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Federal open market committee expecting a pause

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The Pause

The federal open market committee of the Federal Reserve Board is expected to pause after the April meeting. On April 30th, FOMC reduced its target for federal funds rate 25 basis points to 2% and discount rate by 25 basis points to 2¼%. Pause is new economic terminology which is appropriate for much of what is occurring or not occurring in the real property markets. Markets are calming, capitalization rates are rising and many market participants are pausing, too. The Mass. economy outpaced the national economy during the first quarter 2008 - 3.2% versus 0.6% GDP growth in the 1st quarter 2008. The current U.S. no-growth economy is apparently experiencing a growth recession which occurs when growth is so low that net unemployment occurs. During this pause, capitalization rates are expected to drift upwards 75 to 100 basis points and some drifting has already occurred.

This so-called pause in activity has been reported in the commercial real estate markets for several months. The credit crunch has been impacting the transaction and financing volume for several months. Locally, leasing activity has also slowed somewhat. The forecasted weakness of the national economy has finally dominated actual economic performance. The Fed action, national stimulus package and a variety state spending programs are expected to kick in during the third and fourth quarters of 2008. The good news for the first quarter for the commonwealth should encourage some local decision-makers who have been pausing; however, few expect the regional economy to continue to defy national trends as dramatically for any extended period.

The 2008 NEEP forecast for the commonwealth is 2.5% annual average growth. Alan Clayton-Matthews of the University of Massachusetts who calculates state economic growth rates reported that business investment held up and demand for medical technology and science products has been growing worldwide. The state added 4,600 jobs during the first quarter while the nation lost 200,000 jobs. Massachusetts employment relies on business spending versus consumer spending to a greater degree than the nation. The state is also less reliant on construction jobs, which have been hurt by the housing slump, than the nation, accounting for 4% of total employment versus 5.3% nationally. Foreign market export sales as reported by the World Institute for Strategic Economic Research, a non-profit research group at Holyoke Community College, increased 21% during the first two months of 2008 versus the same period during 2007.

Jobs drive real estate demand in most property markets. Job growth has been moderate in the local economy and continues to be moderate but sustained. The idiosyncrasies of the local economy which hurt us during the 2001 recession are sustaining us now. However, these trends are marginal in the moderate growth or recession growth environment, albeit consistent with a shallow downturn of limited duration. The stimulus efforts and calming markets combined with local favorable trends continue to support cautious optimism for a moderately, rebounding second half.

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