

# Inflation numbers push back possible Fed interest rate cut

Nick Beams  
14 April 2024

The latest inflation figures from the US last week, which showed a rise in the rate to 3.5 percent in March from 3.2 percent in February, sent something of a shudder, it could even be described as a chill, through financial markets.

This is because the persistence of inflation, well above the Federal Reserve's target of 2 percent, reduces the prospect it will start cutting interest rates any time soon, putting stress on the veritable debt mountain created in corporate America.

The inflation data saw a fall in the stock market and a rise in bond yields [interest rates] and a corresponding fall in their price [the two have an inverse relationship]. An auction of 10-year Treasury bonds last Wednesday brought what the *Wall Street Journal* said was "the weakest participation from investors since November 2022."

At the end of 2023 and the beginning of this year, the market expectation was that there could be as many as six rate cuts this year. That was then wound back to three. After a March cut was removed from the agenda, the starting date was expected at the Fed meeting in June.

Now there are major doubts about whether this will take place and even if there will be any cuts at all this year. This leaves the Fed rate at more than 5 percent, its highest level in more than 20 years.

The president of the Minneapolis Fed, Neel Kashkari, who is not at present a voting member on interest rates but does take part in the discussion on policy, has said he can envisage a situation in which there are no cuts in the rate this year.

Michelle Bowman, a Fed governor, has said there is a risk that "we may need to increase the policy rate further should progress on inflation stall or even reverse."

Most Fed members still foresee cuts, but they may arrive later than financial markets desire.

This is giving rise to nervousness because the prospect of rates being higher for longer increases the danger of defaults and bankruptcies. This is after corporations and financial institutions feasted on virtually free money before the Fed started lifting rates from near zero two years ago.

According to data from the Fed, total corporate debt in the US is \$13 trillion. Five years ago, it was \$10 trillion. The rise of around 33 percent in that time far outstrips the growth in the real economy which, in the final analysis, must finance the increase in debt.

More than \$3 trillion of this corporate debt falls due for repayment over the next five years. Thus new finance will have to be obtained in what will be a higher interest rate environment.

Already defaults are on the rise. Last month S&P Global Ratings reported that more companies had defaulted on their debt in 2024 than in any start to the year since 2009, in the wake of the global financial crisis.

Torsten Slok, chief economist at the investment group Apollo, told the *Financial Times*: "Default rates are rising ... because higher interest rates continue to bite harder and harder on highly leveraged companies."

Since he made those comments back in March, the prospect for a rate cut has receded, adding to corporate stress.

One of the most vulnerable sectors is commercial real estate, where the problem of higher interest rates is compounded by a fall in demand for office space due to the increase in working from home as a result of the COVID pandemic.

According to analysis by Goldman Sachs, commercial real estate values have fallen by an average

of 33 percent and as much as 60 percent in some places. Banks are under stress, with the New York Community Bank having to raise \$1 billion in capital because of losses in this area.

Newmark, a major US property management firm, has said banks will have to cut their lending to commercial real estate as \$2 trillion of property debt becomes due in the next three years.

“Banks will be under pressure,” the chief executive of Newmark, Barry Gosin, told the FT earlier this month.

“We are at the beginning of the impact of this wall of loans,” he said. “A chunk of those will be fully underwater, a chunk of those will be snorkelling” and another chunk will need to be capitalised with more equity.

The company estimates that \$670 billion of loans maturing by 2026 will be “potentially troubled.” According to Gosin, “Anyone who has invested heavily in office [property] in the last five years will have a problem.”

The problems caused by higher interest rates are not confined to the US. Moody’s reported in January that the level of defaults in Europe for December was the highest since the global financial crisis.

Last week a study by a German law firm, which collects data from 3,750 listed European firms, reported that the levels of stress of German companies was the highest in four years, going back to the start of the pandemic.

“Investment hesitancy, alongside ongoing liquidity and profitability challenges, continue to impact firms amid a macroeconomic environment burdened by weaker economic growth,” it said.

Germany is not the only problem area. In January it was reported that UK corporate insolvencies had risen in 2023 to their highest levels in 30 years, following a 13.7 percent increase from 2022. The head of the country’s insolvency and restructuring body warned there was a “rising tide” of insolvencies that was likely to “remain high this year.”

The increase in interest rates is also heavily impacting the financing of the growing mountain of US government debt, which is approaching a level equivalent to the country’s GDP.

The Treasury department reported last week that the deficit for the first half of the 2024 fiscal year, which

started in October last year, was \$1.07 trillion. One of the main reasons for the widening deficit was the interest burden. It rose to \$522 billion over the six months, a 36 percent increase over the 2023 fiscal year.

The longer this continues, the greater will be the concerns that at some point the US debt mountain is going to create significant financial problems. This raises deeper concerns over the stability of the dollar which have started to manifest themselves in the rise of the price of gold to record highs in recent weeks.



To contact the WSWS and the  
Socialist Equality Party visit:

**[wsws.org/contact](https://wsws.org/contact)**