



Fed trims interest rate second time

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The Federal Reserve sliced an important interest rate Wednesday -- its second reduction in the last six weeks -- to help the economy survive the strains of a deepening housing slump that is likely to crimp growth in coming months.

Fed Chairman Ben Bernanke and all but one of his colleagues agreed to lower the federal funds rate by one-quarter percentage point to 4.50 percent at the end of a two-day meeting.

"The pace of economic expansion will likely slow in the near term, partly reflecting the intensification of the housing correction," the Fed acknowledged in a statement explaining its action.

The funds rate affects many other interest rates charged to millions of individuals and businesses and is the Fed's most potent tool for influencing economic activity.

"It's a green light for investors when the Federal Reserve lowers interest rates in an economy based on credit," said Fred Russell, principal of Fredric E. Russell Investment Management Co. in Tulsa.

"It makes life easier for people who want to borrow money for a home, to pay off their credit card, to go on vacation, to start a business, to buy a business," he said. "It makes the cost of doing business cheap."

The assessment was echoed by Bob Ball, the economic research manager for the Tulsa Metro Chamber.

"It basically means that business costs are lower," he said.

The 9-1 decision to cut rates was opposed by Thomas Hoenig, president of the Federal Reserve Bank of Kansas City, the Fed region that includes Tulsa. He preferred no change in the funds rate.

Commercial banks, including Bank of America, responded to the cut by saying it was trimming its prime lending rate -- for certain credit cards, home equity lines of credit and other loans -- by a corresponding amount, to 7.50 percent.

The rationale behind the cuts is that the lower borrowing costs will induce people and businesses to boost spending, energizing economic activity.

Wall Street was cheered by the Fed action. The Dow Jones industrials jumped 137.54 points to close at 13,930.01.

The Fed policymakers supporting Wednesday's rate cut said the action -- along with a rate reduction in September -- was needed to "forestall some of the adverse effects on the broader economy" that might arise from the housing and credit troubles that have wreaked havoc on Wall Street over the past few months.

Fed policymakers indicated the two rate cuts ordered so far may be sufficient to help the economy make its way safely through the trouble spots.

"They are now done for the time being," said Lynn Reaser, chief economist at Bank of

America's Investment Strategies Group. "They have taken out a significant insurance policy and now they believe they are fully covered against a recession risk -- at least for the near term," she said.

For now, Reaser and other economists think the Fed probably will leave the funds rate alone when its meets next on Dec. 11, the last session of the year.

So far, the economy has shown amazing resilience to the housing and credit strains.

The economy grew at a brisk 3.9 percent pace in the summer, the fastest in 1-1/2 years, the government reported Wednesday. The impressive performance came even as the housing market sank deeper into the doldrums.

Tulsa World Business writer Laurie Winslow contributed to this story by Jeannine Aversa of The Associated Press.

Associate Images:



Traders on the floor of the New York Stock Exchange watch as the Fed interest rate is announced Wednesday afternoon Oct. 31, 2007. The Federal Reserve, confronted with surging oil prices and a slumping housing market, cut a key interest rate by a quarter-point to 4.5 percent on Wednesday, the second rate reduction this year.



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