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## **Forecast - Two per cent! - by David Kirk**

January 14, 2022 - Appraisal & Consulting



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Seasonally and algorithmically adjusted data is spilling forth. The Fed has reported that rate action, guiding inter-bank lending and borrowing, can be expected to increase in 2022 significantly. Other quantitative easing, primarily Fed portfolio purchases, will continue to be reduced, albeit, gradually and cautiously monitored. On December 15, the Fed's updated economic forecast was released, informed by the ongoing pandemic including the omicron outbreak traced to early December. All trends, generally, two percent. With caveats and qualifiers, granular and informative, flexible and cautious. Tongue in my cheek.

The Federal Open Markets Committee (FOMC) December 15 statement included details on quantitative tightening. Fed will reduce the monthly pace of net asset purchases by \$20 billion for treasury securities and by \$10 billion for agency mortgage-backed securities. Beginning in January 2022, the Fed will increase its holdings of treasury securities by at least \$40 billion and of agency mortgage-backed securities by at least \$20 billion. (Presumably, significantly below 2021). All while seeking to maintain stable markets and full employment. Commercial real estate investment and development have benefited from availability and accessibility to capital during the pandemic. Liquidity will be marginally impacted by the quantitative tightening and rate action. Incommensurable, the impact will be a burden. The Fed acknowledges the need to support the flow of credit to households and businesses during the ongoing purchases and holdings of securities.

Let's pull apart the course for two per cent in the Fed's forecasts and its missions for full employment and stable markets, and targets for inflation. Recognition for adjusting for COVID-19 which has increasingly become the future as much as the past, the normal is evolving around the economy that has evolved and that has pushed toward the future rather than pulling from the past. In no particular order, unemployment continues to be 3- 4%, not 2% in 2022 and longer run. Economic growth, or GDP, strikes 2% in 2023 and thereafter, as does the Fed rate. Inflation stabilizes at 2% in 2023. Because of COVID-19 and global impacts, 2022 draws an uncertainty and range of expectations that boggle the amateur. For 2022, unemployment 3.5-4%, GDP 3.5-4%, Fed rate 1.5%, inflation 3.5%. The range is reconcilable with range of anecdotal reports in the Fed BEIGE BOOK released December 15. These reports are from each of the (13) federal reserve districts, collected and collated by the federal district presidents who vote and forecast for the Fed forecast. And yes, the anecdotal reports from the Fed Districts range from moderate to modest economic conditions and outlook.

Stability is a good start. Preparedness enhances the future and underwrites the risks. Together, they justify a certain predictability, if not certainty. And they encourage risk taking which is how we got here and we will get there! COVID-19 is not a caveat, it's a given. Climate change as well.

Another wave after this one. Surf is up and there are lots of boards in the water. The rides are good. Preparation, readiness and care are evermore simply important. New tides and currents. Nimble and agile. Best for 2022 and beyond. Be well, kind and caring. Do the stretch!

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