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Dave Windsor's 'Financial Commentary'

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FED BETS ON REDUCING DEMAND

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After finally admitting that inflation ran away from them, the FED decided last week to increase rates 7 times this year by 0.25% each round, subject to the war in Ukraine plus any other sudden revelations about the U.S economy. (I seriously doubt there will be 7 rate hikes).

The FED estimated the PCE (Personal Consumption Expenditures) inflation rate at 4.3% for this year and I sometimes think the reason they prefer the PCE is that it will sound better to you. PCE is calculated from different information, and the FED excludes food and energy from it.

The CPI (Consumer Price Index) rate, published 2 weeks ago, and including all your costs of living, was 7.9% over the last year (highest since 1982!) and this is a much more accurate picture of inflation as we know it. Alaskans experienced inflation between 8% and 10% in this extended part of the United States universe.

The FED is betting on cutting consumer appetites by raising rates and surely will, but the question remains, can such an aggressive approach to the demand side be applied without causing an economic recession?

Jerome Powell, in his Press Conference, kept saying 'price stability' (i.e. slowing the runaway inflation train) was the number one goal and that employment would not be affected because there are more jobs available than bodies to fill them at this time.

However, rising commodity prices and supply chain problems will continue to handicap production and, add to that lower demand, and what have you got? A slowing economy with higher costs of production. A slowing economy means jobs go away.

It's a high-wire act and many, including myself, think the FED, that insists it will use 'all its tools' to keep prices stable and achieve full employment, is in trouble here. Time will tell - - - -

Real Estate activity will be similarly impacted this year as momentum shifts. Last year, lower interest rates and pandemic-bound sellers caused home prices to rise between 8% and 12% but this is changing. Existing home sales in the U.S. fell 7.2% in February 2022. The tide is turning.

Higher housing interest rates will slow buyers and, even though post-pandemic inventory will increase, real estate activity will moderate and home values come off their recent peak.

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