

From the Birmingham Business Journal:

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Fed rate hike unlikely to slow down much in local economy

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The Federal Reserve's latest rate hike came as no surprise to the financial community, and local experts say it won't slow down the local economy much.

John Norris, managing director of investments and thought leadership with Oakworth Capital Bank, said the Fed's decision to raise the overnight lending rate from 0.25% to 0.5% will give Birmingham banks a slight boost in the short term. Norris also said it's possible for the Fed to increase rates by 0.25% every meeting between now and December.



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The Federal Reserve Bank of Atlanta's
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"Local banks will enjoy a boost in interest income, as the rates they charge on floating rate loans will go up," Norris said. "Further, since most banks are flush with cash and don't really need the deposits, they will be slow to raise the rates they pay customers. This will last for several rate hikes until borrowers and lenders alike push back. However, with longer-term rates well less than the accepted rate of inflation, money will still continue to be cheap."

Norris said borrowers may also consider switching from variable rate debt to fixed rate debt or enter into interest rate swaps with third parties.

"Regardless, the current high rate of inflation is more of a threat to local businesses than slightly more expensive cash," Norris said. "Anything that will bring down their cost of goods sold in the short term will be welcome."

In addition to slowing down borrowing, Paul Compton, founding partner of Compton Jones Drescher, said, "The bigger, harder-to-see impact is that some new transactions just won't happen at the new rates."

Though additional actions to slow inflation are expected, Compton pointed out the unexpected ways current events can weigh on those policies.

"Chairman Powell spent a lot of words trying to 'talk down' inflation with the 'threat' of more rate hikes," Compton said. "He's trying to slow the economy down without actually having to raise rates because that has many dangers, particularly in the current, tumultuous environment with war in Europe, and oil and gas supply issues."

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