

# Another Cataclysmic Error Threatens to Plunge the US Economy Into a Bottomless Pit

I can't believe they actually did it. Even though it is painfully obvious that the U.S. economy is slowing down dramatically and that we are heading into an excruciating repeat of the housing crash of 2008, the Federal Reserve decided to go ahead with the largest interest rate hike in 28 years anyway.

History has shown us that raising rates just as an economy is entering a recession is an exceedingly foolish move, and many of us have been pleading with the Fed not to do it. But of course if the Fed actually listened to people like us, we would not be facing such a dire crisis in the first place.

Essentially, the Fed just killed any hopes of avoiding a recession. The rate hike that was announced on Wednesday was the largest that we have seen since 1994:

*The Fed raised its key short-term interest rates by three-quarters of a percentage point Wednesday—its largest hike since 1994—to a range of 1.5% to 2%. It downgraded its economic forecast.*

*More big moves may come. Fed officials forecast the federal funds rate will end 2022 at a range of 2.5% to 3.5% and next year at close to 4%, according to their median estimate.*

Fed Chair Jerome Powell insists that substantially raising rates will tame inflation.

That worked in the early 1980s, but I am skeptical that the same playbook will work again for a couple of reasons.

First of all, in the early 1980s the U.S. was \$1 trillion in debt. Today, we are \$30 trillion in debt. Our politicians have been on the greatest borrowing and spending binge in the history of the world during the last couple of years, and hiking interest rates cannot erase the trillions upon trillions of new dollars that have entered the economy.

In addition, the Federal Reserve has pumped trillions of dollars that they created out of thin air into the system in recent years. Hiking interest rates is not a “magic bullet” that can erase that colossal mistake either.

But the Fed feels like it has been forced to do *something* to address the current crisis, because prices continue to spiral out of control.

For example, the average price of a gallon of gasoline in the United States hit a new record high for the 18th day in a row on Wednesday:

*Gas prices on Wednesday reached a record high for the eighteenth consecutive day.*

*The national average price of gas reached \$, according to GasBuddy. On Tuesday, gas prices were around \$ per gallon.*

And survey after survey has shown that the American people are rapidly losing faith in the Federal Reserve:

*Even more concerning are new signs that families have lost faith in the Fed's policies. Consumer sentiment in June sank to a low not seen since the 1980 recession, according to a University of Michigan survey. Similarly, a poll by The Washington Post and George Mason University's Schar School of Policy and Government found that most Americans expect inflation to worsen and are adjusting their spending habits, a mind-set that can make the surge in prices even worse.*

So, I can understand why Powell and his minions felt a need to raise rates.

But you simply can't raise rates as the economy enters a recession. That is suicidal.

At this point, even the Fed's own numbers show that the economy is really slowing down:

*After a week of rampant jawboning to adjust the market's expectation for The Fed's actions later today (after last Friday's unexpected resurgence in CPI), the continued erosion in economic data (most notably retail sales this morning) has prompted The Atlanta Fed to slash its forecast for Q2 GDP growth from +0.9% to 0.0%, meaning the U.S. is now right on the verge of a technical recession (after Q1's contraction).*

If U.S. GDP goes negative again in the second quarter, then we are already officially in a recession right now.

And what the Fed just did is going to make it much worse because it is about to become a lot more expensive to borrow money:

*Every time the Fed raises rates, it becomes more expensive to borrow. That means higher interest costs for mortgages, home equity lines of credit, credit cards, student debt and car loans. Business loans will also get pricier, for businesses large and small.*

*The most tangible way this is playing out is with mortgages, where rate hikes have already driven up rates and slowed down sales activity.*

In particular, higher rates are going to absolutely eviscerate the housing market. In fact, yesterday I discussed the fact that another housing crash has already begun. Right now there is a tremendous amount of panic out there as those who work in

the industry come to grips with what is now taking place.

A year ago, the housing market in the U.S. was red-hot, but now the environment has completely changed.

Compared to the same period a year ago, total mortgage application volume was down a whopping 52.7% last week:

*Total mortgage application volume was 52.7% lower last week than the same week one year ago, according to the Mortgage Bankers Association's seasonally adjusted index. Sharply rising interest rates are decimating refinance volume, and those rates, along with sky-high home prices and a shortage of houses for sale, are hitting demand from potential buyers.*

In 2008, the Federal Reserve played a major role in bursting the most epic housing bubble in the history of our country.

Now it is happening again, only this time the housing bubble is even larger than the one that imploded over a decade ago.

Most Americans may not realize it, but this is truly a very sad day for the United States.

An immensely painful economic crisis has essentially been guaranteed, and beyond that we are going to see things happen that once would have been unthinkable.

But things didn't have to turn out this way.

If we would have made better decisions, we could have had much different results.

Unfortunately, the Fed has come up with an endless series of colossal errors in recent years, and this latest error is one of the biggest of them all. {eo}

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