How Much Will the Fed Raising Interest Rates Affect You?

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Historically low-interest rates helped get America through the pandemic, but they also fueled inflation, which rose at a rate of 7% last year — the fastest pace in 40 years. Tamping down rising prices is now the Fed's chief concern, and one of the primary strategies that America's central bank will use to combat inflation is to raise interest rates.

Goldman Sachs analysts predicted in January that the Fed will hike interest rates four times throughout 2022, or maybe even more. That, along with nine-figure monthly cuts to its balance sheets, is the Fed's way of slowing the flow of money into an already overheated economy.

So, what does all this mean for you?

The end result will be a double-edged sword for the American consumer.
Yes, higher interest rates will slow inflation, but just as prices begin to fall, it will cost more to borrow money. Many buyers will trade cheaper cars and homes for more expensive loans to finance them.

Interest rates on 60-month new-vehicle loans fell in 2021 from 4.24% at the beginning of the year to 3.92% in the waning days of December, according to MSN. Thanks mostly to the Fed's rate hikes, the average five-year new car loan is expected to climb to 4.4% by the end of 2022.

Unlike in the auto market, interest rates for home loans did not fall last year. Rates climbed from 2.67% in January to 3.12% at the end of 2021, according to Forbes, but still closed out the year hovering around a historically low 3%. The publication predicts — thanks to the Fed's impending rate hikes — that 30-year fixed mortgage rates will rise to somewhere between 3.4% and 4% by the end of 2022.

Although banks generally increase savings yields when the Fed hikes interest rates, they don't have to — and they probably won't this time. Today's banks are flush with cash and don't need to incentivize deposits by offering higher yields. This go-around, bank customers can expect to get the worst of both worlds — more expensive loans despite savings yields that remain in the doldrums of roughly six basis points.

Another unfortunate side effect of rising interest rates is likely to be felt in the stock market, which in January had its worst month since March 2020, according to CNBC. The stock market dislikes rising interest rates because they cool off the economy, tighten business lending, slow corporate growth, and make safer investments like bonds more attractive.

In summation, higher interest rates will:

- Reduce inflation and stop prices from rising so quickly on all the things you buy.
- Make it more expensive to finance the purchases of things like houses and cars.
- Probably not improve your savings account yield.
- Probably slow down your stock market gains or even lead to a market downturn.

Coronado also expects to see a slower rate of inflation, which could mean less sticker shock for consumers. And she expects the stock markets and cryptocurrency markets to cool off a bit.

“The stock market’s been really — running really strong,” she said. “We have seen a lot of you might call it froth in areas like cryptocurrencies. And that sort of enthusiasm may see some cooling as the Fed stops injecting liquidity into financial markets.”

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