However, the international ramifications of such a policy shift are complex. While lower borrowing costs can encourage U.S. firms to invest more in expanding their operations and hiring, they also translate into increased foreign competition as other countries adjust their economic strategies in response[79]. The value of Treasury Bonds, which is closely linked to changes in U.S. interest rates, can influence global capital flows, impacting investment in U.S. companies[76].

Furthermore, emerging markets and developing economies, which have historically been vulnerable to U.S. financial trends, have shown resilience due to improved monetary policy credibility[77]. This newfound stability could mitigate some of the adverse effects typically associated with U.S. rate cuts, such as capital outflows and currency depreciation in these regions[77].

In the broader scope, the role of the U.S. dollar in international reserves and transac- tions could also affect the competitive landscape. As the dominant currency, changes in the dollar's value have outsized effects relative to the U.S. share of global GDP, influencing trade and investment patterns globally[78].

## Eurozone Currency Impact

The Federal Reserve's decision to reduce interest rates in 2024 is poised to have significant implications for the Eurozone currency market. Historically, the U.S. econ- omy's stature as one of the largest and fastest-growing economies means that the Federal Reserve's interest rate decisions can influence not just the U.S. economy but also global markets[58]. The recent substantial rate cut by the Federal Reserve, which saw an aggressive 0.5% reduction, is expected to loosen global liquidity and prompt a shift in capital across various asset classes and stock sectors[59].

In the immediate aftermath of the rate cut, there has been a notable reaction in global markets. While Wall Street experienced a short-term downturn, likely due to a "sell the fact" reaction, there has been a resurgence in risk-on sentiment. Equities across the Asia-Pacific region have rallied, and futures are pointing to higher openings in both U.S. and European stock markets[59]. Favorable market conditions in the Eurozone and the UK, along with lower U.S. inflation, are key factors that may prompt further adjustments by the Federal Reserve[60].

Moreover, the euro has seen a positive response to the Fed's rate cut and recent U.S. inflation data, which showed an easing to 2.9% year-on-year in July. This development, coupled with a cooler-than-expected Producer Price Index (PPI), has bolstered investor confidence and solidified the case for further rate cuts by the Federal Reserve[60]. As a result, the euro has reached new highs for the year, buoyed by strengthened market conditions[60].

However, the impact of the Fed's interest rate cut on the Eurozone currency market is not without complexities. The euro faces a multifaceted landscape marked by political shifts and economic challenges in 2024, including significant elections in Austria, Belgium, Croatia, Lithuania, Portugal, and Slovakia[62]. These events, along

with ongoing global conflicts, fiscal tightening, and inflation concerns, will shape the trajectory of the euro in the coming months[62].

While traditional analyses suggest that shocks to interest rate differentials have limited explanatory power for exchange rate movements, the unusual nature of the economic shocks over the past few years may lead to different outcomes this time[61]. Thus, the Federal Reserve's interest rate decisions will continue to be a critical factor influencing the Eurozone currency market in 2024.

# Impact on Fiscal Policy and Government Budget Projec- tions

## Election Timing and Fiscal Implications

The Federal Reserve's decision to cut interest rates for the first time during President Joe Biden's tenure comes at a significant time, closely preceding the 2024 elections. This move addresses a long-standing concern among Americans regarding the cost of living, an issue that has persisted over the past three years due to a combination of government spending, high demand for goods, supply chain issues, and geopolitical tensions[82].

Interest rates tend to be a focal point during election years as they directly affect personal finances, including mortgages, student loans, and small business loans[83]. The recent half-percentage-point reduction could potentially signal a "soft land- ing," a scenario in which economic activity is slowed without leading to severe joblessness[82]. President Biden, who has maintained public support for the Fed's policy independence, is expected to highlight these economic achievements at the Economic Club of Washington, D.C.[82].

Historically, the Federal Reserve has often had to navigate the delicate balance of monetary policy adjustments during election years. In the past eight presidential elections, the Fed has cut rates in four instances, raised them in three, and left them unchanged once[84]. This time around, the decision to lower rates appears to be driven by a need to provide swift relief from elevated borrowing costs and to support a slowing labor market[87].

Moreover, the Fed's announcement comes just as voters begin to question future rate changes and their implications for personal finances, such as car loans, home financing, and savings[85]. The central bank's actions are perceived as crucial in shaping economic narratives during an election cycle, and they often draw varied reactions from political figures, including anticipated criticism from former President Donald Trump and approval from Vice President Kamala Harris[83].

## Influence of Rate Cuts on Government Outlays and Deficits

The Federal Reserve's decision to reduce interest rates in 2024 is likely to have significant implications for government outlays and deficits. The reduction in the target range for the federal funds rate to 4.75% to 5%[50] is expected to support economic

growth and stabilize a slowing labor market, which the Fed now perceives as a greater risk than inflation[50].

The Fed's move marks the end of a period of aggressive rate hikes aimed at curbing inflation, which had kept interest rates at a 23-year high[51]. The decision to lower rates by 50 basis points, and potentially by an additional 75 basis points later in the year[54], reflects a strategic shift to foster economic expansion and maintain low unemployment[50][54].

As borrowing costs decrease, the government is expected to benefit from reduced interest expenses on existing debt, easing fiscal pressures[49]. Additionally, lower interest rates could spur consumer spending and investment, thereby increasing tax revenues and potentially reducing budget deficits over time[52]. However, the Fed's commitment to achieving maximum employment and a 2% inflation rate over the long run suggests a careful balancing act between stimulating the economy and maintaining fiscal discipline[50][53].

Furthermore, the planned rate cuts may prompt shifts in the timing of government payments and budget projections, as lower borrowing costs might encourage increased spending in the short term[49]. Overall, while the rate cuts aim to bolster the economy, their full impact on government outlays and deficits will depend on the broader economic response and subsequent fiscal policies[51][52].

# Impact on Unemployment Rates

The Federal Reserve's decision to cut its benchmark interest rate by 50 basis points to a range of 4.75% to 5% in September 2024 represents a significant shift in monetary policy aimed at addressing economic concerns, particularly those related to unemployment and inflation[30][34]. This move, marking the first rate cut since March 2020, signals the Fed's growing confidence in taming inflation while shifting its focus to supporting the job market[30][35].

The rate reduction comes in the wake of increasing unemployment rates, which rose to 4.3% in July 2024, the highest level since October 2021, before stabilizing at 4.2% the following month[30]. The Federal Open Market Committee (FOMC) noted that while job gains have slowed, the unemployment rate remains relatively low, and inflation continues to make progress toward the Committee's 2 percent objective[31][36]. By easing borrowing costs, the Fed aims to stimulate economic growth, which could help stabilize and potentially reduce unemployment rates over time[34][36].

Economists and analysts have pointed out that the rate cut could have varied impacts across different demographic groups and regions. The reduction in borrowing costs is expected to provide relief to consumers and businesses, potentially leading to increased hiring and investment[32][35]. However, the full effect on unemployment rates will depend on several factors, including how different sectors and regions respond to the change in monetary policy[33][34].

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