



Rodney's Take

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Gimme Shelter...And Some Gas

The inflation rate dipped from 9.1% in June to 8.5%, so everything is right with the world! Never mind that savers still earn 0.1% in their deposit accounts, long-term bond buyers are earning a negative 5%, and workers are still losing 3% to inflation. The big factor dragging (or lightly weighing) down the numbers last month was energy. That might not be much of a help in the months to come, which I'll get to. But before that, we have to address the dead weight in the inflation index... shelter.

More than a year ago we started talking about the meteoric rise in home prices and how that would eventually flow into inflation for shelter. If you own your home and don't plan to move, good for you, but for the 35% of adults who don't own, annual rent increases are a thing. Unlike trimming your grocery bill by switching meat cuts or choosing to use your car a bit less, when possible, we all need somewhere to live. And the landlord expects a rent check every month.

Apartmentlist.com reports that national rents increased 17.6% for all of 2021 and are up another 6.7% so far in the first seven months of 2022. While the pace is slower than last year, it still means rents are up almost 25% since the beginning of 2021! This pain doesn't flow steadily through the economy like gasoline, which we buy every few days as needed. Instead, tenants get shell-shocked when they renew their lease once a year, and the big season is upon us. RentHop reports that the worst months to lease are between May and October, right around the back-to-school season, when college kids are

searching for space and young adults are going out on their own. Right now, millions of people are signing leases that cost on average 12% more than they did last year, even though average annual earnings have increased just under 6%. That's going to hurt.

The U.S. Bureau of Labor Statistics reported last week that shelter costs increased 0.4% in July and 5.5% over this time last year. As higher rents work through the system, don't expect the slog higher to end anytime soon. Because this expense accounts for roughly 30% of the average consumer's budget, shelter will be the anchor that pulls inflation higher for a while, no matter what else happens.

Which brings us back to energy.

Gasoline prices fell 7.7% last month, which made a bunch of headlines. Unfortunately, oil prices ticked higher at the end of last week. OPEC+ estimated that gasoline demand will fall in the months ahead, so there's no need to raise production. In fact, the cartel is likely to cut production. Apparently, earning around \$100 per barrel on oil is really good for their wallets, no matter how much Western government officials complain.

Given the huge run in prices over the last 12 to 14 months, the base effect of rising prices last fall will lead to some moderation in prices in the months ahead, but don't confuse this with "falling" prices. The world is still screwed up, mostly because of energy and a madman in Russia, and you can bet that he's planning a cold-weather-related surprise for Western nations that will wash up on our shores in the form of higher energy prices.

Protect your profits, and be careful.

Rodney

Got a question or comment? You can contact us at info@hsdent.com