IN THE NEWS

When Will the Fed Stop Raising Rates? The Answer Is Hiding in Plain Sight

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Federal Reserve Chairman Jerome Powell speaks during a news conference after the Fed raised its interest rate by 75 basis points, on Wednesday, Nov. 2, 2022.

The Federal Reserve's fourth straight big interest rate hike this week has everyone wondering: When will it stop?

The answer has been hiding in plain sight all along, although you might need a degree in economics to understand it. Here's this, from the Federal Open Market Committee (FOMC), the Fed panel that sets rates:

"In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments."

That's nice, but bureaucratic mishmash is almost comically unhelpful to so many Americans who continue to face rising prices, a potential unemployment wave, and a possible recession.

Because that FOMC statement is as frustratingly obtuse to us as it is to everyone else, we asked experts for help translating it. Here's what it actually means:

The Federal Reserve will keep raising rates until there are serious signs of inflation slowing down and ultimately falling back from the 8% rate it's been at this year to the Fed's stated goal of 2%. The pace might slow down, but the Fed won't stop until it sees inflation really starting to fall.

The Fed's rate changes, and the timing of them, could have a major impact on your money. They help determine how much it costs to borrow, and what return you get when you save. More importantly, they'll help determine what the economy looks like for the near future, including whether you'll keep or lose your job in a recession.

Here's why what the Fed does, how fast they do it, and when they stop doing it matters for your wallet.

When Will the Fed Slow Down?

Fed Chairman Jerome Powell was asked if the pace might slow in December — maybe to half a percentage point, rather than three-quarters.

"That time is coming," Powell said. "It may come as soon as the next meeting or the one after that. No decision has been made. It is likely we'll have a discussion about this at the next meeting."

A December slowdown might make sense, experts say: The balance of the economy is a moving target, and the Fed doesn't want to take any options off the table.

"Whatever he states, he's going to do," says Cory Moore, certified financial planner and founder of Moore Financial Planning. "He has not veered away from what he indicated and what he said he's going to do at this point. So you almost have to listen up for what he's telling you. He's not joking or, you know, trying to get a reaction from the market. He's sticking to his plan at this point."

A potential slowdown might come in December because it's taking a while for the Fed's already dramatic rate hikes to filter through the economy. There's a risk that going too far still will cause too much pain in the economy, and the Fed won't know it until it's too late.

"It takes a while for those actions to really filter down through the economy, to impact lending, bank lending, impact credit availability. They recognize that when they take these actions, it does take some time," says Christine Cooper, chief economist at CoStar Group, a real estate analytics provider. "It can take three quarters or more in order for the result of a particular policy action to take effect."

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When Will the Fed Stop Raising Rates?

Whether rate increases slow in December or not, they won't stop. Powell was clear that interest rates need to be higher, and likely higher than previously thought.

"We think we have a ways to go," he said. "We have some ground to cover with interest rates before we get to that level of interest rates that we think is sufficiently restrictive."

There is still "no sense that inflation is coming down," he said, and that needs to happen before the central bank can stop. "It's premature to discuss pausing," Powell said. "It's not something that we're thinking about. That's really not a conversation to be had now. We have a ways to go."

That means rates will probably peak later than expected, sometime next year, and won't come down for a while, Cooper says. "It might take a little bit longer than we might have anticipated," she says. "He was trying to balance a message about having to go higher with it might take a little bit longer."

PRO TIP

With the economy's future uncertain, experts say you should prepare by ensuring you have a sufficient emergency fund.

Why Does It Matter?

The Fed is trying to walk a tightrope of reducing inflation — by raising interest rates to slow consumer demand — while not upsetting the economy enough to cause a bad recession. The goal is what economists call a "soft landing," avoiding a recession.

"No one knows if there's going to be a recession or not and, if so, how bad that recession would be," Powell said.

What's expected is that, recession or not, the job market will get weaker. That will mean people losing jobs and seeing their wages rise by less, if at all.

"It's common for the economy to fall into a recession with aggressive rate hikes," says Denise Downey, a certified financial planner and founder of Financial Trex, a financial planning firm. "We've seen [it] in the past, I wouldn't be surprised if it happens again, and, kind of, expecting it to happen."

Higher interest rates from the Fed are causing big changes across financial markets, essentially making it harder to borrow money and easier to save. They're pushing up interest rates on debt like mortgages, home equity loans, and credit cards. Rate hikes are also driving up the rates banks will pay you to park your cash in savings accounts and certificates of deposit.

A longer-than-expected period of rate hikes, and a higher level, will make all those changes more significant. Experts say now is the time to prepare for rocky financial times — ensure you have a sufficient emergency fund and keep a close eye on your budget.

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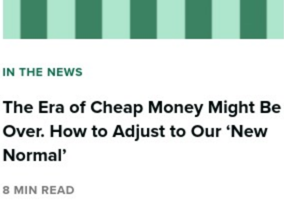

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