Hotel experts anticipate interest rate cut in December, slower pace in 2025 Fed likely to take wait-and-see approach under new president, Congress

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All eyes are on the U.S. Federal Open Market Committee meeting this week to see if 2024 will have a third cut in interest rates.

The committee meets Tuesday and Wednesday to decide whether to cut the federal funds rate, and if so by how much. It has already cut the rate twice, first by 50 basis points in September and then another 25 basis points in November.

The current federal funds rate ranges from 4.5% to 4.75%.

Hotel owners and investors have eagerly awaited interest rate cuts to lower the cost of capital to spur more hotel deals, development and refinancing opportunities. While the cuts so far have been the correct moves at the time, hoteliers said, further cuts are needed to create a more sustainable environment for business.

Both JLL's Kevin Davis and Dan Peek said they expect the Fed will cut the federal funds rate by 25 basis points, basing their prediction on the 80-plus percent chance the futures market is giving the cut.

There's always push and pull, said Peek, who is president of JLL Americas Hotels & Hospitality group. The Fed has to balance growth, inflation and jobs. It has a dual mandate, and that's not going to change.

Having a 2% goal for inflation is great, but there's tension out there, he said. Looking at the varying levels of income, even though inflation has cooled, people are still paying significantly more for goods and services than they were just a few years ago.

After this cut, the Fed will probably wait to see what the new presidential administration does before taking any further action, said Davis, who is Americas CEO for JLL Hotels & Hospitality. The path to 350 basis points or a 3% secured overnight financing rate will probably be a bit more protracted unless the data suggests there's a clear slowdown in the economy.

"I think the Fed is going to continue to cut, but I think you could see them go on hold just to see what legislative policy comes out of the new Congress," Davis said, adding a top priority seems to be a new tax bill.

A review of the forward curve in the futures market shows interest rates are still higher for longer, Peek said.

"It's a fair place — wait and see — because the economy's growth, the underlying growth looks fairly robust," he said.

For hotel owners and investors, the path of recent rate cuts and current conditions have proved to be a positive development.

Hotel industry players are increasingly optimistic as fundamentals have improved in recent weeks, said Michael Bellisario, senior hotel research analyst and director at Baird, via email.

"The debt market remains strong, spreads continue to tighten, [commercial mortgage-backed securities debt] is widely available, and more banks are lending," he said. "More clarity on the path of interest rates should further accelerate transaction activity heading into 2025."

An economist's perspective

The Fed will cut rates by a quarter of a point at the next meeting, said **Bernard Baumohl**, chief global economist at the Economic Outlook Group. Traders are assigning a 95% probability the Fed will make such a cut.

“The market is fully convinced, apparently, that the Fed is going to reduce rates,” **Baumohl** said. “My opinion has always been that they should pause [this week], and the reason for that is that inflation seems to be going in the opposite direction that the Fed wants.”

The Fed’s favorite indicator, the personal consumption expenditure price index, has been moving up for a while, and the most recent numbers from the consumer price index surprised people with its acceleration, he said. The U.S. economy is picking up speed this quarter, and for the second and third quarters, it grew about 2.8% on average. The expectation now is growth above 3%. All this data shows that prices are increasing more rapidly than what the Fed says it wants to see, and the economy is exceeding the speed limit, achieving 2% growth to avoid triggering inflation, **Baumohl** said.

“For all those reasons, one would have expected the Fed actually to pause in December, but it appears that the Fed wants to do one more cut in interest rates before we get a whole new administration in the White House and then with all of the uncertainties that comes with it, regarding policies on taxes, on trade and tariffs,” he said.

Looking ahead to 2025, **Baumohl** said he expects the Fed to take a pause, at least in January. It seems there's a natural inclination to take a wait-and-see approach to the incoming Trump administration’s actions. Dramatically increasing tariffs will put upward pressure on inflation, and if there are tax cuts on personal income, people will have more money to spend.

"Under those circumstances, that could turbo-charge demand, which will also heat up prices," he said.

There is a lot of uncertainty and a lot of unknowns at this moment, but taking all of the Trump campaign promises into account, it's difficult to imagine inflation coming down and sticking to 2% growth, **Baumohl** said. That would lead to the Fed taking a pause in cuts next year.

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