CUSHMAN & WAKEFIELD

Federal Reserve Interest Rate Cut:

FOMC unexpectedly lowers federal funds rate by 50 basis points

March 2020

WHAT HAPPENED?

On March 3, the Federal Open Market Committee (FOMC) held an unscheduled meeting and announced a reduction of the target range for the federal funds rate from 1.50%-1.75% to 1.0%-1.25%.

Here is FOMC statement:

- "The fundamentals of the U.S. economy remain strong. However, the coronavirus poses evolving risks to economic activity. In light of these risks and in support of achieving its maximum employment and price stability goals, the Federal Open Market Committee decided today to lower the target range for the federal funds rate by 1/2 percentage point, to 1 to 1-1/4 percent. The Committee is closely monitoring developments and their implications for the economic outlook and will use its tools and act as appropriate to support the economy."

- Concerns about the potential economic impact of the coronavirus increased during the last two weeks as the virus has spread, and global equity markets have swung wildly (see our report Coronavirus: Impact on global property markets). The financial markets initially interpreted the Fed's actions negatively as perhaps a "panic move". Stock market indexes in the U.S. fell sharply the day the Fed announced the surprise cut. However, global equity markets did shows signs of stabilizing and even rallying in spots the next day.

- As the FOMC noted in its statement the fundamentals of the U.S. economy remain strong. The committee is responding to the shift in financial markets that saw the 10-year Treasury note yield fall sharply below the federal funds rate. When short term interest rates are well above long term rates, it can reduce the availability of capital and slow economic growth. We believe that this concern was one of the key drivers of this surprise policy move.

- The Fed is not alone in taking action to either address the current impact, or to get ahead, of the potential economic fallout caused by the coronavirus. Other central banks – Australia, Malaysia, Indonesia, Singapore and others – have also stepped up support. The People's Bank of China is also stimulating aggressively through monetary and fiscal policy measures.

- The Fed has more dry powder. If needed it can cut rates again, provide forward guidance to signal lower rates for longer, use quantitative easing, ease credit standards, and possibly deploy other tools.

- Admittedly, it is unclear how impactful some of the measures will be at supporting the economy given that the Fed's measures mainly stimulate demand, and the central issue with the virus is that it is causing both supply and demand disruptions, but nevertheless, the Fed still has many levers it can pull. Further fiscal policy is thought to have ample room to stimulate demand as well.

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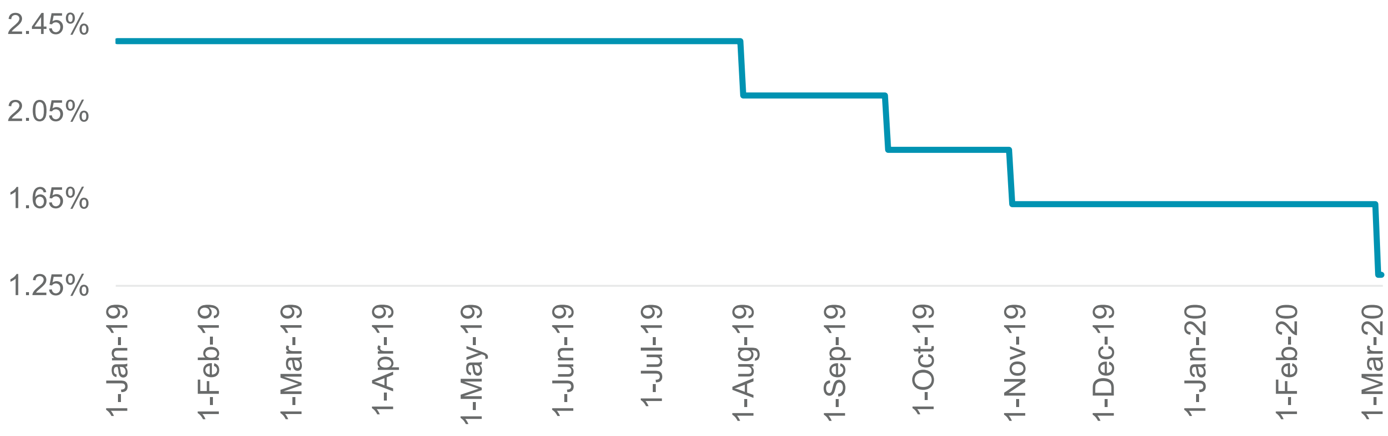
WHAT IT MEANS FOR CRE:

- It's important to note that property markets are not the stock market. They move more slowly and are driven by leasing and economic fundamentals. We will not know the ultimate commercial real estate impacts of the coronavirus for several more weeks or months.
- The feedthrough impact of the FOMC action will also take some time to gauge. Until we see some hard evidence one way or the other on the economy's performance it will be premature to draw conclusions about the impact of the FOMC's action.
- What the Fed has done is show it is ready to act as needed to respond to changes in the economic and financial environment. We think this is a positive development for both the economy and for commercial real estate.
- In summary, we interpret the Fed's recent move as a net positive for the property markets. It should help support the economy through this difficult period, reduce borrowing costs, and help to ensure continued stability for the property markets.

FEDERAL FUNDS RATE



Source: Federal Reserve Board

KEVIN THORPE
Chief Economist
Global Head of Research
kevin.thorpe@cushwake.com

REBECCA ROCKEY
Economist
Global Head of Forecasting
rebecca.rockey@cushwake.com

KEN McCARTHY
Economist
Americas Head of Applied Research
ken.mccarthy@cushwake.com