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## Dave Windsor's 'Alaska Real Estate'

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### PCE IS 2.8 – LOWER INTEREST AT THE GATE

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The PCE Core Inflation Rate is now at 2.8% for the second month running. This is the FED watched rate that they want to be 2% per annum.

There are 4 different inflation numbers, but this is the one you want to watch for the likely course of interest rates. PCE Core year-over-year is the amount that Personal Consumption Expenditures, excluding Food and Energy, are rising. Food and energy are considered volatile and distort the measurement if you feed it into the calculation.

The CPI (Consumer Price Index) and CPI Core were the popular inflation numbers prior to 2020, so you will often hear CPI also mentioned in the media. So, let's forget about the Consumer Price Index for the moment, not regarded by the FED as reliable as PCE (Personal Consumption Expenditures).

There is the monthly PCE and also the year-over-year, or annualized, PCE. That is, just like your home loan is actually an "annualized" percentage, say 7% per annum, so PCE month to month is interesting but "per annum" is what you want to know.

Listen for the PCE Core inflation year-over-year because this is the number that the FED wants to be 2%. You have, I am sure, heard this 2% number repeatedly in the News. So PCE Core is now at 2.8% but the FED is looking for 2.0%. How do they slow inflation down? – by slowing consumer demand and economic activity with higher interest rates.

Keep in mind that in February 2022, only 2 years ago, PCE Core was frighteningly high at 5.75%. It is remarkable that FED policy has brought this down to 2.8% today – but they aren't done yet.

However, even though we are not yet at 2%, the trajectory is looking good and the FED has said there are 3 likely interest rate cuts coming this year. I am all but certain there will be a quarter point cut in June (or July latest) and 2 more quarter point cuts later this year. The FED thinks the trajectory is leading down towards the 2% and so they can start easing rates soon, which will enable this "Soft Landing" of the economy you have heard about.

If an aircraft experiences severe turbulence approaching its destination, a hard landing is likely. Fed rates are interference in the economic atmosphere and they don't want to keep the interest rates in the atmosphere high for long because that could create a Recession in the Economy – just enough pressure to slow acceleration of prices (inflation), but not enough to cause severe turbulence.

So, FED lower rates will flow to your credit card, and to your home loan, though not directly. The FED does not decide your banker's lending rate. Private and Government Bond Rates do that, but FED easing will result in lower Bond rates and that means – Yay! Lower cost of borrowing to buy a new home. *PCE 2.8 – lower interest at the gate.*

The 30 year fixed rate for a home loan is now below 7%, and has dipped below 6.5% in the last month or so. Expect this rate to seriously settle into the 5.5% to 6.5% range as the year progresses. Lower home loan interest rates will fuel the already active real estate market and add new homebuyers that can afford to borrow more money.

The shortage of inventory (homes for sale) will continue through 2024, and more buyers will mean that prices will certainly not go down. The value of homes and condos in Anchorage, for this and other reasons, will appreciate through 2024, at least by 5% in my opinion.

This is an opinion column, but an opinion founded on serious research. Email or contact me for any questions, or an appointment to discuss your personal real estate situation.

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