Good news is seen in rate increase

Local money experts expect 1 or 2 more in ’17

By David Hendricks STAFF WRITER

Tom String-fellow of Frost Investment Advisors thinks there will be two more increases.

The Federal Reserve’s Open Market Committee quarter-point increase in interest rates last week is a good sign, signaling the U.S. economy had kicked into a higher gear, San Antonio economists and money managers said.

Frost Investment Advisors President Tom Stringfellow said the move indicates the U.S. economic expansion that started in 2009 has achieved “traction.”

Although U.S. economic growth “slackened in the first quarter, it is still strong enough for them (the Fed) to think, ‘We’re on the right track,’ ” added Paul Martin, managing partner of Martin Capital.

The Fed’s projection of 2 percent U.S. economic growth in 2017 is “sound,” said Jeanie Wyatt, South Texas Money Management CEO and chief investment officer.

“It’s a reasonable number. The Fed will likely have a tightening strategy for all the right reasons,” Wyatt said.

The Federal Reserve raised interest rates for the third time since 2009, saying the domestic economy remained on a path of slow and steady growth. The decision increases the Fed’s benchmark rate to a range between 0.75 percent and 1 percent.

The Fed said in a statement that the U.S. economy continued to chug along, expanding at a “moderate pace.” Employers are hiring, consumers are spending and businesses — the laggards in recent months — are starting to spend a little more, too.

The Fed will raise interest rates again this year, but it remains uncertain how many increases there will be.

Stringfellow said he expects two more increases this year. “Rate hikes will be necessary to level out the growth trend,” he said. But the timing will depend on federal government trade negotiations and federal budget fiscal policies that Congress may change this year, he said.

“If I were a betting person, I would say one more time this year,” Wyatt said, citing inflation and employment trends later in the year. She also said legislation later in the year on tax reforms could push back a rate increase until the fall or early 2018.

With more interest-rate increases likely, “companies should be planning their purchases sooner rather than later. Businesses should look at their plans and be ready for higher interest rates,” said Richard Perez, San Antonio Chamber of Commerce CEO and president.

Although the interest-rate boost signals a strong and growing economy, Perez said, “it may put a chill on auto sales and mortgages. But the effect will be negligible over time.”

Mortgage rates did not immediately change last week, said Jeff Cameron, First California Mortgage Co. senior loan adviser and branch manager in San Antonio.

“There’s no signs pointing to major changes right away, and for clients who think they’ll need a loan in coming months, it’s smart to apply now to see how you qualify and explore options to customize to your situation. If there is movement down the road, a half-point or a point change in rates can make you regret not locking in earlier,” Cameron said in an email.

Stock prices have risen about 12 percent since Donald Trump’s presidential election in November. That likely will cool off, the money managers said.

“I’m still bullish on a short-term basis, but the market is still driven by corporate earnings and the economic outlook,” Martin said. If Trump succeeds in enacting a lower corporate tax rate and an infrastructure spending plan, “I will be anticipating some (stock price) action. Lower taxes go straight to the bottom line and will help corporate earnings,” Martin said.

The Washington, D.C.-based Economic Policy Institute called the interest-rate increase “disappointing,” because the think tank believes the economy is not growing strong enough. The institute also said the rate increase robs millions of workers the possibility of higher wages by slowing economic growth that would result from a tighter labor market.

But Stringfellow said the labor market is influenced more by the number of people looking for jobs, the labor participation rate, than by interest rates.

“If those outside the workforce come in, wage pressures get tamped down,” Stringfellow said. “Right now, the No. 1 fear of employers is not wage inflation but finding qualified people.”

Stringfellow said February’s national employment growth of 235,000 jobs “will start leveling off and start trending down,” partly because the labor market is running out of skilled workers.

Wyatt said she will watch housing sales more than retail sales for clues about U.S. economic health. “It just continues to be a good barometer of consumer confidence and the jobs environment. People can change their spending habits … but people won’t change how they buy a house,” she said.

Martin said he likes to watch leading-indicator indexes. “They remain accurate at predicting the future. The indicators still say the economy is still expanding,” he said. dhendricks@express-news.net The New York Times contributed to this report.