

Inflation and Rising Housing Costs Show Signs of Cooling

US Economy



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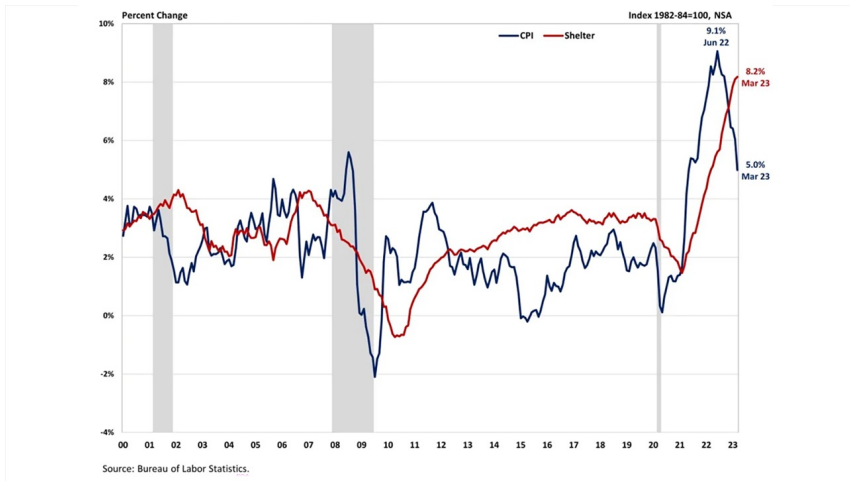
The overall inflation rate, along with the cost of housing, showed signs of cooling in March, with the shelter index (housing inflation) experiencing its smallest monthly gain since November 2022. Still, housing in March continued to be the largest contributor to the overall inflation rate, accounting for more than 60% of the increase when excluding the volatile food and energy sector.

The data is also a clear sign that the Federal Reserve's ability to address rising housing costs is limited, as shelter cost increases are driven by a lack of affordable supply and increasing development costs. Additional housing supply is the primary solution to tame housing inflation.

And further Fed tightening of monetary policy will hurt housing supply by increasing the

cost of acquisition, development and construction (AD&C) financing. This can be seen on the graph below, as shelter costs continue to rise despite Fed policy tightening.

Nonetheless, the NAHB forecast expects to see shelter costs decline later in 2023.



[Click here \(https://www.nahb.org/-/media/NAHB/blog/econ-charts/cpi-graph-032023.jpg\)](https://www.nahb.org/-/media/NAHB/blog/econ-charts/cpi-graph-032023.jpg) for the full image.

The Bureau of Labor Statistics (BLS) **reported** (<https://www.bls.gov/news.release/pdf/cpi.pdf>) that the Consumer Price Index (CPI) rose by 0.1% in March on a seasonally adjusted basis, following an increase of 0.4% in February. The index for shelter, which makes up more than 40% of the “core” CPI (core defined as the change in prices of goods and services, except for those from the food and energy sectors), rose by 0.6% in March, following an increase of 0.8% in February.

The indexes for owners’ equivalent rent (OER) and rent of primary residence both increased by 0.5% over the month. Monthly increases in OER have averaged 0.6% over the last three months. These gains have been the largest contributors to headline inflation in recent months.

During the past 12 months, on a not seasonally adjusted basis, the CPI rose by 5% in March, following a 6% increase in February. This was the slowest annual gain since May 2021. The core CPI increased by 5.6% over the past year, following a 5.5% increase in February. The food index rose by 8.5%, while the energy index fell by 6.4% over the past 12 months.

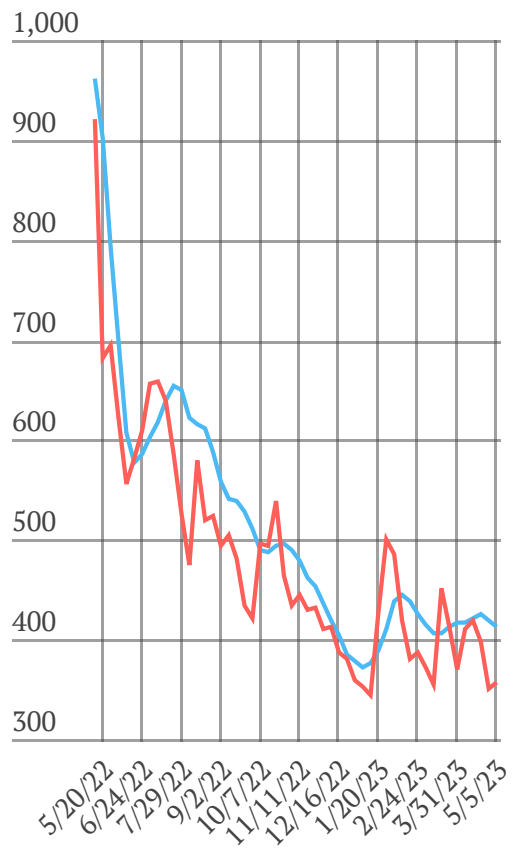
NAHB economist Fan-Yu Kuo provides more analysis in this [Eye on Housing blog post](https://eyeonhousing.org/2023/04/inflation-shows-further-signs-of-cooling/) (<https://eyeonhousing.org/2023/04/inflation-shows-further-signs-of-cooling/>).

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