The FED Expected to Raise Interest Rates Again in May - How That Will Impact You

April 25, 2022 - The FED's Open Market Committee (FOMC) will meet again in the first week of May and they are expected to raise interest rates by 50 basis points (50 basis points = 1/2 of 1%). If they actually do that, it will represent the largest single interest rate increase in the past 20 years and it will make borrowing money a lot more expensive for everyone. But what does that really mean for you as an individual? Here is what you need to know.

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Most people find topics on economics to be dry and boring but they still get upset when things go up in price. And what the FED is doing is going to cause the cost of anything you purchase using credit to go up in price. It's as simple as that.

Home mortgages, credit card purchases, automobile loans, etc... The price borrowers pay for these items has gone up dramatically since January and the next FOMC meeting is going to force them higher still. As we mentioned late last week, the monthly payment on a new home mortgage taken out today is about 25% higher than a mortgage for the same amount that was issued as recently as January.

The problem the FED faces is inflation. And frankly, the FED has been the primary cause of much of the inflation we're currently experiencing. For the past two years, they've been essentially printing money like crazy and now they need to pull back from that because inflation is caused by having too much money in the system; which reduces its value.

Having too much money in the system at low interest rates also fuels consumer demand by making borrowing easier. This does a couple of things. First, it fuels the job market and drives up labor costs. Second, it creates a supply and demand curve that causes the prices of goods to rise because consumers are buying more of them. In other words, it creates more inflation.

By raising the interest rate the FED hopes to dramatically slow consumer spending. This should result in lower demand for many goods and services, which should reduce the price of those goods and services.

How all of this is going to impact you as an individual is really dependent upon your financial circumstances. If you typically purchase items using credit, and you don't pay those bills off at the end of every month, then your monthly payments have the potential to skyrocket. If you are shopping for a home or a car, the amount you can spend on those items is likely to be reduced... perhaps, significantly reduced. On the other hand, if you purchase items with cash, you are likely to see some pretty good deals available to you over the next couple of years. You'll be in the cat-birds-seat, as they say. That is, if the FED is successful. And there is some question about that right now.

What the FED is attempting to accomplish here has never been attempted before under the current circumstances. By raising interest rates, the FED is actually imposing a tax increase unilaterally on the United States. That's because the they have been buying US Treasury Bonds for several years now in a process called quantitative easing (QE). But QE is just a fancy way of saying they are printing money and having US taxpayers on the hook for repayment of those Treasury Bond obligations. With the country now $30 Trillion in debt, it's difficult to see how raising interest rates here is going to help lower costs. But we're going to start getting a picture of what the impact will be, sooner rather than later. Most likely in early May, right after the next FOMC meeting.
Hold on folks. Things are about to get interesting.

by Jim Malmberg
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