INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

Federal Open Market Committee meeting, US Fed. 21-22/03/2023

Fed Funds rate increased by 0.25%.

The Federal Open Market Committee voted unanimously to increase the Fed Funds Rate by 0.25% during its meeting in March, despite concerns over the banking sector. The cost of borrowing has now been raised from zero to 4.75% - 5% since the start of 2022 and now stands at its highest level since 2007. Projections for monetary policy (the dot plot) show officals now expect the policy rate to peak at 5% to 4.25% this year. The press release following the meeting stated that the FOMC considered a pause in the increases to the cost of borrowing due to the recent well-publicised problems with several US banks including Silicon Valley Bank. Fed Chairman Jerome Powell did not rule out the possibility that “some additional policy firming may be appropriate” while removing prior references to “ongoing increases” and stressing that the failure of Silicon Valley Bank was due to mismanagement of that particular institution, which he called “an outlier”. “These are not weaknesses that are broadly through the banking system,” he added.

Inflation is coming down but still remains well above the Fed’s 2% target. Prices rose by 6% in the year to February. It is the Fed’s determination to bring this figure down along with its belief that raising the cost of borrowing is the key to achieving its target which is driving these rate hikes., It is also continuing to run-off the $800b. worth of assets purchased between March 2021 and March 2022, at a rate of $95b. every month, which puts the total run-off at more than $400b. to date. Very little notice is taken in today’s Fed of the effects its policy is having on the quantity of money when deliberating monetary policy. According to the Shadow Statistics Agency, US M3 rose by $102 in January, the first monthly increase in broad money since August. All the same, broad money is contracting on both an annual and annualised quarterly basis and this further tightening of monetary policy and concerns over the banking system more generally are likely further to exacerbate this problem.

Thee higher borrowing costs are beginning to impact the US economy, particularly the housing market. House prices were rising at an annual rate of almost 20% at the start of 2022. The figure had declined to 6.6% by December (the most recent month for which statistics are available). February also saw a notable fall in new bank credit to businesses with preliminary figures for early March pointing to a more general decline in new loans by US banks. If these substantial increases in the Fed Funds Rate begin to deter borrowing while at the same time, stresses in the banking system trigger a credit crunch, he decline in broad money could become more severe as the creation of new bank credit is now the main driver of M3 growth. Although the US economy began 2023 on a strong note, with over 500,000 new jobs added to the non-farm payrolls in January, the money numbers strongly point towards an economic downturn either in the latter part of the year or in 2024. To put it another way, unless further regulation is enacted as a result of the recent bank failures, the rapid tightening of monetary policy is a much more significant threat to the US economy than the failure of the Silicon Valley and Signature Banks

You can access further details on the latest monetary developments in the USA in our latest **monthly report and video** at https://mv-pt.org/monthly-monetary-update/