



Rates Moving Rates

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The U.S. Federal Reserve Board once again raised the so-called fed funds rate, the rate that our central bank charges lending institutions on overnight loans. Does anybody care?

Most of the attention in the press centers around what this tells us about how the Fed economists and governors are thinking, whether there will be more rate hikes, and what the impact will be (or not be) on the inflation rate and the prospects of a recession. As it turns out, this rate hike was relatively modest (a quarter of a percentage point, to 5.5%) and anticipated well in advance.

But there are more mundane impacts that the fed funds rate can have on those of us who live normal lives. Perhaps the most direct is a return on savings accounts and cash. Not long ago, before the Fed decided to attack inflation, people were earning around half a percent a year on their parked cash. Today, it's possible to shop for certificates of deposit yielding 5%. There is no direct connection between the Fed's actions and short-term interest rates, but they do tend to move in tandem.

Another impact is credit card debt. When the Fed raises rates, credit cards raise their rates accordingly. Auto loans and personal loans will charge higher interest rates, and most of us have watched mortgage rates move higher in loose lockstep with the Fed's policy decisions.

The reason the U.S. central bank moves these rates up or down is directly tied to the behaviors it wants to influence. Right now, with these hikes, Fed economists think that this is a good time to encourage saving and discourage borrowing and leverage—basically cooling off the pace of the economy and reducing the demand for goods and services that cause inflation to remain persistent.

And it's not alone. The European Central Bank also raised its equivalent rate by a quarter of a percent, as did the Bank of Canada earlier this month. Savers rejoice, and borrowers despair.

Sources:

<https://www.cnbc.com/2023/07/27/ecb-rate-decision-july-2023-raises-rates-by-25-basis-points.html>

<https://www.nerdwallet.com/article/finance/federal-funds-rate-rising-interest-rates>

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number [\(215\) 325-1595](tel:2153251595) or you can [click here to schedule a meeting](#).

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