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Gimme shelter: The lag in inflation for living spaces



Posted on March 7, 2024



CPI +3.2 % Chg. from Yr.
Ago on Feb 2024

Civ. Unemploy. Rate 3.9 % on Feb 2024

10-Yr. Treas. Rate 4.27 % on 2024-03-21

Real GDP +3.2 %, Comp.
Annual Rate of Chg.
on Q4 2023

IP +0.1 % Chg.
on Feb 2024

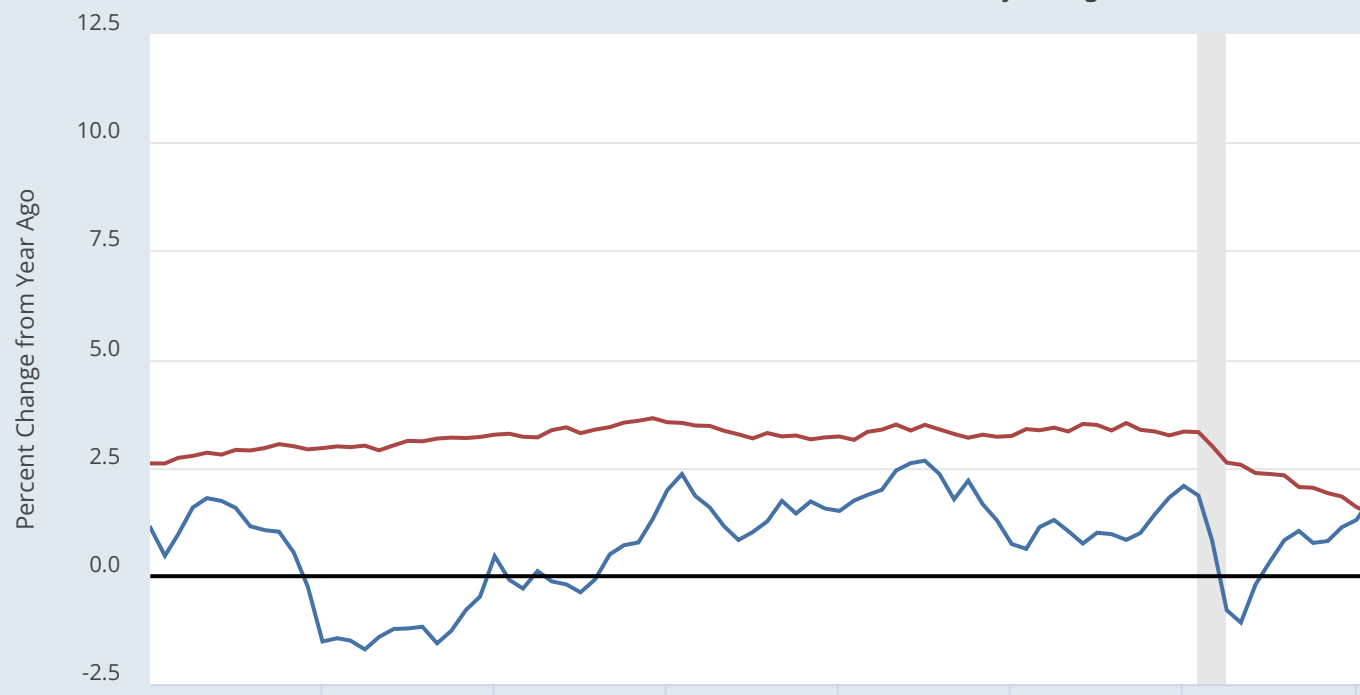
Payroll Employment +275 Chg., Thous. of
Persons on Feb 2024

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FRED — Consumer Price Index for All Urban Consumers: All Items Less Shelter in U.S. City Average
— Consumer Price Index for All Urban Consumers: Shelter in U.S. City Average



In January 2024, overall CPI rose 0.3% on a seasonally adjusted basis—a slight uptick from its 0.2% rate in December. It's still a slowdown year-over-year, but this increase came as an unwanted surprise to observers expecting to see inflation continue to moderate. What's stopping the headline inflation rate from continuing its decline?

The answer, at least in January, was shelter inflation. For January 2024, the shelter index rose by 0.6% and contributed more than two-thirds of the total CPI increase. The above graph shows the year-over-year change in shelter prices over the past decade. It's evident that the trajectory of shelter inflation has been different from the non-shelter components of CPI: "All items less shelter" inflation peaked in mid-2022 and has been declining since, but shelter inflation peaked about one year later in March 2023 and has been declining at a slower rate.

Why is this? Shelter costs have unique characteristics that distinguish them from other goods and services. The shelter component of CPI comprises [rent](#), [lodging away from home](#), and [owners' equivalent rent](#) (OER).

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Rents are sticky. They change only when leases renew or a tenant moves, so it may take some time for those prices to reflect market conditions. OER comes from the same housing survey and is an attempt to estimate what owner-occupied houses would rent for, based on surveying local renters. In addition, these measures are sampled less frequently than for other goods, precisely because they change so sluggishly. This results in CPI shelter data lagging current housing market conditions.

Researchers at the [San Francisco Fed](#), among other places, have tried to incorporate real-time data to predict what will happen to CPI shelter measures. They find that pressure from shelter inflation could ease over the coming year.

How this graph was created: Search [FRED](#) for and select “Consumer Price Index for All Urban Consumers: All Items Less Shelter in U.S. City Average.” From the “Edit Graph” section, click “Add Line” and select “Consumer Price Index for All Urban Consumers: Shelter in U.S. City Average.” In the “Edit Line” section, set units to “Percent Change from Year Ago” for both graphs.

Suggested by [Nathan Jefferson](#).
