



Fed Is On Easing Street

Andrew Farrell, 01.22.08, 11:00 AM ET

Easy money is proving not to be an easy solution for the world's financial ills. The U.S. Federal Reserve announced a steep interest-rate reduction on Tuesday, taking the unusual step of cutting rates between policy meetings, but its move merely trimmed stock-market losses, which remained considerable.

Further easing remains in the cards, perhaps as early as the Fed's scheduled policy meeting on Jan. 29 and 30.

The Federal Open Market Committee announced that it was cutting its federal funds target rate by 75 basis points, to 3.5%. It was the first time since since September 2001 that the Fed cut the federal funds rate between its regular meetings, which take place every six weeks, and the biggest inter-meeting cut since 1984. "The committee took this action in view of a weakening of the economic outlook and increasing downside risks to growth," said the Fed.

Despite the action, stock prices plunged in New York when the markets opened. In morning trading, the Dow Jones industrial average fell 2.7%, or 322.15, to 11,777.15. In premarket trading before the rate cut was announced, the Dow had been 500 points lower.

Alan Lancz, director of investment research firm LanczGlobal.com, said the Fed could cut rates even more if stocks continue to drop sharply. He explained the Fed is getting more leeway to act because commodity prices also are plunging, easing inflationary pressures.

A barrel of crude oil trading on the New York Mercantile Exchange fell \$2.15, to \$88.42, on Tuesday. An ounce of gold fell \$9.80, to \$871.00. Prices of other metals, cotton, and food also declined.

The central bank left room open for a further rate cut when it meets at the end of this month. "The committee will continue to assess the effects of financial and other developments on economic prospects and will act in a timely manner as needed to address those risks," it said.

The Fed made the decision to cut rates during emergency telephone conference on Monday night. The conference followed a steep worldwide sell-off of stocks. Foreign bourses closed sharply lower on Monday as investors grew increasingly worried that the United States could be on track for recession that would be a drag on global growth. U.S. financial exchanges were closed Monday in observance of Martin Luther King Day.

U.S. stocks were down across the board Tuesday. Shares of Citigroup fell 98 cents, or 4.0%, to \$23.47. General Electric dropped 92 cents, or 2.7%, to \$33.39, while Sirius Satellite Radio lost 10 cents, or 3.5%, to \$2.73.