Institute for Statistical Policy Analysis

THE FED RAISES RATES

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Topline: The Federal Reserve's Federal Open Market Committee (FOMC) recently voted unanimously to raise interest rates by 0.25 percentage points to fight inflation.

The FOMC Statement

- All 12 members of FOMC voted to raise the federal funds target range by 25 basis points to the 3.75% to 4.00% range.
- This stands in contrast to the 9-3 July FOMC vote to maintain rates, where only 3 members supported a 25 basis point increase.
- FOMC's statement focused on maintaining price stability, as it did in the June and July meetings. This language was notably absent from all pre-June statements this year.
- FOMC stated that economic growth is solid, productivity growth is strong, capital investment is robust, job gains are keeping pace with the workforce, and that unemployment has remained mostly unchanged. However, they did note economic uncertainty stemming from geopolitical developments.

The Potential Fallout

- Most alarmingly, the federal funds rate projections are 30 basis points higher for 2026, and 50 basis points higher for 2027 and 2028, relative to the June forecast.
    - This could indicate concern that inflation will remain elevated in the coming months. It could also point to concern that the debt crisis will fuel higher long-term inflation expectations and continue to force yields higher, despite Chairman Warsh failing to include debt on his list of reasons why yields are moving up.
- High interest rates and high inflation both make life less affordable and the FOMC is choosing to risk higher rates across the board, including on mortgages, credit cards, vehicle loans, and student loans, to try to tackle inflation. Higher rates could increase the federal debt's interest costs and worsen the current debt crisis.
- President Trump has reiterated a threat to cut trade with countries with which the United States has a trade deficit if the Fed does not lower rates.
    - He has asserted that other countries' having lower rates than America treats the U.S. unfairly and that the response should be to cut trade.
    - This action would only fuel the very inflation that necessitated the rate increase and make future rate increases more likely.
- Vice President Vance also pushed for lower rates, despite inflationary pressures.

Bottomline: The Fed raised interest rates to address inflation and its forecasts now indicate higher rates in the coming years. This will drastically impact everyday Americans and may induce President Trump to expand the current global trade war.