

The Time for Rate Cuts Has Arrived

The Fed is expected to begin cutting rates this week. CME FedWatch shows a 100% probability of a rate cut with the market now favoring a 50 basis point cut. At the end of last week expectations were evenly balanced between a 50 basis point cut and a 25 basis point cut. Only a week ago, market expectations heavily favored a 25 basis point cut. August Consumer Price Index (CPI) and Producer Price Index (PPI) reports both showed year-over-year inflation is slowing, but CPI remains stubbornly high, largely due to the methodology used to calculate shelter costs. Reported CPI shelter costs rose 5.2% year-over-year as of August, resulting in a 2.5% increase in headline CPI.

Back in April, Roofstock released a research report in which we adjusted March inflation data for more current, market-

based measures of rent from Rental Genome and other sources. This analysis showed year-over-year CPI growth of 2.3% versus a reported 3.5%. We have updated that analysis in the accompanying table. After our shelter adjustments, year-over-year August CPI growth was below the Fed's target, at 1.8%. Our research shows shelter inflation is running at 3.0%, compared to the 5.2% increase reported by the BLS.

How the Fed views the latest inflation data and how strongly they are considering market-based measures of rent remains to be seen. Using the Phillips curve to assess monetary policy relative to current labor market conditions and our inflation measure would point the Fed to a 50 basis point cut. As I noted recently, the labor market has been

Adjusting for Market-Based Rent Growth Shows Inflation Has Fallen Below the 2.0% Target

YOY CPI & CPI Component Growth – August 2024

	CPI Component Weights	Growth-BLS Reported	Growth-Roofstock Adjusted Rents
CPI ex-Shelter	63.6%	1.1%	1.1%
Shelter	36.4%	5.2%	3.0%
Rent of Primary Residence	7.7%	5.0%	1.6%*
Lodging Away from Home	1.5%	1.8%	1.8%
Owner's Equivalent Rent	26.8%	5.4%	3.4%**
Tenant's & Household Insurance	0.4%	3.6%	3.6%
CPI Overall	100.0%	2.5%	1.8%

Source: U.S. Bureau of Labor Statistics, U.S. Census Bureau, Yardi Matrix, Roofstock Rental Genome, Roofstock Research

*Rental Genome rent AVM for renter-occupied 3-5 bedroom homes, U.S. Census Bureau, Yardi Matrix, Roofstock Research estimates

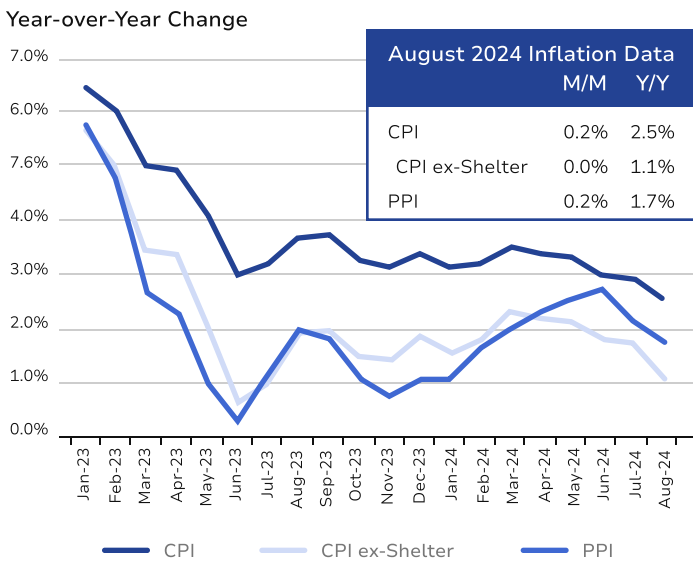
** Rental Genome rent AVM for owner-occupied 3-5 bedroom homes

consistently slowing, with rolling three-month average job gains decreasing for the past five months and rolling three-month average unemployment rising for the past seven months. The Fed has made it clear they want to avoid significant deterioration in the labor market and their margin for error here is narrowing.

A 25 basis point cut could still be in play considering the Fed's desire to show conviction that its policy stance has been appropriate. It will also not want to appear to be tipping the scales prior to the upcoming presidential election. Fed governors may also be concerned about reported shelter inflation and the risk of acceleration in those numbers if they cut too quickly. A low unemployment rate and rising wages would give them some cover here.

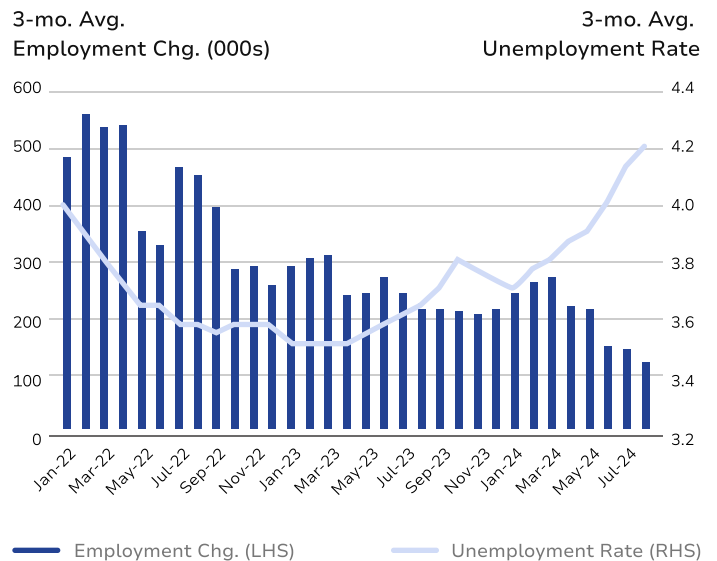
In any case, the time for rate cuts has arrived.

Reported Shelter Inflation is Keeping Headline CPI Elevated; Excluding Shelter, Inflation is Below the Fed's Target



Source: U.S. Bureau of Labor Statistics, Roofstock Research

The August Employment Situation Report Showed the Labor Market is Steadily Slowing



Source: U.S. Bureau of Labor Statistics, Roofstock Research

The April report on inflation from Roofstock Research can be found [here](#).



Questions? Please contact:
Paul Briggs, CRE
 Head of Research & Investment Strategies
paul.briggs@roofstock.com

To receive future Roofstock Research publications in your inbox, [subscribe here](#).

This information is intended for educational purposes only and is not financial, investment, legal, or tax advice. Roofstock is not your advisor or agent. Please consult your own advisor for guidance. Although Roofstock provides information it believes to be accurate, Roofstock makes no representations or warranties about the accuracy or completeness of the information contained in this article.