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Fed Announces Biggest Rate Hike Since 1994

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(UPDATED WITH ADDITIONAL INFORMATION)

Ending weeks of speculation, the Federal Reserve on Wednesday announced it would raise the federal funds rate by three quarters of a point, the steepest increase since 1994, CNBC reported. The rate-setting Federal Open Market Committee took the level of its benchmark funds rate to a range of 1.5%-1.75%, the highest since just before the pandemic began in March 2020.

Additionally, FOMC members indicated a much stronger path of rate increases ahead to arrest inflation that is moving at its fastest pace since December 1981, according to one commonly cited measure.

According to the "dot plot" of individual members' expectations, the Fed's benchmark rate will end the year at 3.4%, an upward revision of 1.5 percentage points from the March estimate. The committee then sees the rate rising to 3.8% in 2023.

Fed officials also significantly cut their outlook for 2022 economic growth, now anticipating just a 1.7% gain in GDP, down from 2.8% from March.

However, the FOMC's statement accompanying the announcement painted a largely optimistic picture of the economy even with higher inflation, CNBC reported.

"Overall economic activity appears to have picked up after edging down in the first quarter," the statement said. "Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures."

Unsurprisingly, the news made an impact on commercial real estate. "Today's 0.75% rate hike by the Federal Reserve is sending a shockwave through the real estate capital markets," said Jack E. Carroll, managing director with Tauro Capital Advisors in Los Angeles. "Several bridge and construction lenders have already communicated a halt in lending for the foreseeable future.

"However, not all capital sources are out of the market," he continued. "We expect many capital sources to update their lending parameters and strategies. Aside from raising fresh capital, existing loans will be impacted as well. In the past couple of months, we saw many floating-rate lenders requiring little to no interest rate protection (in the form of interest rate caps). This means a lot of borrowers are going to feel this interest rate increase. Further, an increase in borrowing costs could trigger debt covenants so it is imperative that borrowers understand those risks."