

HRRE hot topics May 17, 2021

INFLATION

Inflation has been head-line material all year long, but as more of a threat than actuality. Not now. The most recent Consumer-Price Index (CPI) for April 2021 jumped 4.2% from one year ago -- and that's significant! That's the single largest 12-month increase since 2008. March's CPI was up 2.6%...unsettling but manageable. April 2019 was 2.2%.

Please remember where we were one year ago -- our world "appeared" to be collapsing due to Covid, and prices for just about everything were falling as well as companies laying off workers (the lucky ones got to work from home). The biggest fear was uncertainty, and when that happens people and businesses pull back hard to wait for the dust to settle.

April 2021's CPI report is problematic because it uses prices from one year ago to compute inflation. In March-April-May of 2020, prices dropped in response to Covid unknowns. Now, one year later and on the economic rebound, this April's CPI report is skewed and may not be entirely accurate. Time will tell, but the trend right now is inflation...and just how much?

The importance of these reports depends upon what slice of the economy you're focused on. For real estate, inflation could mean higher mortgage costs and slower home sales, but so far that's not been the case. Rates ending 2020 at around 2.7%, and today they are bouncing around 3.3%, fluctuating hourly. That nervous fluctuation is the market's uncertainty about rates and where they will go.

Higher rates would normally cool home sales, but not now. Many home buyers are desperate to buy after losing out to others after failed multiple offers to buy. Some are doubling-down their buying efforts think the "interest rate train is leaving the station" and they want to get onboard -- now!

However, a growing number of buyers are renting or returning home to weather out the storm. Their thinking, right or wrong, is the market will re-balance itself and prices will fall from today's overheated sales. The Las Vegas odds makers think they are wrong, and I agree. This real estate market has "strong legs" and will run for a year or two. If the market stumbles a bit, prices won't drop that much and rates might be higher. As Clint Eastwood said in his *Dirty Harry* movie, circa 1970, "Well, punk, do you feel lucky today?"

Van