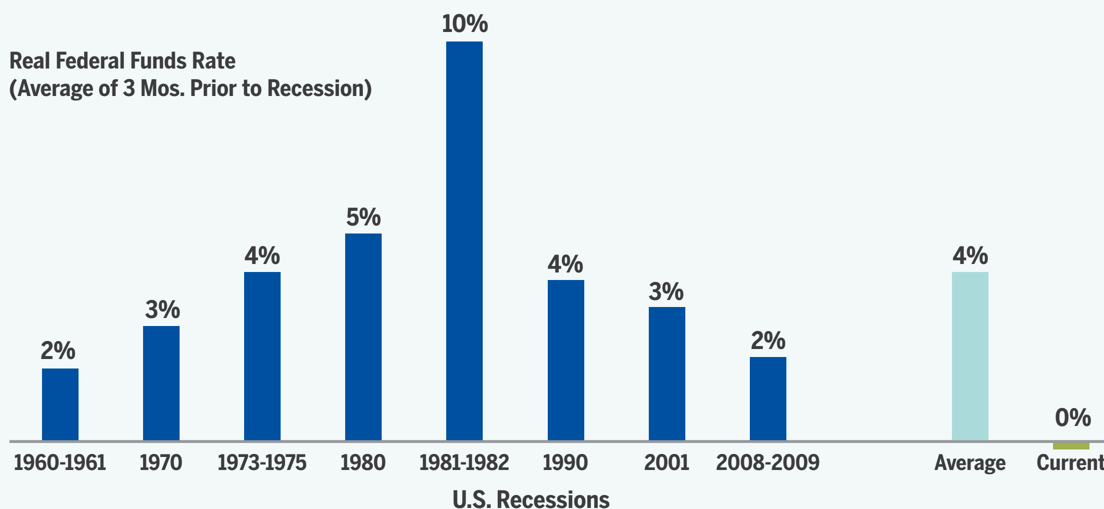
ALGER

Alger On the Money

Money Is Still Cheap

While economic growth appears promising and inflation is accelerating, monetary policy has not yet become restrictive as compared to historical levels. In fact, today the real federal funds rate is roughly 0%, which means the economy may have capacity for further expansion.

Current Real Federal Funds Rate Is Significantly Lower than Levels that Preceded Recessions



Source: FactSet as of March 2018. Inflation represented by PCE Price Index ex-food and energy (year over year). Real federal funds rate is average of three months prior to start of recession.

- For more than a half-century, U.S. recessions have been preceded by, on average, a positive real federal funds rate of 4% and generally not lower than 2%. Those rates are a long way off from today's level. The real federal funds rate is the federal funds rate minus the rate of inflation and reflects the true cost of borrowing, which is measured on an inflation-adjusted basis.
- When the real federal funds rate is low, it incentivizes banks to lend. With the real federal funds rate lingering around zero, the Federal Reserve's survey on bank lending practices shows more banks are loosening rather than tightening commercial lending standards, which may help boost economic activity.
- Because the price of money, i.e., interest rates, is still cheap and the Federal Reserve is tightening at a slow pace, businesses are likely to continue to spend robustly, driving economic activity. Retail spending is also expected to remain solid due to inexpensive borrowing costs and strong consumer confidence. We believe these factors are bullish for future economic growth.

Inspired by Change, Driven by Growth.

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