CPA Practice Advisor

PAYROLL

U.S. Rent Prices Rise at Fastest Rate Since 1986

Rents rose in the U.S. last month at the fastest pace since 1986, helping to propel overall inflation to a fresh four-decade high.

Jul. 19, 2022

By Matthew Boesler and Prashant Gopal, Bloomberg News (via TNS).

Rents rose in the U.S. last month at the fastest pace since 1986, helping to propel overall inflation to a fresh four-decade high.

An index measuring rent of a primary residence was 0.8% higher in June than the month before, an acceleration from the 0.6% increase recorded in May, according to the Labor Department's report on consumer prices published Wednesday. In the 12 months through June, rents were up 5.8%.

Those costs are soaring across the country as would-be homebuyers get priced out by the fastest-rising mortgage rates in decades and slide back into the overcrowded rental market. But rent growth may be peaking as affordability concerns mount, and a surge in construction of new units is poised to start adding to the available inventory.

The Labor Department measure tends to lag behind other estimates, so it is likely that rent increases will contribute to rising inflation in the consumer price index through the rest of this year, according to Mark Zandi, chief economist of Moody's Analytics.

"The big increase in CPI rents is catch-up with the consistent double-digit growth in market rents," Zandi said. "The good news is that market rents appear to be topping out, as renters are not able to afford the higher rents and are balking. More rental supply is also coming, although this will take a year or two to have a meaningful impact on market rents."

Nearly 836,000 multifamily units are under construction, the most since 1973, according to Jay Parsons, chief economist at RealPage. But most new construction targets higher-income tenants and not the lower end, where supply shortages are most extreme, he said.

Wage growth continues to outpace rent increases, but that gap is rapidly closing.

"Affordability is not a major headwind yet in the market-rate rental sector, but it could quickly become one if wage growth slows," Parsons said.

Rents, along with a category known as owners' equivalent rent that often moves in tandem, account for more than 30% of the consumer price index, giving them outsize weight in overall inflation trends. Given the close ties between rents and wages, the accelerating pace of increases will keep Federal Reserve officials on an aggressive tightening path.

Average hourly earnings for production and nonsupervisory workers rose 6.4% in the 12 months through June and have generally outpaced rents since the pandemic began — a reversal of the trend that prevailed throughout much of the economic expansion of the 2010s. But the gap has narrowed in recent months as increases in earnings have moderated and rental inflation has accelerated.

"Even if rents are coming down later this year, the CPI measure will likely still have rent surging well into 2023," said Anna Wong, the chief U.S. economist for Bloomberg Economics. "If the Fed is reacting to CPI in setting monetary policy, that means that they could be hiking well into economic weakness."

—

Payroll • News