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Insight - Fed Funds Increase

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On June 13, members of the Federal Reserve's Federal Open Market Committee voted to increase the target range for the federal funds rate by 25 basis points from the previous range of 1.50% - 1.75% to a range of 1.75% - 2.00%. The rate is applied by large banks when making overnight loans to each other from their reserves funds held with the Fed and becomes the basis for loan rates across the economy from auto loans to credit card and mortgage rates.

The Fed uses its Federal Open Market Committee and open market operations to influence the supply of money in the broader economy. This decision to increase the federal funds rate was the result of current rates trending around 1.70% (towards the upper threshold of their current range) and strong economic indicators. The May jobs report showed the U.S. economy added 223,000 jobs, up from the 188,000 jobs expected, while unemployment numbers fell slightly. Following this news, the Fed believes unemployment will fall to 3.6% by the end of the year. The Fed also revised its projected economic growth for the U.S. economy to 2.8% for this year and forecast that inflation will reach its 2% target for 2018.

Last week's news does not mean that rates will immediately increase on commercial and personal loans, as the rise was expected and largely already factored into recent loans. The larger news is that the Fed has already signaled two additional rate hikes this year and three in 2019. The increase will result in higher consumer rates over time as the monetary supply declines.

The Fed is under a mandate to maximize employment, stabilize prices and moderate long-term interest rates. With the low unemployment rate and inflation around its target, the Fed believes these rate increases are necessary for the long-term growth of the economy.

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