Fact Check Team: How interest rate hikes could impact the economy and inflation

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WASHINGTON (TND) — The Federal Reserve is hoping to attack the raging inflation by raising interest rates several times throughout 2022.

In the past, raising interest rates has helped inflation but with so much stimulus money in the economy, some are questioning if it will work again.

The National Desk's Fact Check Team spoke with economists and dug through the data to determine if this is the path to lowering increased prices at the grocery stores and at the pump.

Federal Reserve Chair Jerome Powell said Wednesday that interest rates could go up as early as March.

"With inflation well above 2% and a strong labor market, the committee expects it will soon be appropriate," the Federal Reserve said in a statement.

Traditional economic theories say those low interest rates that people and businesses have seen all year should stimulate the economy and with higher rates, inflation could come down but the additional spending in federal stimulus puts the country in uncharted territory.

Going back 30 years, the federal government raised interest rates several times — similar to the plans currently being discussed. The thought was that it would help keep inflation down. However, some economists blame those hikes for slowing down the economy and causing inflation in the first place.

In 1989, conflict in the Middle East led to oil prices going up during the first Gulf War. Combined with a struggling mortgage market and the 1989 mini-crash of the stock market, inflation rates grew to 6.1% in 1990. One year later, inflation decreased in 1991 to an annual rate of 3.1%.

The government had been slowly raising interest rates for two years before the mild recession in 1990 to try to keep inflation low and economists say those efforts reduced the money supply growth and is a reason for the decrease while others say it caused issues. The recession lasted eight months.

Now, about 40 years ago was the last time the country hit a record for inflation. The two high points were 11% in 1974 and nearly 15% in 1980. Then, the country entered the tail-end of a period from 1965 to 1982 called The Great Inflation.

Historians said a combination of economic rebound effects after World War II, a new understanding of economics and surging oil prices caused the spikes. Current oil prices are the largest part of the change in inflation but when adjusted for today's dollars, oil hit $133 a barrel in May of 1980 compared to today's $87 a barrel.

While none of these historic examples can account for all of the factors that America is facing now, they can provide a roadmap for where the nation's economy may be headed.

Just last month, Bill Dupor, vice president of the Federal Reserve Bank of St. Louis, said in an interview that the country doesn't see inflation go up by very much after sudden jumps in government spending but Norbert Michel with the Cato Institute says the pandemic spending showed just how that could change. He cautions that there just isn't any historic data on record to compare with the current combination of federal spending, inflation, economic and pandemic pressures.

Politics also has an impact on the economy and according to FiveThirtyEight, President Joe Biden's approval rating currently sits at 41.7%. That's down from 53.9% one year ago. New numbers from the Pew Research Center also show that just 28% of respondents say the economy is good.

The higher rates could also mean higher prices for other bills, like credit cards, where the average interest rate is already at 16.13%. With the hike, reports show that those with lower credit scores could be looking at rates of 25% or higher on average by year-end. Record low mortgage rates are also at risk of going up.