

As seen in



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Another rate cut would be a help, economists say

By Barbara Hagenbaugh
USA TODAY

WASHINGTON — Even though interest rates are already at rock bottom, another Federal Reserve cut would inject a dose of confidence and help put the economy solidly on the recovery path, many economists say.

Following signals from key Fed officials, a growing number of economists expect U.S. central bankers to cut rates at their meeting in three weeks. That could help prop up stocks, keep the housing market humming and perhaps spark business spending.

"The knowledge that the Fed is going to do what it can to get the economy going, provides confidence," says Lyle Gramley, a former Fed governor now at Schwab Washington Research Group.

Long-term interest rates are already falling in anticipation of a cut. That is leading to a dip in mortgage rates, which is helping keep refinancing and home buying — key sources of strength for the economy the past few years — strong.

The Fed's target for short-term interest rates is currently 1.25%, the lowest level in more than four decades. Expectations the Fed will cut rates when it meets June 24-25 rose Tuesday when Fed Chairman Alan Greenspan said although the chances of deflation — a widespread decline in prices over a prolonged period — were remote, the Fed was willing to "lean over backwards" to prevent it.

What to expect from a cut:

- ◆ **Mortgages.** Rates on 30-year fixed mortgages could inch lower, but adjustable-rate mortgages have the greater likelihood of falling, says Frank Nothaft, chief economist at mortgage giant Freddie Mac. Any drops likely won't be huge because rates are already at record lows, experts say. Rates on home-equity lines of credit, a popular borrowing source, will likely drop, too.

- ◆ **Consumers.** Consumers likely won't see an impact on already low auto loan rates, but the "indirect impact could be significant," Ford Motor's sales analysis manager George Pipas says. "New cash freed up by the rash

of home refinancings . . . always gives auto sales a boost."

But most credit card interest rates have hit their floor and can't go lower.

- ◆ **Stocks.** Some economists attribute part of the recent gain in stock markets to investor confidence in the Fed. A cut could help continue the rally.

- ◆ **Businesses.** Business investment has been largely missing for more than two years after firms overspent in the late 1990s. Lower borrowing rates could entice firms to start spending.

"It should provide one more incentive for businesses," says Carl Tannenbaum, chief economist at ABN-AMRO.

But not everyone agrees.

"The difference between 1.25% and 1% isn't going to motivate anybody," says Lord Abbett senior economist Milton Ezrati.

Contributing: David Kiley in Detroit

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Another rate cut would be a help, economists say, 1B

APPLICATIONS: *economics, research, visual-spatial intelligence*

DISCUSSION: What is the Federal Reserve? Why has the Fed continued to cut interest rates? How do rate cuts affect consumers and businesses? What economic condition is the Fed trying hard to prevent? What products are relatively inexpensive right now? What do you think happens when prices decline for a long period of time?

ACTIVITY: Through research, investigate the role of the Federal Reserve System in influencing the supply of money, setting interest rates and preventing inflation and recession. In a graphic, show the series of events that occurs when the Fed lowers or raises interest rates.

CURRENCY CONNECTION: What is the Fed's role in introducing redesigned currency like the new \$20 bill?

NATIONAL STANDARDS

NSS-EC.5-8.20 FEDERAL BUDGETARY INFLUENCES

(Students) understand federal government budgetary policy and how the Federal Reserve System's monetary policy influences the overall levels of employment, output, and prices. (NCEE)

NL-ENG.K-12.8 DEVELOPING RESEARCH SKILLS

Students use a variety of technological and information resources (e.g., libraries, databases, computer networks, video) to gather and synthesize information and to create and communicate knowledge. (NCTE)

The New Color of Money Challenge

The USA TODAY Charitable Foundation supports the Federal Reserve System and Department of Treasury's campaign to raise awareness of the newly redesigned \$20 note and U.S. currency among students, teachers and parents.



Q: If on one day only new \$20 bills were produced, how many \$20 bills would need to be printed to equal \$696 million?

For more information about The New Color of Money and available materials and resources:

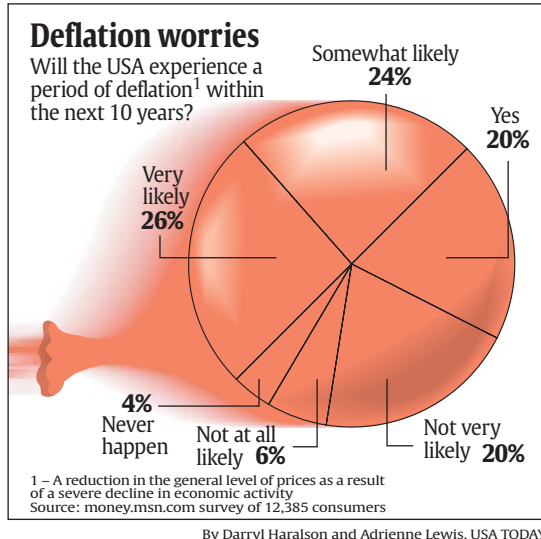
■ www.moneyfactory.com/newmoney ■ www.FederalReserveEducation.org ■ www.usatodayfoundation.org

A: Thirty-four million eight hundred thousand \$20 bills would need to be printed.

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Money Matters

USA TODAY Snapshots®



APPLICATIONS: *economics, personal finance, knowledge, analysis*

In economic terms, deflation refers to a decrease in general price levels or a contraction of credit and available money. (It is the opposite of inflation in which prices sharply increase.) Put more simply, deflation means falling prices, shrinking business activity, less available credit and lower interest rates.

The state of the economy depends not just on the deci-

sions of businesses and governments, but on the actions of individual consumers like you. That's right. When you choose to save rather than spend, buy instead of sell, you are impacting the economy. Find an article in today's Money section about the economy. Based on the information above and in the article, is the economy experiencing inflation or deflation?

COMPLIMENTARY EDUCATIONAL RESOURCES

On October 9, 2003, the United States government will be issuing currency with new designs and security features beginning with the \$20 note. The new \$20 design retains three of the most important, easy-to-check security features that were first introduced in the 1990s: a watermark, security thread and color-shifting ink.

As part of a national campaign to raise awareness about the newly redesigned currency, the U.S. government is making educational materials available to teachers. These materials, correlated to national educational standards, aim to teach students about our nation's currency. The program, part of a broader initiative supported by education, civic and volunteer organizations, includes a range of interactive educational activities:

► **Interactive CD-ROM** – Educational activities related to the history, security features and production process of the newly redesigned currency.

► **Classroom Activity Poster** – Information on the newly redesigned currency and activities that drive students to the web and interactive CD-ROM.

► **USA TODAY Educational Lessons** – Daily and weekly activities challenging students on current events related to financial literacy and the newly redesigned currency.

► **Currency Puzzle Challenge** – Students are to find pieces in three issues of USA TODAY, assemble them, and complete the related activities.

All of these educational materials are available free to teachers online at www.moneyfactory.com/newmoney and www.usatodayfoundation.org. For more information, email: education@usatoday.com or contact Katie Mee at 202-530-4518.