



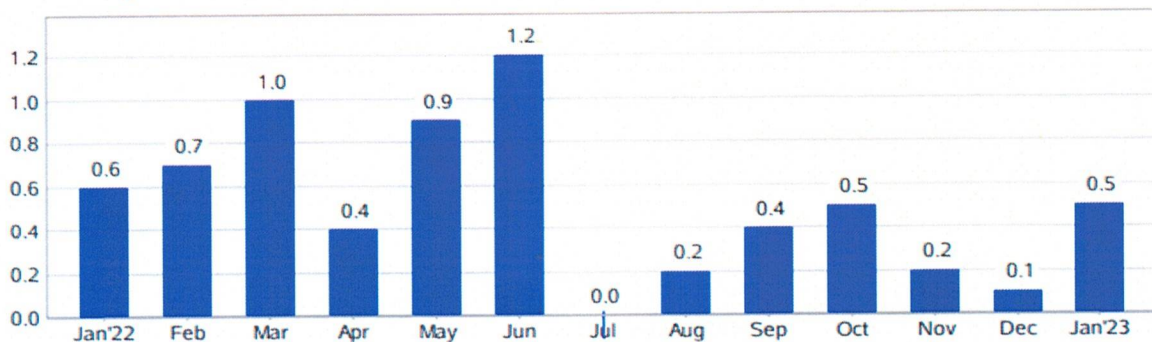
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More Inflation Stuff

Most look to the U. S. Bureau of Labor Statistics' monthly CPI release to update them on current inflation. Looking behind the headline number may surprise you.

Let's look at annualized inflation (CPI) over the first 6 months of '22 and over the last 6 months ending in Jan'23. (See below). Tightening started in March'22, and inflation peaked in June, dropping to 3.8% (annualized) over the last 6 months.

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Jan. 2022 - Jan. 2023
Percent change



This drop is despite shelter costs continuing to rise (up 0.8% in Jan'23). It's worth noting that, according to the latest update from the Bureau of Labor Statistics (BLS), "Shelter" accounts for over 1/3 of headline CPI.

To measure shelter, they ask two questions:

1. To Homeowners: "If someone were to rent your home today, how much do you think it would rent for monthly, unfurnished and without utilities?"
2. To Renters: "What is the rental charge to your [household] for this unit including extra charges for garage and parking facilities?"



The first question assumes homeowners pay themselves to “rent” their own home from themselves. This is called “Owners Equivalent Rent”. Even if this concept was defensible, (it isn’t, nobody pays rent to themselves), any answer is no more than a guess made by homeowners who may have no experience setting rental prices.

The second question “Rent” is only asked every 6 months. Those asked in January are again asked in July; Feb/Aug, Mar/Sept, etc. Rents don’t change very often and the folks at the BLS apparently have better things to do. The answers are accurate but there is always a big lag.

The index for shelter was by-far the largest contributor to January’s 0.5% increase, accounting for more than half the rise. The only accurate shelter data collected is “rent” and the rent question was asked 6 months ago. What has happened to rent in the last six months? According to a WSJ article dated Feb 27th, 2023, apartment rents in every major metropolitan area have fallen six months in a row. New supply is also a factor. More apartment units will come online this year than in any single year since 1986. According to Real Page, in January only 52% of tenants renewed leases. These downward pressures in inflation have not yet been captured by CPI, but they will be.

January’22 to June’22 headline inflation annualized 9.6%. August’22 to January’23 was 3.8%. The really big numbers last year will be rolling off month-by-month as we get new data. Shelter makes up over 1/3 of CPI. Rents are down 6 months in a row, and supply of apartments is skyrocketing.

Inflation should fall dramatically later this year. The only question is what is Federal Reserve Chairman Jerome Powell going to do?

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