



Dave Windsor's 'Financial Commentary'

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Is Real Estate Inflation Transitory?

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After the "transitory" arguments late last year regarding the FED's proclamation that inflation was not out of control and would pass, we now see that Jerome Powell was completely wrong.

With a target rate of 2% (PCE) maximum inflation the latest data reveals that we are living in a 6.3% (PCE) environment and the FED is desperately trying to rein it in by dramatically accelerating interest rates.

Note: While the FED likes PCE (Personal Consumption Expenditure) I assure you that your personal cost of living is rising at least 8.3% per annum, as indicated by the more candid CPI (Consumer Price Index). Increases in food, shelter, airline tickets and new vehicles hit Americans really hard.

The aggressive rate program which, so far this year, includes the quarter point in March followed by the half point in May is expected to include further half point

increases until the Fed Funds Rate is as high as 3.5% - i.e. the rate at which Financial Institutions may borrow from one another. The rate has been close to zero for the last 2 years.

However, the Fed will need to back off from this extreme rate hiking because recession will be its consequence before inflation is under control. Inflation will remain excessive for years to come. We will learn to live with it, painfully.

In fact, the only inflation that is transitory is that going on in our own local real estate market. Prices have soared between 10% and 15% in the last year and, in fact, prices exceed real value in my view. People are paying too much for a home, new or used.

This inflation is transitory. Prices will moderate later this year because the consumer is starting to hurt from the other 'non-transitory' inflation.

If you can avoid purchasing right now, you should.

Someone may be telling you to hop onto the wagon before 5% interest rates become 6% but analysis of the bond market reveals that we may be nearing a leveling out of home borrowing rates which do not necessarily track Fed rates.

Why compete in the 'Multiple-Offer' game of buying a home which puts the purchase cost out of touch with reality? Take a breather, go fishing or something. Your inflation, as in cost of living from gas to food, is not transitory - but the accelerating prices of a new home are transitory.

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