

US Macroeconomics

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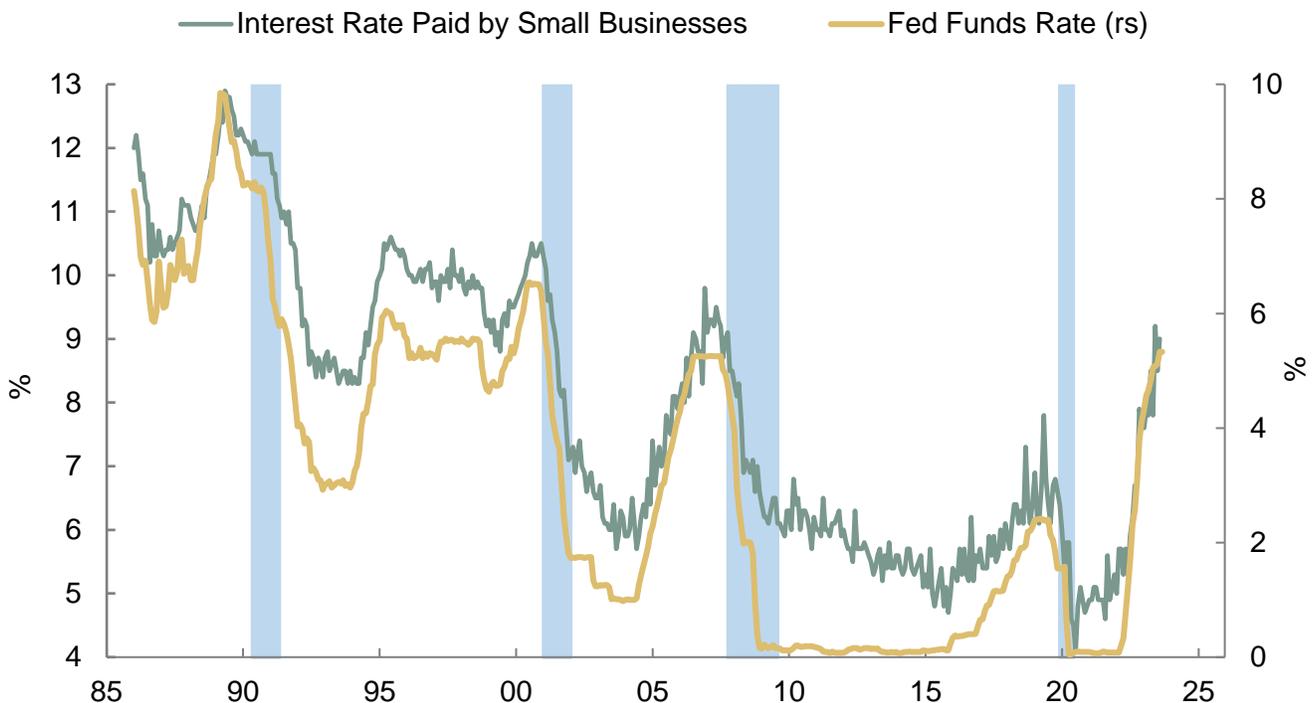
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The Lags Aren't Very Long for Some

One frequently cited reason for why Fed policy lags may take longer than usual in this business cycle is because quarterly corporate interest payments have yet to turn upward, even despite the Fed's aggressive rate hiking cycle. Flying in the face of this, however, is data from the National Federation of Independent Businesses (NFIB) which shows actual interest rates paid by small businesses soaring alongside the Fed funds rate. Since 1986, the two have moved in lockstep (shown below). When one peaks/bottoms, so does the other. When the Fed hikes, more pressure is exerted on small businesses.

August's 9% interest rate is the highest since October 2007, which immediately preceded December's recession onset. Note that this well exceeds Q2's 3.8% nominal GDP growth. **Not only is the interest rate level concerning, but so too is the rate of change which shows a record year-over-year increase of 2.8 percentage points.** This is a particularly negative development for growth and labor demand because **small businesses are highly sensitive to bank lending,** especially when compared to larger entities. Changes in monetary policy tend to affect small firms first, whereby this weakness proliferates out through the broader economy. As discussed in our September 27 note, small businesses account for nearly half of total employment and nearly two-thirds of new job growth, giving Fed policy a more direct line to the labor market. This comes as small firms' expectations for real sales sit at pandemic and GFC levels.

The combination of generationally tight Fed policy placing immense pressure on regional lenders and small businesses likely means less growth, fewer jobs, and more concentration.



Sources: NFIB, Federal Reserve, NBER, Haver, SMBC Nikko

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