



Will Inflation Impact Interest Rates?



Big Record Year?

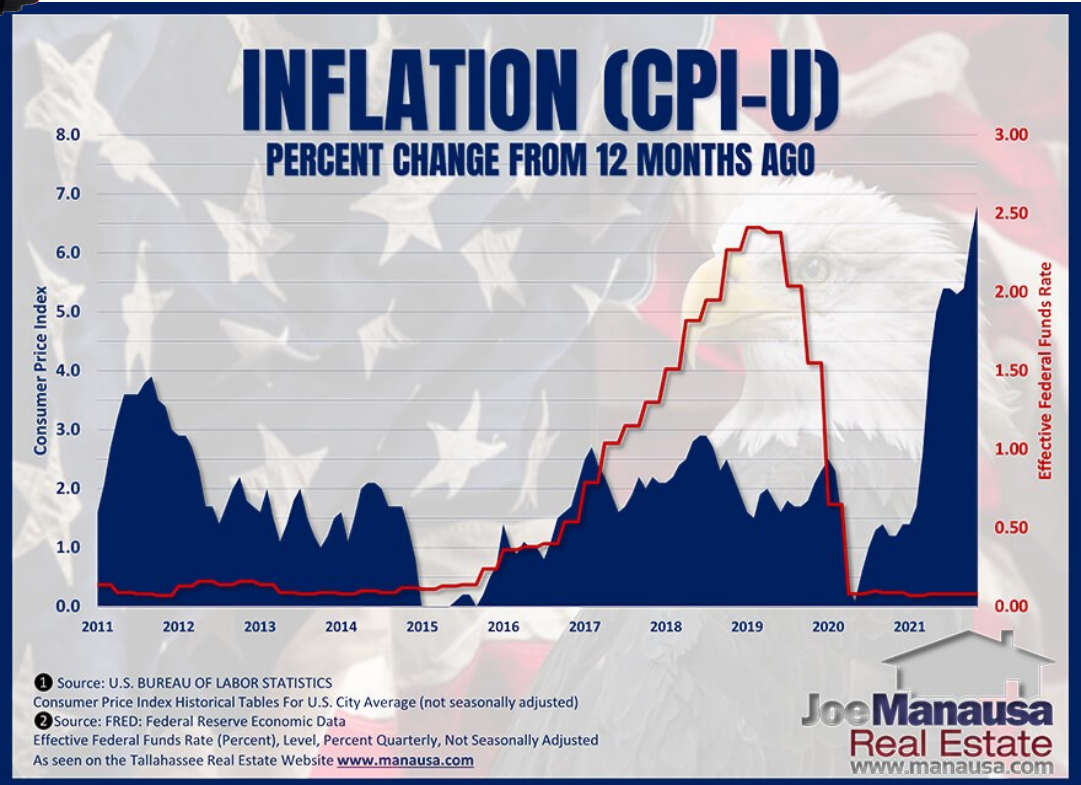


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We know there is inflation in real estate right now. Any prospective buyer or tenant will tell you it is crazy out there. But how about the rest of the economy? Have you been keeping up with the change in the inflation rate and how the Fed is responding?

Our Federal Reserve Board controls monetary policy and serves to keep stability in the economy. As an oversimplification, they use interest rates as a device to speed up or slow down the economy, based upon what they are seeing with inflation.

This graph shows two separate measurements. On the left side, we measure inflation in the blue shaded area. On the right side, we record the Fed's response (the effective Federal Funds Rate). Historically, when the blue

starts going up, the red will rise. When the blue starts to decline, the red will fall. But is that what we are seeing now?

Inflation, the blue area, is rising towards 7% year-over-year growth, yet the Fed Funds Rate hasn't budged. Just look how much higher the blue area (inflation) is right now versus any time in the past ten years. Inflation is running higher. I have said this before, but it is worth repeating. The Fed is trapped right now. They have competing interests. They need to raise the Fed Funds Rate to cool the inflating economy. But at the same time, they know if they raise rates rapidly, they could shock the economy and slow or kill the recovery for the remaining sectors. They certainly would put a freeze on buying in the housing market. So they hold and claim that this spike in inflation is not real. I'm not buying it.

