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Infomerics Ratings

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## ECONOMIC DIGEST

# US FED POLICY- NOVEMBER 2023- FIRST CUT

10 November 2023

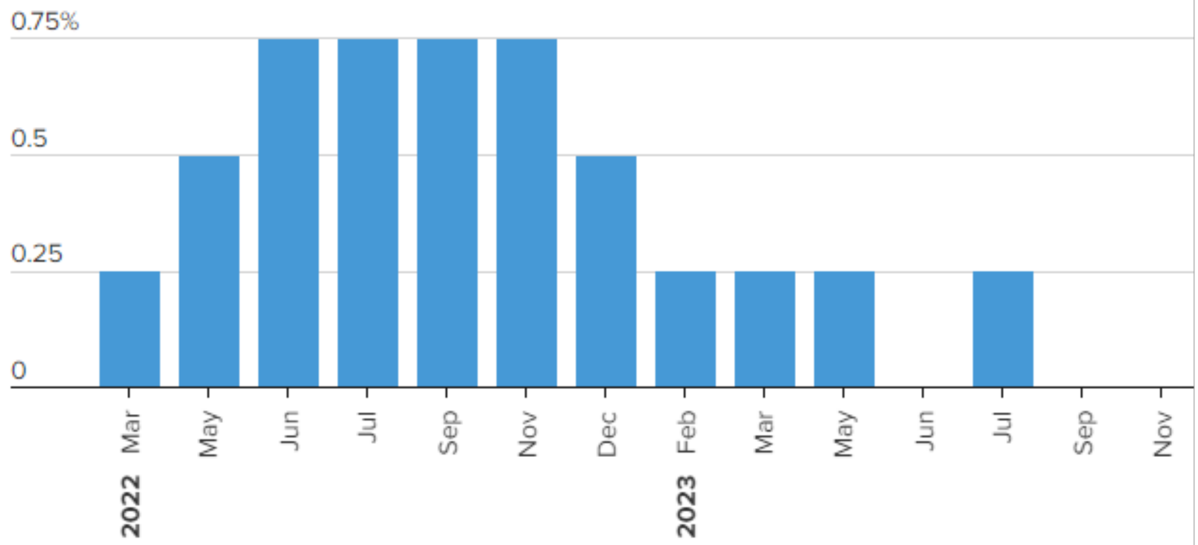
## INTRODUCTION

Given that the central banks were largely on a rate hiking spree for the most part of 2022 and 2023, the evolving course of monetary policy has evoked widespread debate across the development spectrum. Some of the main strands of this debate relate to the impact of hiking interest rates, behaviour of workers, firms and consumers.

## REPEATED RATE HIKES POST MARCH 2022

The US Fed has aggressively raised interest rates 11 times post March 2022, including four in 2023, to check the inflationary spiral.

### Federal funds rate increases since 2022

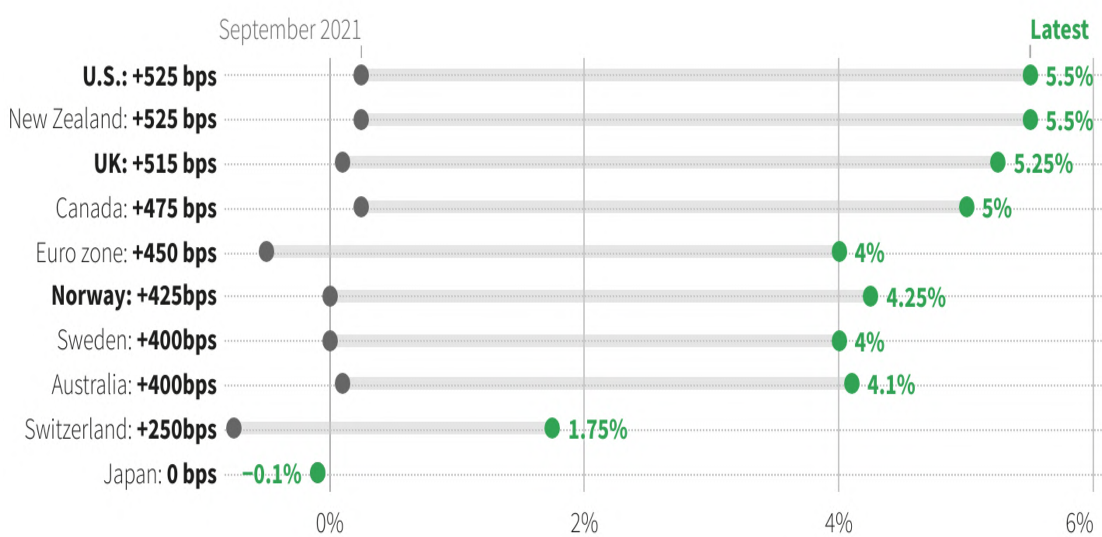



Source: Federal Reserve Bank of New York
Data as of Nov. 1, 2023

Such interest rate hikes are part of a global pattern. This thesis can be substantiated by the fact that nine developed economies (with Japan being the notable exception) have raised rates by a combined 3,965 basis points (bps) in a cycle that started in September 2021.

## The race to raise rates

Change in policy rates by central banks overseeing the 10 most traded currencies




Note: As of November 2, 2023.
Source: LSEG Datastream | Reuters, November 2, 2023 | By Sumanta Sen

The resilience of the economy of the USA despite a series of rate hikes unprecedented in four decades has come as a surprise to several analysts.

## US FED'S NOVEMBER POLICY ACTION

Against this backdrop, the Federal Open Market Committee (FOMC) on November 1, 2023 kept the rates unchanged for the second consecutive time at 5.25% to 5.5% range (i.e., the highest level in 22 years), where it has been since July. This decision, which was taken against the big picture of a growing economy and labor market and inflation well over the central bank's target, marked a careful move "to address both the risk of being misled by a few good months of data, and the risk of over-tightening". It also gives policymakers time to "assess additional information and its implications for monetary policy," said the Fed Reserve.

The traction in the economy is manifested in 4.9 % growth in GDP in the third quarter and nonfarm payrolls growth totalled 336,000 in September 2023. Hence the US central bank justifiably maintained "economic activity expanded at a strong pace in the third quarter".

## PATHWAY TO THE FUTURE

Where do we go from here? Going forward, the disconcerting macro-economic complexities, such as, tighter financial conditions faced by households and businesses, inflation still to reach 2 % on a sustained basis despite the perceptible decline in inflation from its four-decade peak last year, to 3.7 % on an annual basis, the need to calibrate an economy outperforming expectations, and the hawkish tone and tenor of the Policy, our assessment is that the Fed officials would go in for a status quoist Policy in their next meeting on December 12-13, 2023. Despite such cognizable dilemmas, we do maintain that rate cuts would occur in 2024.

The Fed reaffirmed its commitment to achieving its dual mandate of maximum employment and price stability. In pursuit of this dual mandate, the Fed's data-driven and evidence-based policy would be influenced by the data and information on issues such as the Consumer Price Index (CPI), payrolls, and gross domestic product (GDP) growth.