Rodney's Take

September 26, 2022

Peak Inflation?

In early 2021, I noted that rising housing costs would lead to higher inflation, but I had no idea that the combination of commodity prices, supply chain disruptions, and demand fueled by COVID stimulus funds would push prices up nearly 10%. I thought prices might come down during the middle of this past summer as the big price jumps from the summer of 2021 fell out of the calculation, the so-called base effect. No luck. Energy prices jumped, leading to higher prices for everything that uses energy, including food, electricity, manufacturing and delivering goods, etc. But there is one area where we might get some relief and as soon as this month: real estate.

While I think real estate might take a breather, I'm not convinced it will get crushed. This isn't 2007, and not everyone has three condos or homes under construction that they have to sell. As we saw from existing home sales last month, sellers are pulling their offerings instead of lowering prices that much, because they aren't required to sell and they currently have low-cost mortgages. The median sale price of an existing home has fallen about 6% from the high in June. Builders reduced the number of permits they applied for because they see the downturn. Nationally, rents are up 7.2% this year, higher than the annual norm before COVID but a drop of almost 60% from the 17.6% gain last year.

While real estate isn't the only thing that matters, it does count for more than 30% of the Consumer Price Index and is part of core inflation. If easing prices for existing and new-home sales along with a lower growth rate for rentals make it into the U.S. Bureau of Labor Statistics inflation calculations for

September, we could get a lower inflation report surprise that would boost equities. It might take longer than that, past the Fed's early November meeting, for these numbers to make a difference, but they should be weighing on overall prices before the December meeting, which would give the Fed something to think about.

While this might sound like some holiday season wish, it won't sound good to everybody.

The National Association of Realtors (NAR) reports that there are three million real estate brokers in the U.S.; 1.55 million of these belong to the NAR and, therefore, are real estate agents. Since 2019, the number of agents increased by more than 150,000, as real estate prices and transactions shot to the moon, but today, things are a bit different. The number of existing homes for sale just turned lower and fell to 1.28 million. If each real estate broker had just one listing, only 40% of the three million would have something to sell. Obviously, some of the others would represent buyers, but with mortgage rates nearing 6.5% that group is narrowing quickly.

If we're looking for one group that likely will get hollowed out as we go through this painful part of the economic cycle, real estate brokers and others associated with the field (appraisers, inspectors, and certainly mortgage brokers) are at the top. As for the rest of us, a gradually declining and quiet-but-not-crashing real estate market could be just the thing to take the sting out of inflation and give the Fed a reason to pause.

Rodney

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