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# Rate hikes for inflation seem far off

By Lidia Dinkova

To help the US emerge from the recent economic recession, the federal government has for a while subdued interest rates.

John Cosculluela, CEO and president of Miami Lakes-based full-service mortgage lender American Bancshares Mortgage, told Miami Today that inflation was at 2.1% between May 2013 and May 2014, according to data released in June by the US government. That's lower than the 2.5% rate that the federal government has said needs to be achieved – along with an unemployment rate of less than 6% – to prompt it to increase interest rates.

"In other words, we are still at a recession," Mr. Cosculluela said. "The economy is still performing below the Federal Reserve's expectations."

Assuming that the inflation rate increases – along with interest rates as a result – it's likely that economic growth might be hindered.

"Rising interest rates will slow down the consumer sector of the economy," said Jim Fried, managing director at Miami-based real-estate brokerage and investment firm Aztec Group. "You are spending it [money] on interest instead of spending it on the washing machine.… There will be less discretionary income because they are spending it on interest costs."

Interest rates rise as inflation does because to make a profit, a bank includes in its interest rate a core rate – or how much it needs to make a profit – as well as a rate that's adjusted for inflation.

A rise in interest rates could potentially hurt banks as well, Mr. Cosculluela said. If banks have to adjust for higher interest rates, then demand for borrowing would fall.

"That is how a bank makes a living – by lending money," he said. "A bank doesn't make money unless it lends money."

There is one sector that would profit from an increase in inflation: commercial real estate.

"Commercial real estate is a safe haven when interest rates are rising. Why? Because they are physical assets," Mr. Fried said.

The standard in commercial real estate leases is to negotiate annual payments that would compensate for rising inflation.

Ultimately, however, the consumer would end up paying the extra cost, Mr. Fried added.

South Florida's booming high-end residential real estate industry, namely condominiums springing up on prime waterfront property, probably wouldn't be impacted by an increase in interest rates because most condos are bought with cash.

Lane DeCost, senior vice president and director of investments at Coral Gables-based Gibraltar Private Bank & Trust, said part of what could be contributing to the present drag on consumer spending are the disruptions in the Middle East, which might increase transportation prices in the future, as well as an ongoing drought in our western states, which has increased the cost of fruits, vegetables and beef.

"Most economists, and the Fed [Federal Reserve], view such increases as transitory," Mr. DeCost said. "They also act as a drag on other consumer spending, potentially sapping strength from other areas if the economy."

Mr. DeCost added that the Federal Reserve has indicated that it won't begin to raise interest rates until mid-2015 at the earliest.