

Rate cut gets lukewarm reception in S.D.

By **CHRISTINE MEADE**, The Daily Transcript

Wednesday, April 30, 2008

The Federal Open Market Committee (FOMC) cut interest rates by 25 basis points to 2 percent Wednesday, as was widely expected by economists.

The decision to cut rates further is due to studies showing household and business spending has been subdued and labor markets have softened further. Financial markets remain under considerable stress, and tight credit conditions and the deepening housing contraction are likely to weigh on economic growth over the next few quarters.

Associate Professor and Department Chair of National University Brian Simpson was not surprised or very impressed with the rate cut.

"I think any kind of cut that they are making is not going to solve the problems we face but instead throw more fuel on the fire. The Fed's loose monetary policies fueled the housing boom, creating a lot of credit and making it easier for people to buy homes with little or no money down," Simpson said. "The cut offers more credit for people already in credit trouble."

Despite a drop in home prices by about 20 percent and higher gas and energy prices throughout the state, San Diego is not projected to fare any differently under the rate cuts than the rest of the nation according to David Ely, a finance professor at San Diego State.

"I think that the 25-basis-point cut will not affect the San Diego economy in itself, but the cumulative effect of the rate cuts made over a number of months might. Hopefully, it will bring down lending rates for people struggling with mortgage payments, but savers will now be earning very little on savings and bank accounts." Simpson holds a similar outlook that San Diego does not stand in a unique situation.

"San Diego will not stand out from the rest of the nation. Interest rates for various loans will be marked down, and in the short run, some lenders will be able to obtain funds in an easier fashion and make more credit available for future. Things may get better short term, but in the long-run view, it's just more of what was done to cause the credit problem initially."

The committee expects inflation to moderate in coming quarters, reflecting a projected leveling-out of energy and other commodity prices and an easing of pressures on resource utilization.

Still, uncertainty about the inflation outlook remains high as well as the concern over where credit problems will spread.

Ely believes inflation expectations will be the thing to watch over the next six months because as prices of food and gas rise, consumers will expect all prices to rise, leading them to seek wage increases.

Throughout history, inflation expectations are self-fulfilling and prices will increase alongside with consumer expectation, especially with the weakened dollar and the higher cost of imports.

However, the substantial easing of monetary policy to date, combined with ongoing measures to foster market liquidity, should help to promote moderate growth over time and to mitigate risks to economic activity. The committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Donald L. Kohn; Randall S. Kroszner; Frederic S. Mishkin; Sandra Pianalto; Gary H. Stern; and Kevin M. Warsh. Voting against were Richard W. Fisher and Charles I. Plosser, who preferred no change in the target for the federal funds rate at this meeting.

The Associated Press contributed to this article.