RESEARCH BRIEF

Marcus & Millichap

INFLATION

SEPTEMBER 2022

Rising Core Inflation Keeps Fed Alert; Food, Fuel Costs Hold CRE Implications

Headline and core inflation trend in opposite directions. In August, the headline Consumer Price Index recorded a year-over-year increase of 8.3 percent, slightly below the 8.5 percent rise recorded the month prior. The core CPI measure, excluding food and energy, advanced at a faster pace, however, ascending 6.3 percent year-over-year in August compared to 5.9 percent in July. This dichotomy is due to the influence of a sharp drop in gasoline prices on the headline measure. The greater expenses associated with food, housing, medical care and other necessities underscores the persistence of the current inflation pressures stemming from the ongoing global logistics challenges and broad-based shortage of labor.

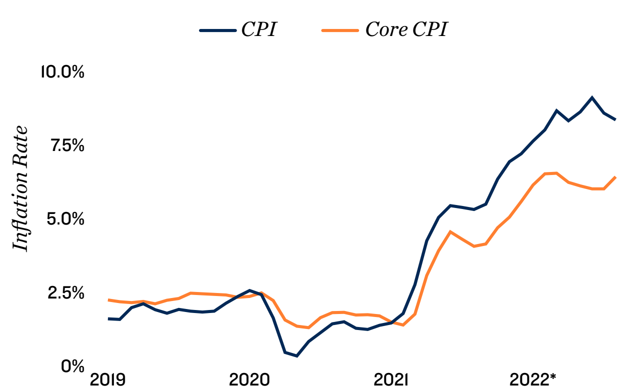
Elevated inflation adds urgency to Fed rate hike plan. Last month's stubbornly high inflation levels, joined with a positive employment report, underscores the likelihood of another federal funds rate hike equal to or exceeding 75 basis points later this month. This rate increase will coincide with an acceleration to the Federal Reserve's monthly balance sheet reductions to apply renewed upward pressure on both short-term and long-term interest rates. Fluctuations in rates are complicating the financing process for both balance sheet and non-balance sheet lenders, prompting greater caution on underwriting. Commercial real estate investors may face more hurdles in closing transactions moving forward, although trading velocity was still historically elevated across most property types at midyear.

Property Type Trends:

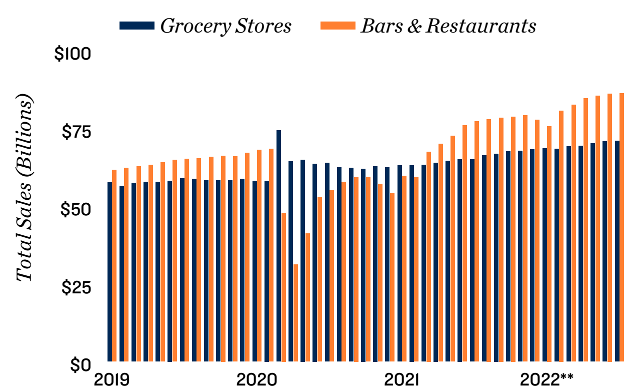
Food price climb has implications for grocers, restaurants. One area where consumers' wallets have taken a large hit is in groceries and dining. The food component of CPI has increased 11.4 percent over the past year, although the pace slowed by nearly a third last month. Elevated grocery prices have placed an added emphasis on value options. Discount grocer Aldi plans to open approximately 150 stores this year to help meet consumer demand, which would make it the third-largest chain by store count. Restaurants have also seen improved sales over the past year, despite added costs on patrons. Consumers have resumed spending more on dining out than on groceries, a trend that first came into effect in 2015, but was interrupted by the pandemic. While food costs are going up, dining out provides a convenience and social experience that may offset the higher checks in consumers' minds.

Lower gas prices a potential benefit to hotels, retail, offices. While fuel costs have jumped over the past year, the 10.6 percent drop in the gas price index last month lets out some of the pressure on inflation. Less pain at the pump will allow consumers to allocate discretionary funds elsewhere and may prove fruitful for leisure travel demand, aiding hotels and tourist-oriented retailers. Lower gas prices also lessen the financial impact of commuting, which may come to play a role in the ongoing return to offices. The overall office vacancy rate has held in the high-15 percent to low-16 percent band since early 2021, as companies continue to evolve their workplace policies.

Headline and Core CPI Inflation Trends



Dining Out Again Tops Grocery Shopping



*As of August ** Through July
Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Federal Reserve; U.S. Census Bureau