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Guest Column by Terry Connelly, Dean of the Ageno School of Business, Golden Gate University

Runaway inflation is economic influenza. The Federal Reserve has been inoculating the otherwise-healthy US economy against excess inflation with regular 25-point dosages of interest rate hikes since June 2004 — a touch of "live inflation virus" in terms of the cost of money, to ward off big increases in the cost of everything else. And there have been no serious "side effects" so far.

But the Fed has been administering its vaccine as "time-release" medication — not one big shot in the arm, but small dosages where the effects build-up over time. There is always a danger of "overdosing" that would bring economic growth to a screeching halt, as well as "underdosing" that would open doors to rampant price inflation.

The key is to get to a neutral level where the Fed can pause and let the "body" (our globally integrated economy) take over on its own.

Today, without using the magic word "pause," a unanimous Fed gave a strong signal that it has reached that neutral level in its statement accompanying the rate increase to 5%.

First, it conspicuously dropped language from previous statements that further increases might be needed to keep risks to growth and price stability "in balance." So further increases are no longer needed just to get to "neutral." It also added new language emphasizing that any more increases needed to fight inflation risks will depend on incoming information. Translation: we'll look at the "symptoms," monitor the economy's temperature and blood pressure, and respond accordingly. Your doctor might call this "watchful waiting!"

For the Bay Area economy, it seems that the Fed is removing the predictable pain of regular inoculation with the uncertain anxiety about another "booster shot" sometime down the road.

The key effects of the Fed's decision on us here are on housing, jobs and the price of oil. If the bond markets believe the Fed's new prescription will ward off inflation, longer term-interest rates that drive mortgage costs will not increase too much, so we'll have a "soft-landing" and not a housing price crash. But if bond traders think the

Fed is flinching on inflation, it could go the other way.

Similarly, if the Fed has it right, the economy will settle into a sustainable pace of growth for the balance of the year, and our job market can continue to recover.

But the Fed's impact also reaches all the way to the gas pump. If global currency traders conclude that the Fed should have continued to signal more rate increases to hold down inflation, they will mark down the value of the US dollar and that could lead to higher oil prices, since oil is priced in dollars.

The markets will tell the story in the coming days, so we all have some "watchful waiting" to do!

About Terry Connelly

Terry Connelly, Dean of Golden Gate University's Ageno School of Business, has 30 years of experience in investment banking, law and corporate strategy in the U.S. and Australia. Dean Connelly frequently serves as an economic resource for top local and national media. His professional history includes positions with: Ernst & Young Australia, the Queensland University of Technology Graduate School of Business, New York law firm Cravath, Swaine & Moore (corporate, securities and litigation practice in New York and London), the Salomon Brothers investment banking business and Cowen & Company's investment banking business (where he served as chief executive). He holds a law degree from NYU School of Law.

About Golden Gate University

GGU is the largest non-profit, private university serving adult students in the Bay Area. GGU holds the nation's largest tax school and the Ageno Business School's MBA program enrolls the most part-time students in the Bay Area.