

October 30, 2023 – Economic Commentary

Fed Week. It's a far more interesting Federal Reserve Interest Rate Decision Week than most. With such strong US economic growth in the third quarter — a long-signaled 4.9%— and inflation coming in (also as expected) at approximately 3.7% in September, the Federal Open Market Committee faces a truly significant economically intellectual choice. As highlighted by one of the suggested readings below, there is a substantial question as to whether economic growth is a problem. If it is — in and of itself— then the FOMC will be forced to raise rates once again. If instead there is a sense that this is a different time, and that there are other macroeconomic influences beyond the control of the Federal Reserve that must be allowed to evolve, then a decision to boost the Fed Funds rate yet again will be postponed until December. Strong consumer spending should not be considered surprising in light of the robust labor market and housing price stability; when job prospects are good, individuals will spend based on their perceived net worth, i.e., the most significant variable will be debt-to-net worth as opposed to debt-to-income. Unless unemployment rises substantially or home prices fall, neither of which is likely in the next few months, then consumer spending will continue to support economic growth, although perhaps not at the pace of the third quarter. The rest of the world would be quite happy to have a forecast for 3% growth, 3% inflation and 4% unemployment; we will find out this week if the Fed is equally happy to let this play out and see where it takes us.

Data to Watch:

1. US Housing Price Index for August, released Tuesday, October 31
2. Interest Rate Announcement by the Federal Open Market Committee (FOMC), released Wednesday, November 1
3. US Nonfarm Payroll Employment for October, released Friday, November 3

Suggested Reading:

1. [Never Mind the 1%. Mini-Millionaires Are Where Wealth Is Growing Fastest.](#)
2. [Does Strong Growth Fuel Inflation? Fed Debates Whether Old Model Still Applies](#)
3. [What Can the Fed Do About the Deficit? Nothing](#)

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