

# United States Senate

WASHINGTON, DC 20510

November 1, 2024

The Honorable Jerome Powell  
Chair  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, DC 20551

Dear Chair Powell:

We write today to urge the Federal Reserve (Fed) to cut the federal funds rate by 50 basis points (bps) from its current rate of 4.83 percent at the Federal Open Market Committee (FOMC) meeting on November 6 and 7, 2024.<sup>1</sup> Given the Fed's confidence in inflation moving towards its target of 2 percent,<sup>2</sup> now is the time to lift its restrictive policies and proceed with additional rate cuts.

After months of calling on the Fed to cut the federal funds rate,<sup>3</sup> we were encouraged to see the Fed finally lower the target range for the federal funds rate by 50 basis points at the September FOMC meeting.<sup>4</sup> This marked the first cut in the federal funds rate since 2020.<sup>5</sup> The Fed stated in its reasoning that, "[t]he Committee has gained greater confidence that inflation is moving sustainably toward 2 percent, and judges that the risks to achieving its employment and inflation goals are roughly in balance."<sup>6</sup> This rate cut was a good first step, but the Fed needs to continue delivering much-needed relief from high borrowing costs to American families.

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<sup>1</sup> Federal Reserve, "Federal Open Market Committee: Meeting calendars, statements, and minutes," <https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm>.

<sup>2</sup> Federal Reserve, "Federal Reserve issues FOMC statement," September 18, 2024, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20240918a.htm>.

<sup>3</sup> Letter from Senators Elizabeth Warren and Sheldon Whitehouse to Federal Reserve Chair Jerome Powell, March 19, 2024, <https://www.warren.senate.gov/imo/media/doc/2024.03.18%20Letter%20to%20Fed%20re%20Interest%20Rates%20and%20Clean%20Energy%20Projects.pdf>; Letter from Senators Elizabeth Warren, Jacky Rosen, and John Hickenlooper to Federal Reserve Chair Jerome Powell, June 10, 2024, <https://www.warren.senate.gov/imo/media/doc/2024.06.10%20Letter%20to%20Fed.%20re%20interest%20rates.pdf>; Letter from Senators Elizabeth Warren, John Hickenlooper, and Sheldon Whitehouse to Federal Reserve Chair Jerome Powell, July 30, 2024, [https://www.warren.senate.gov/imo/media/doc/final\\_-\\_warren\\_hickenlooper\\_whitehouse\\_letter\\_to\\_fed\\_on\\_lowering\\_interest\\_rates.pdf](https://www.warren.senate.gov/imo/media/doc/final_-_warren_hickenlooper_whitehouse_letter_to_fed_on_lowering_interest_rates.pdf); Letter from Senators Elizabeth Warren, Sheldon Whitehouse, and John Hickenlooper to Federal Reserve Chair Jerome Powell, September 16, 2024, [https://www.warren.senate.gov/imo/media/doc/warren\\_hickenlooper\\_whitehouse\\_letter\\_to\\_fed\\_re\\_september\\_rate\\_cut.pdf](https://www.warren.senate.gov/imo/media/doc/warren_hickenlooper_whitehouse_letter_to_fed_re_september_rate_cut.pdf).

<sup>4</sup> Federal Reserve, "Federal Reserve issues FOMC statement," September 18, 2024, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20240918a.htm>.

<sup>5</sup> Federal Reserve Bank of St. Louis, "Federal Funds Effective Rate," <https://fred.stlouisfed.org/series/FEDFUNDS>; NPR, "The Federal Reserve starts cutting interest rates in a big moment for the economy," Scott Horsley, September 18, 2024, <https://www.npr.org/2024/09/18/nx-s1-5115909/federal-reserve-interest-rate-cut-inflation>.

Economic data shows that inflation continues to move toward 2 percent.<sup>7</sup> Inflation has fallen to 2.1 percent, the lowest since February of 2021, and significantly lower than the mid-2022 peak of 7.2 percent.<sup>8</sup> There is no need for restrictive interest rates given this inflation data.

Even as the economy remains strong, the demand for workers may be waning due to the Fed's restrictive monetary policy. In mid-October, the Labor Department reported new applications for unemployment claims fell by 15,000, which was lower than the 29,000 predicted by analysts, but the number of Americans collecting unemployment benefits rose by 28,000.<sup>9</sup> This could indicate that workers who are currently receiving unemployment benefits are having a more difficult time landing jobs.<sup>10</sup>

Borrowing costs, and in turn housing costs, are still too high. As we tackle the housing affordability crisis across the United States, it is critical that we build more housing. Lowering interest rates is key to unlocking more supply: rate cuts will lower the cost of capital, helping to tackle inflation by spurring more housing construction and consequently lowering housing prices.<sup>11</sup> However, the Fed's high interest rates have suppressed housing construction for years; the gap between multifamily starts (projects that builders have begun construction on) and (housing construction) authorizations is now more than double the level of the prior 20-year average, indicating that the cost of capital remains a significant barrier to housing development.<sup>12</sup> Additionally, high interest rates have made it more difficult for Americans to buy homes due to the "lock-in" effect:<sup>13</sup> current homeowners are reluctant to leave their homes and trade in their low mortgage rates for higher mortgage rates with new home purchases. Mortgage interest rates have increased by more than five percentage points since reaching a low of 2.65 percent in January 2021, peaking at 7.79% in October 2023.<sup>14</sup> Since then, rates have trended down to 6.08 percent in September 2024 but have subsequently rebounded to 6.54 percent.<sup>15</sup> This recent, slight increase is likely because investors expect the Fed to now hold rates steady for the rest of the

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<sup>6</sup> Federal Reserve, "Federal Reserve issues FOMC statement," press release, September 18, 2024, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20240918a.htm>.

<sup>7</sup> U.S. Department of Commerce, Bureau of Economic Analysis, "Personal Income and Outlays, September 2024," <https://www.bea.gov/news/2024/personal-income-and-outlays-september-2024>.

<sup>8</sup> *Id.*; Federal Reserve Bank of Cleveland, "Median PCE Inflation," <https://www.clevelandfed.org/indicators-and-data/median-pce-inflation>.

<sup>9</sup> PBS, "Fewer people are applying for new jobless benefits but demand for workers may be waning, new data suggests," Matt Ott, October 24, 2024, <https://www.pbs.org/newshour/economy/fewer-people-are-applying-for-new-jobless-benefits-but-demand-for-workers-may-be-waning-new-data-suggests>.

<sup>10</sup> *Id.*

<sup>11</sup> NPR, "Here are 4 ways the Federal Reserve's big rate cut could change the housing market," Laurel Wamsley, September 18, 2024, <https://www.npr.org/2024/09/18/nx-s1-5111859/federal-reserve-rate-cut-housing-home-prices-mortgages>.

<sup>12</sup> Center for Public Enterprise, "Smoothing the Housing Investment Cycle: Part I," Paul Williams and Yakov Feygin, July 2024, p. 4, <https://publicenterprise.org/wp-content/uploads/Smoothing-the-Housing-Investment-Cycle-Part-1.pdf>; HousingWire, "The latest housing starts data is mostly bad news," Brooklee Han, August 16, 2024, <https://www.housingwire.com/articles/the-latest-housing-starts-data-is-mostly-bad-news/>.

<sup>13</sup> Realtor.com, "Majority of Americans Still Feel Locked in by Mortgage Rates — With More than Half of Borrowers' Rates Below 4%," Julie Taylor, October 2, 2024, <https://www.realtor.com/news/trends/majority-americans-still-feel-locked-in-by-mortgage-rates/>.

<sup>14</sup> Freddie Mac, "Mortgage Rates Increase Once Again," October 24, 2024, <https://www.freddiemac.com/pmms>.


<sup>15</sup> *Id.*

year, rather than continuing to cut.<sup>16</sup> If the Fed moves forward with more rate cuts, housing prices and mortgage rates would thus also likely drop, allowing more families to achieve the American dream.

Now that the Fed sees a balance of risks between its labor market and inflation goals,<sup>17</sup> the Board should focus on bringing the federal funds rate closer to neutral levels. The New York Fed defines the neutral interest rate as “the short-term interest rate expected to prevail when an economy is at full strength and inflation is stable.”<sup>18</sup> Fed data indicates the neutral rate fell between 0.74 percent and 1.22 percent as of the second quarter of 2024, the most recent period for which full data exists.<sup>19</sup> With inflation at 2.1 percent, this suggests a neutral federal funds rate would fall somewhere between 2.8 and 3.4 percent.<sup>20</sup> To get to that neutral rate range, the Fed would have to cut the current rate of 4.83 by more than 125 basis points.<sup>21</sup> As stated previously by economists, we should be much “closer to neutral levels” given the non-inflationary labor market.<sup>22</sup> A rate cut of 50 basis points now would bring us closer to that goal.

Thank you for your attention to this matter.

Sincerely,



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Elizabeth Warren  
United States Senator



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John Hickenlooper  
United States Senator

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<sup>16</sup> NPR, “Mortgage rates were supposed to come down. Instead, they’re rising. Here’s why,” Laurel Wamsley, October 18, 2024, <https://www.npr.org/2024/10/18/g-s1-28576/mortgage-rates-housing-market-home-buying-selling>.

<sup>17</sup> Federal Reserve, “Federal Reserve issues FOMC statement,” press release, September 18, 2024, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20240918a.htm>.

<sup>18</sup> Federal Reserve Bank of New York, “Measuring the Natural Rate of Interest,” <https://www.newyorkfed.org/research/policy/rstar>.

<sup>19</sup> *Id.*

<sup>20</sup> *Id.*; U.S. Department of Commerce, Bureau of Economic Analysis, “Personal Income and Outlays, September 2024,” <https://www.bea.gov/news/2024/personal-income-and-outlays-september-2024>; Brookings Institution, “What is the neutral rate of interest?,” Sam Boocker, Michael Ng, and David Wessel, October 3, 2023, <https://www.brookings.edu/articles/the-hutchins-center-explains-the-neutral-rate-of-interest/>.

<sup>21</sup> *Id.*; CBS News, “PCE index, the fed’s preferred inflation measure, drops to 2.1%. Here’s what it means for interest rates,” Aimee Picchi, October 31, 2024, <https://www.cbsnews.com/news/pce-report-today-inflation-federal-reserve-rate-cuts-2024/>.

<sup>22</sup> Economic Policy Institute “The labor market remains strong yet the Fed should cut rates in September,” Elise Gould and Josh Bivens, September 9, 2024, <https://www.epi.org/blog/the-labor-market-remains-strong-yet-the-fed-should-cut-rates-in-september/>.