nerej
CELEBRATING 55 YEARS

Federal deficit estimate lowered - Good, but not all good

June 13, 2013 - Appraisal & Consulting

All of a sudden it seems, our annual Federal deficit an overall budget problems have been solved! Maybe, maybe NOT. However, major news outlets from New York to Seattle last week reported that the fiscal 2013 expected Federal deficit will fall to $642 billion dollars, about $200 billion shorter than previously estimated. Additionally, the new projections are considerably lower than last year's actual $1.087 trillion dollars shortfall. If it holds, the Federal budget deficit will be the lowest level since 2008, according the Congressional Budget Office (CBO).

The reasons cited for the lower estimate include: higher than expected individual and corporate tax payments made due, in part, to rush to get capital gains at the 2012 tax rate; larger payments from Fannie Mae and Freddie Mac to pay off their debts; budget cuts in the military and Medicare/Social Security; and most importantly a continued improvement in the economy.

If it's true, it's good for the economy and good for real estate. It's just a little unnerving that it's a reversal from only a few months ago when budget watch dogs were lamenting the big collision of the runaway budget train. This worry, of course, was well founded, since we have had one plus trillion dollar annual deficits for the last four years.

On the downside, some have said that it's happening too fast, and might actually slow the recovery on the job front. As the Center on Budget and Policy Priorities Research Group said, "it's good new for the budget deficit and bad news for the jobs deficit". It also may hurt by taking some of the heat off congressional members to make further budget cuts, since they believe it is now possible that the deficit will self-repair through existing cuts and tax hikes. All that said, it takes one more problem out of the economy, at least for the time being, which elimination increases certainty and creates optimism on the part of investors, home buyers, lenders, etc.

Mitigating a budget problem also creates a better atmosphere for the various quantitative easing programs under the Federal Reserve Bank. Combined with low expectations for near-term inflation, running smaller deficits will reduce the risk of having to pay back our loans with inflated dollars. The Treasury Department can continue to issue more debt in the way of notes and bonds, and the Federal Reserve, (among other buyers such as China and Japan), can purchase the debt, keeping the value of the bonds high and the interest rates low. Let's face it: lower interest rates are the number one cause of improving real estate markets. We all know what would happen if those rates move up 50%, say from 4% to 6%.

The take away on this is that the myriad of economic problems and uncertainty of last year are slowly but surely being mitigated. The quantitative easing programs, which arguably have not increased employment, have in fact stimulated other sectors of the economy through the low interest rate environment. There is even talk of the Euro-zone muddling slowly through. And Greece has just had an improvement in its credit rating!

It is all good? No, even though the process looks more manageable over the next several years, there still remain issues of rising health care spending, baby boom generation retirements, and debt service payments eating up large portions of the budget with expected rate increases. It should also make us nervous that the opinion of newscasters has largely moved from depression over deficit to elation over solution, all within the matter of months. We all know that there is still room for downside in this environment, but it is very encouraging that things continue to move in a good direction.

Daniel Calano, CRE, is the managing partner and principal of Prospectus, LLC, Cambridge, Mass.