**Federal Open Market Committee meeting, US Fed. 26-27/07/2022**

**FOMC raises the Fed Funds Rate by a further 0.75%.**

With US inflation continuing to track upwards, it was inevitable that the Federal Open Market Committee was going to vote for a further increase in the Fed Funds Rate at its meeting on 26th – 27th June. The decision to implement a hike of 0.75% will raise the cost of borrowing to 2.25% - 2.5%. The FOMC statement issued after the meeting stressed the Fed's commitment to bringing inflation back down to its 2% target. It noted that consumer spending has recently slowed, but with the rate of unemployment steady at a mere 3.6% for the last four months, the implication is that the FOMC is confident that the US economy is resilient enough to cope not just with this rate rise but with further increases in the coming months.

The FOMC statement also confirmed its commitment to shrink its balance sheet. On 1st June, the Fed started to "run off" assets purchased during 2020. $30b. worth of Treasuries and $17.5b. of mortgage-backed securities matured during the month and the money is not being reinvested. From September these quantities will be doubled, which could result in a monthly reduction in broad money growth of as much as $50b. Already, broad money growth has fallen to a very low level. According to the Shadow Government Statistics agency, US M3 grew at an annual rate of only 0.8% in the three months to June – the lowest reading since 2016. Thus far, the stock of loans by US banks is continuing to increase at a healthy rate and the real estate sector is booming, but there are already warning signs on the horizon. US banks' cash assets are already declining at an alarming rate, falling by 15.8% in the year to June. The Fed's contractionary monetary policy is likely to exacerbate the problem while at the same time doing little to bring inflation down in the short term. Indeed, before it starts to decline, US consumer price inflation could well to rise still higher than June's 40-year high of 9.1%. If money growth does turn negative in the coming months, it is likely that by the time inflation starts to fall, the US economy could be suffering a recession.

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