

# Economic Outlook: Inflation, Interest Rates and Real Estate

Ed Coulson

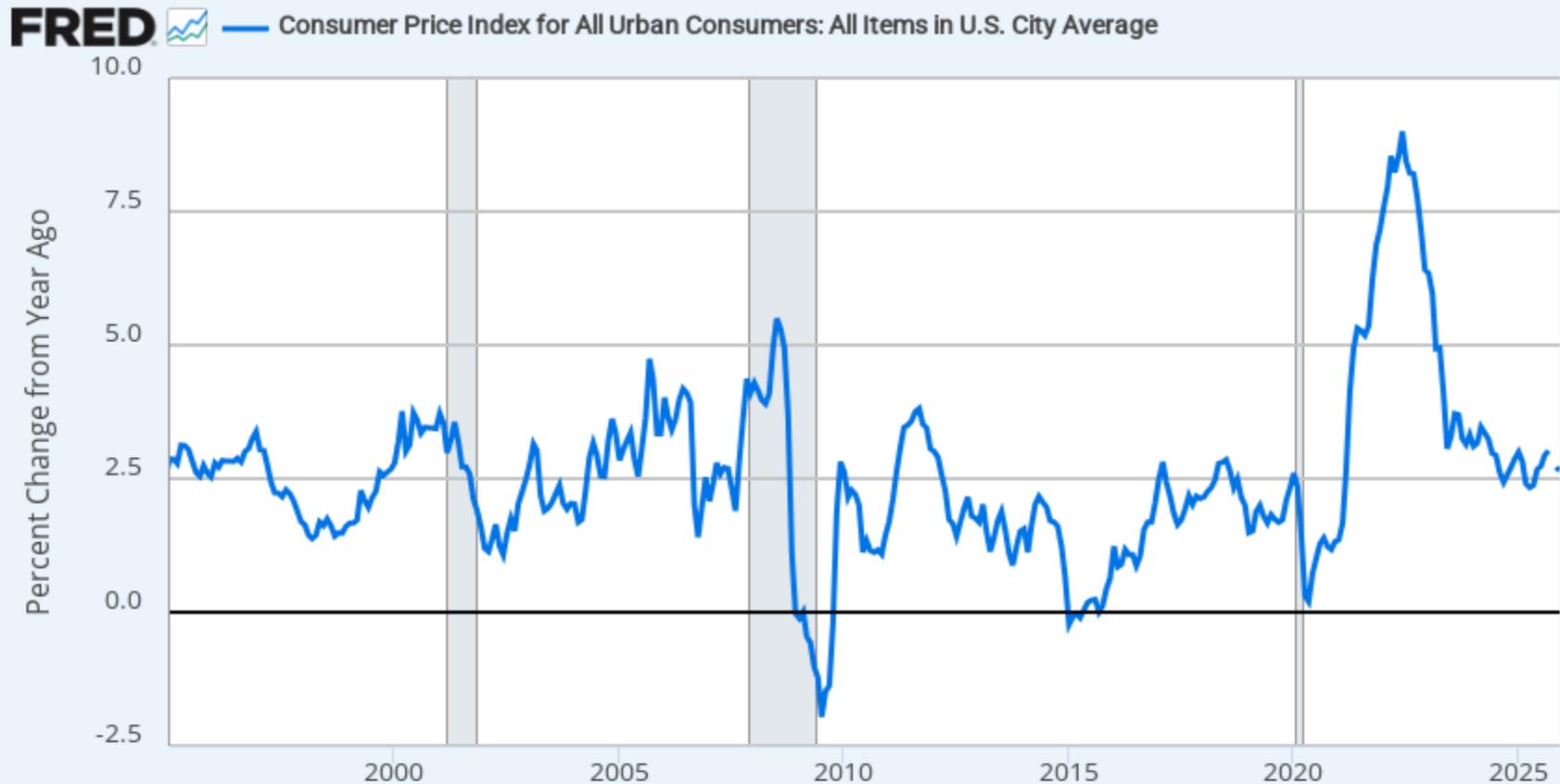
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# First, let's check on inflation:

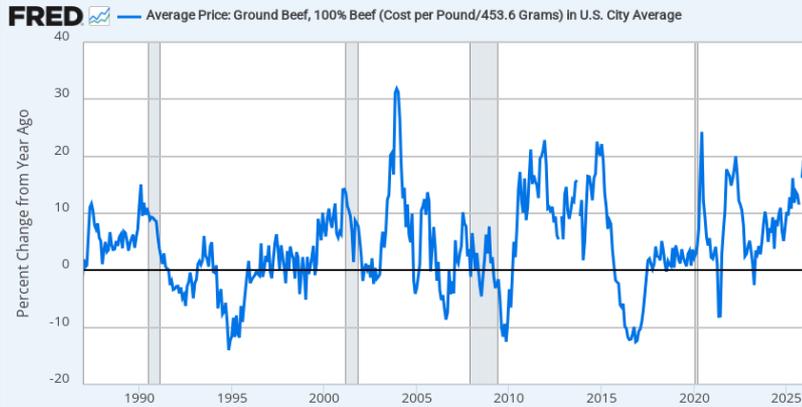


Source: U.S. Bureau of Labor Statistics via FRED®

*Shaded areas indicate U.S. recessions.*

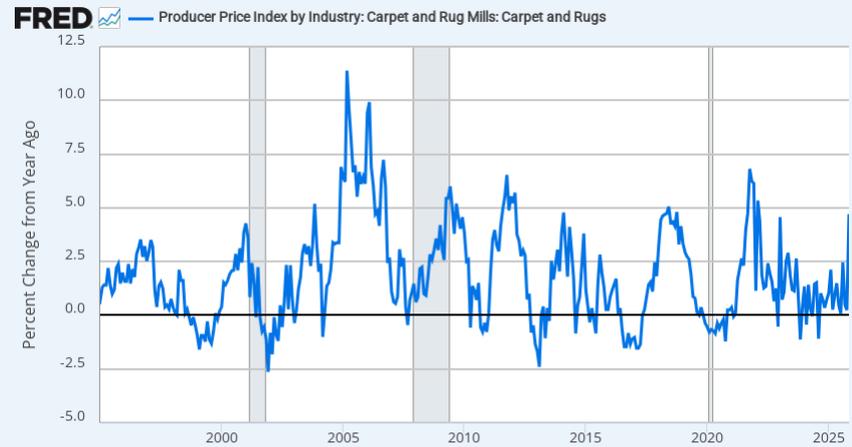
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# Inflation is not one-size-fits-all



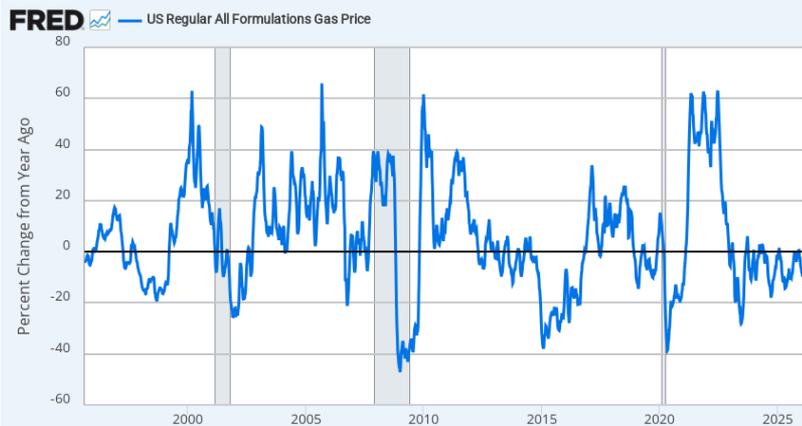
Source: U.S. Bureau of Labor Statistics via FRED®  
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Source: U.S. Bureau of Labor Statistics via FRED®  
Shaded areas indicate U.S. recessions.

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Source: U.S. Energy Information Administration via FRED®  
Shaded areas indicate U.S. recessions.

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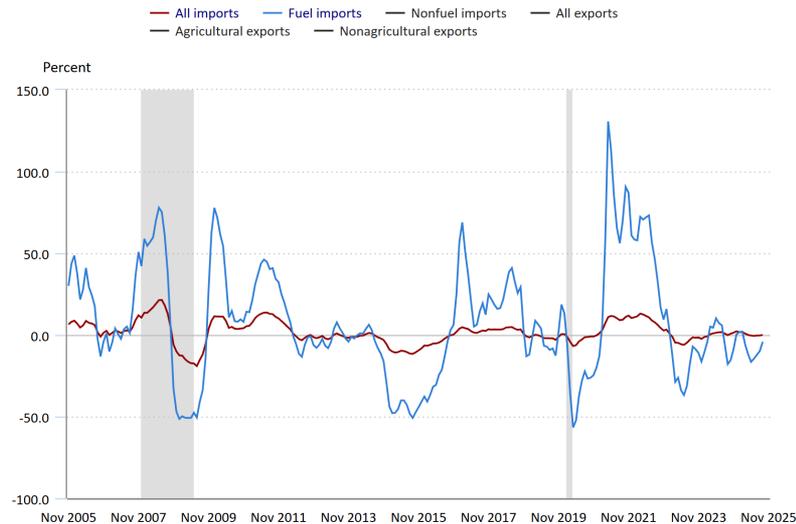


Source: U.S. Bureau of Labor Statistics via FRED®  
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# The role of tariffs can only be indirectly gleaned

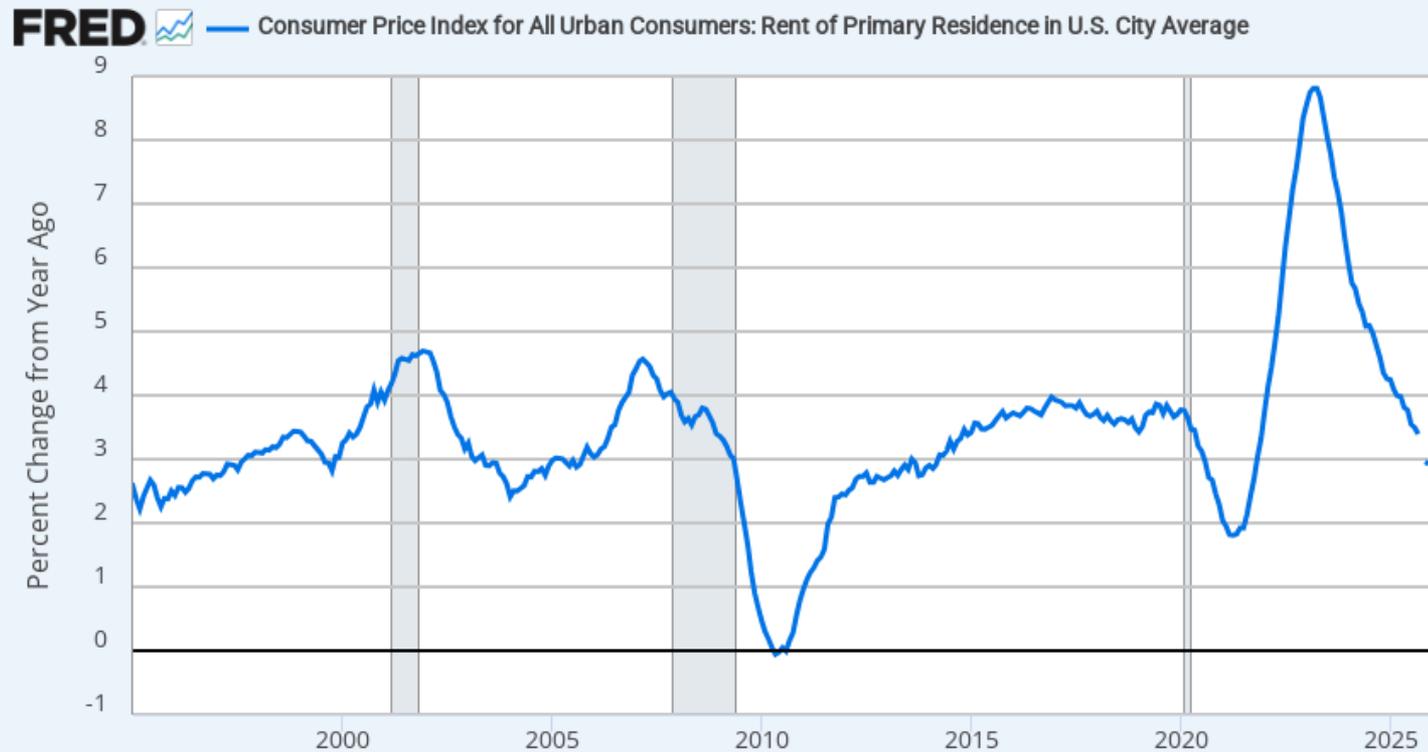
U.S. import and export price indexes, 12-month percent change



source: U.S. Bureau of Labor Statistics.

- The import price index does NOT include tariffs.
- Thus if foreign exporters were “paying” the tariff we would expect this index to be negative.
- It is basically zero, although petro index is negative (but for non-tariff reasons).
- We are paying the tariffs, and this logically will feed through to the CPI.

# But rent is the straw that stirs the inflation drink...



Source: U.S. Bureau of Labor Statistics via FRED®

*Shaded areas indicate U.S. recessions.*

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# But the rent CPI is not real-time

- Asks a panel “what rent are you paying?”
- This is based on leases signed many months ago
- ...which is fine for assessing cost of living
- ... but not for macro policy- setting.



# We have been harping on this since 2015

## THE REPEAT RENT INDEX

Brent W. Ambrose, N. Edward Coulson, and Jiro Yoshida\*

*Abstract*—We employ a weighted repeat rent estimator to construct quarterly indexes that expand the profession's ability to make cross-sectional comparisons of housing markets. Our analysis shows that there is considerable heterogeneity in the behavior of rents across cities over the 2000–2010 decade, but the number of cities and years for which nominal rents fell is substantial: rents fell in many cities following the onset of the housing crisis in 2007; and the repeat rent and Bureau of Labor Statistics indexes differ due to sampling and construction methods.

only leases that are signed by new tenants in order to avoid possible tenure biases. Second, we employ a weighted repeat rent estimator that replicates for the rental market, as closely as possible, the weighted repeat sales estimator of Calhoun (1996), following Case and Shiller (1989) and Bailey, Muth, and Nourse (1963).<sup>1</sup> This method of estimating house price indexes has become standard, primarily because of its use by

## Reassessing Taylor rules using improved housing rent data<sup>☆</sup>

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### ARTICLE INFO

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*JEL classification:*

### ABSTRACT

There is a debate whether the federal funds rate deviated from the Taylor rule. We present evidence that standard inflation measures do not reflect the contemporaneous state of housing rents, which are a large part of price indexes. Using a new housing rent index (RRI) developed by Ambrose et al. (2015), we compute the RRI-based Taylor rule for the period from 2000 to 2010. The modified Taylor rule indicates that seemingly large deviations are better understood as delays due to the stale information regarding housing rents. It also provides a justification for Quantitative Easing and a better alternative to other versions of Taylor rules.

## Housing Rents and Inflation Rates

This paper develops a quality-adjusted measure of marginal housing rents using a monthly statistic of landlord net rental income. The marginal rent index (MRI) exhibits deflation during recessions and leads the official rent index by 7 months. The modified inflation rate based on MRI suggests that the annual official inflation rate was overestimated by 1.7–4.1% during the Great Recession but underestimated by 0.3–0.7% during the subsequent expansionary period.

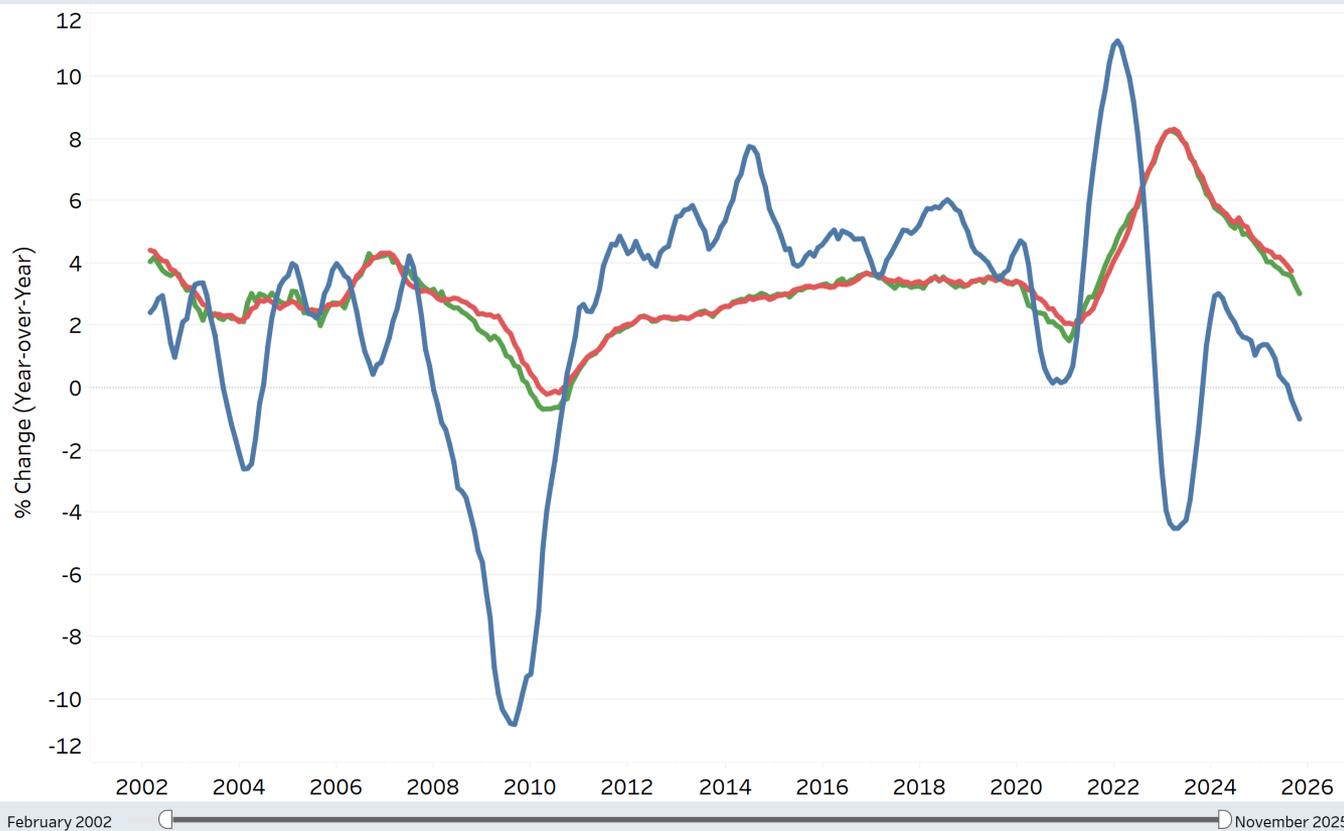
# The ACY rent index



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- CPI
- CORE CPI
- PCE
- CORE PCE
- RENT
- ACY MARGINAL RENT INDEX
- BEA PCE RENT
- BLS CPI RENT



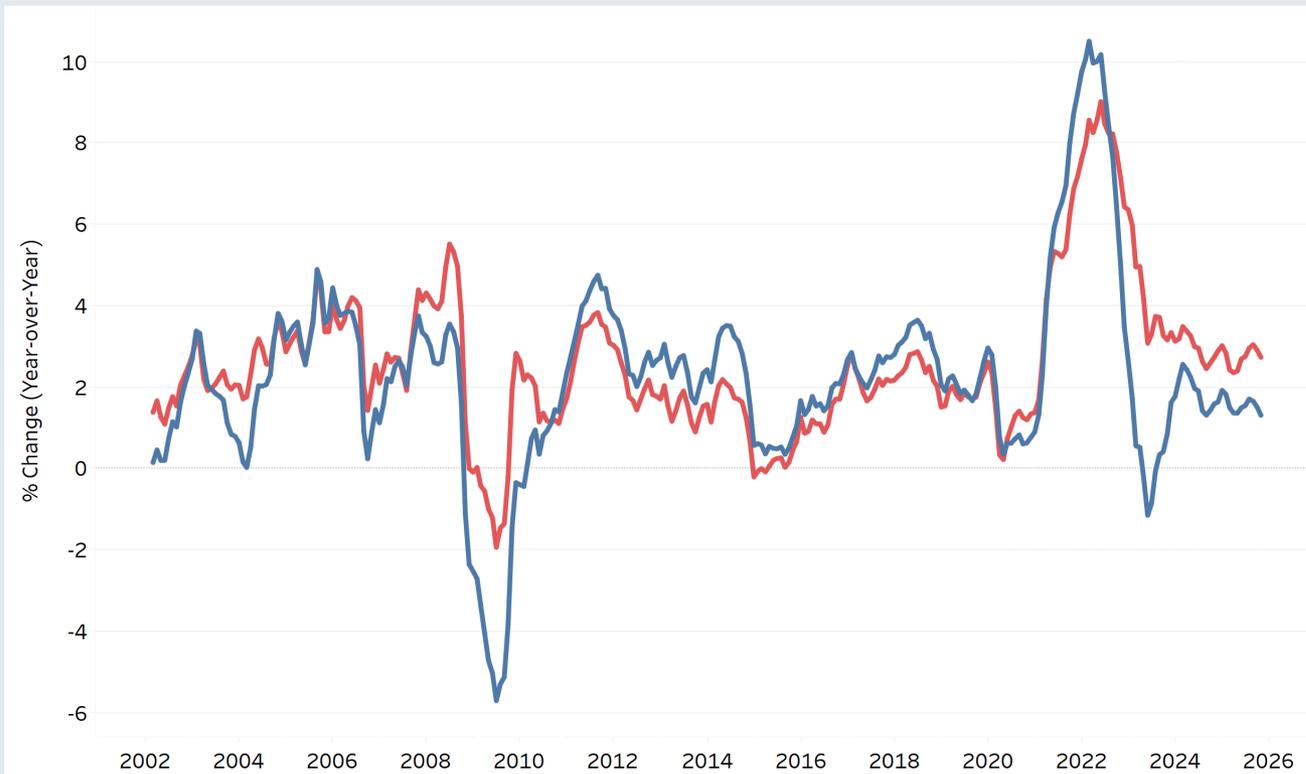
<https://sites.psu.edu/inflation/>



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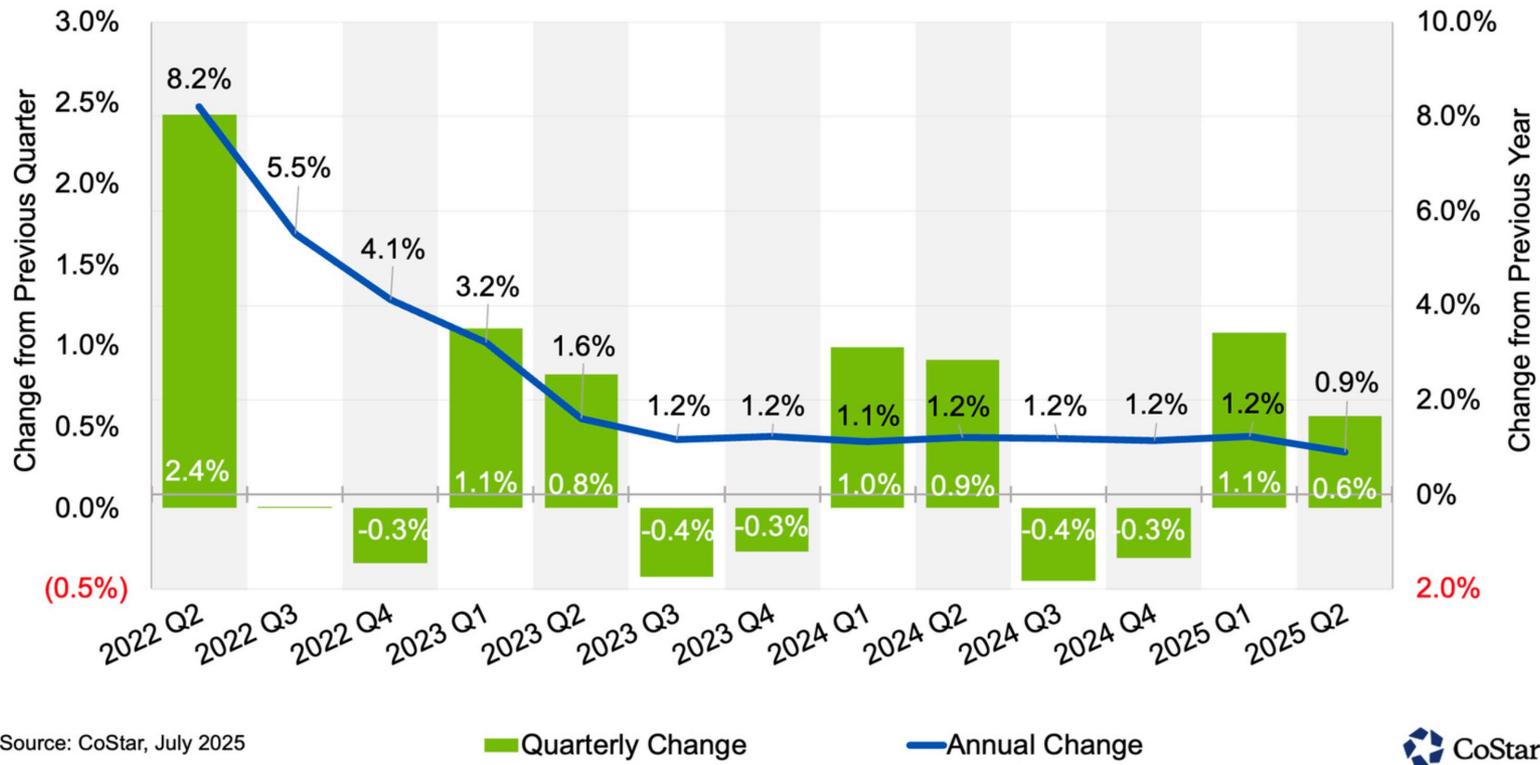


February 2002

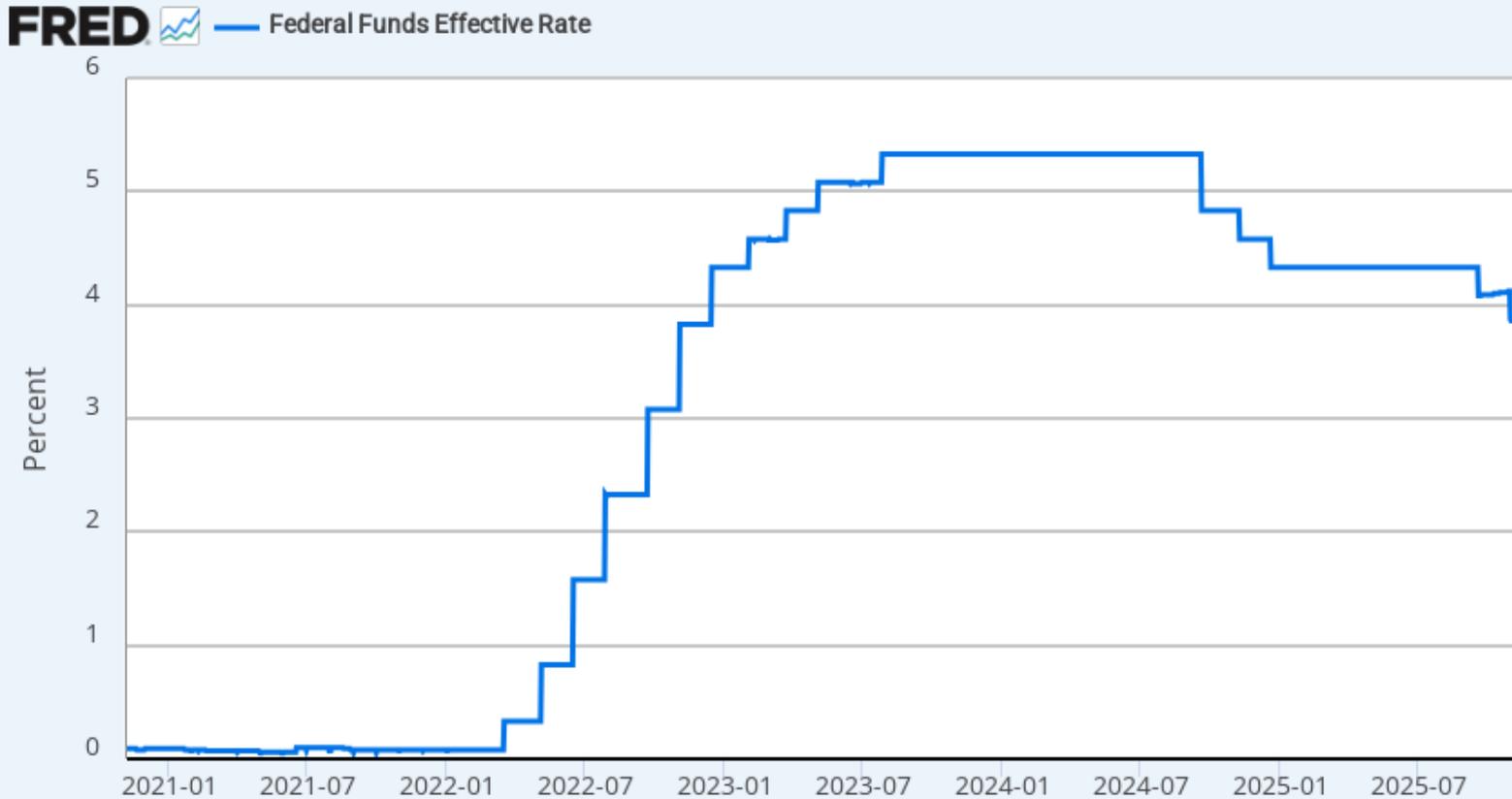
November 2025

# Don't just take our word for it...

## U.S. Apartment Rent Growth



# What about interest rates?

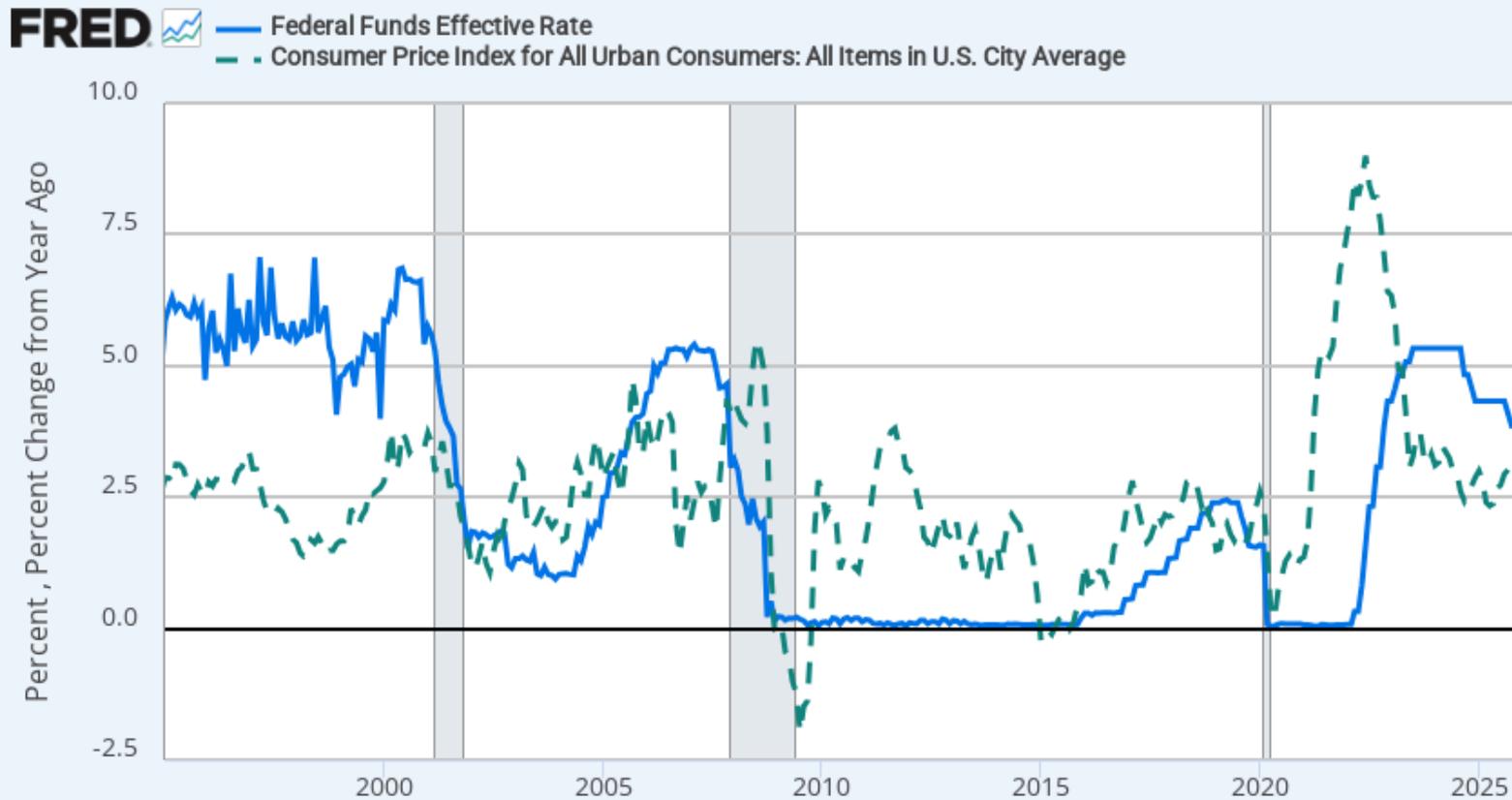


Source: Board of Governors of the Federal Reserve System (US) via FRED®

*Shaded areas indicate U.S. recessions.*

[myf.red/g/1NKs2](https://myf.red/g/1NKs2)

# The Powell strategy, in a nutshell



Sources: Board of Governors of the Federal Reserve System (US); U.S. Bureau of Labor Statistics via FRED®

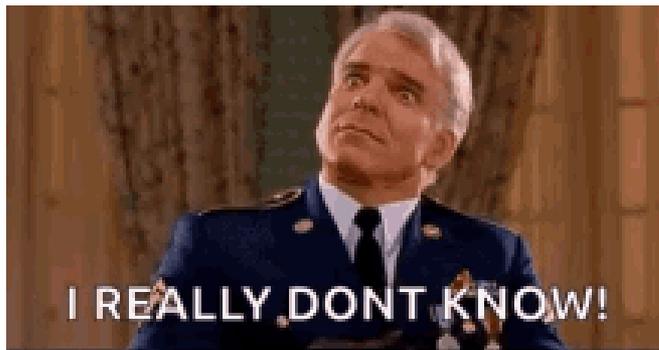
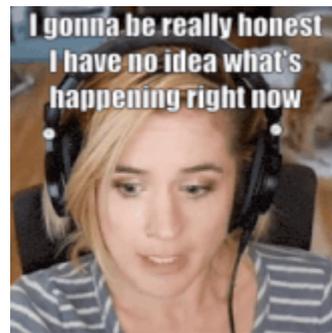
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The Fed will meet next week. What will they do?

I took a poll of experts.

# What will happen at the next FOMC meeting?



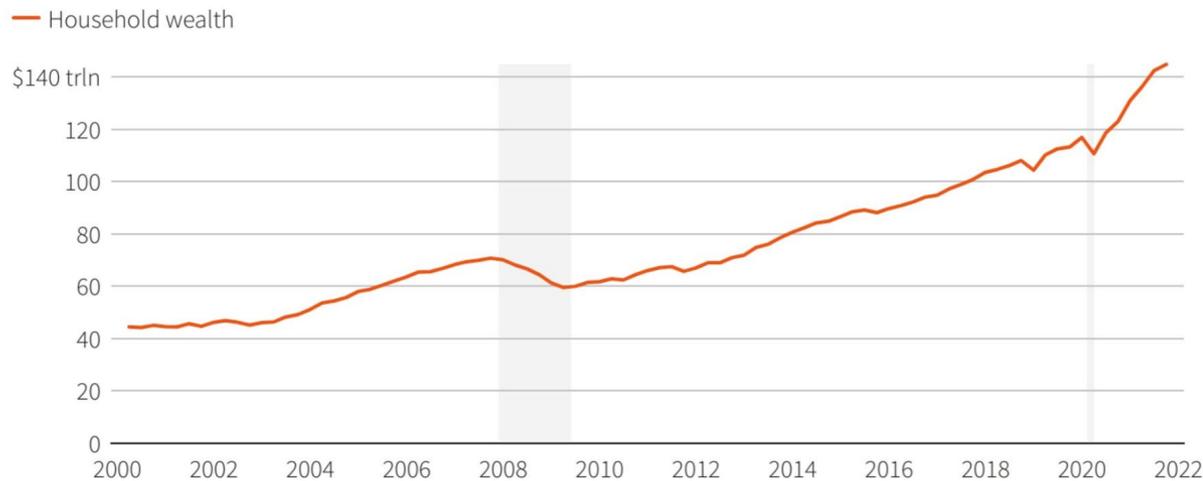
# The Fed

- The Fed has two jobs
  - Price stability
  - Full employment
- And literally only one tool
  - Balancing act

- Though it might be due to accumulated wealth...

## U.S. wealth gains slowed in latest quarter

Overall recovery since the pandemic recession has massively outpaced that after the prior downturn.

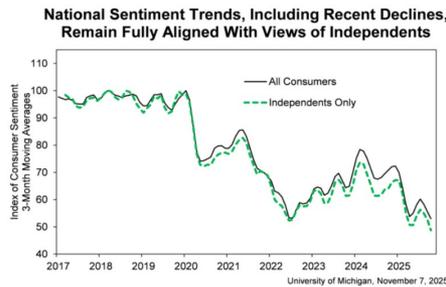


Source: Federal Reserve

- The Fed would cut rates if it were convinced of weak labor market
- The **official** price data does not give any evidence of that – though see above—
  - Measured inflation is stubbornly above the traditional 2% threshold.
  - So it seem like things are still running slightly hot
  - Though we need to cut out the supply side shocks!

# Vibes aren't great

Featured Chart ([Image](#) | [PDF](#) | [Excel](#))



Wendy's Is Closing Roughly 300 Restaurants This Year and Next

**Verizon reportedly planning major store closures and layoffs**

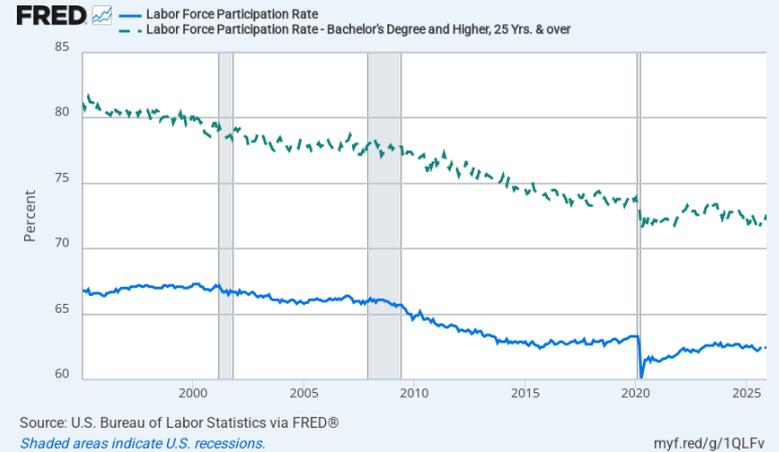
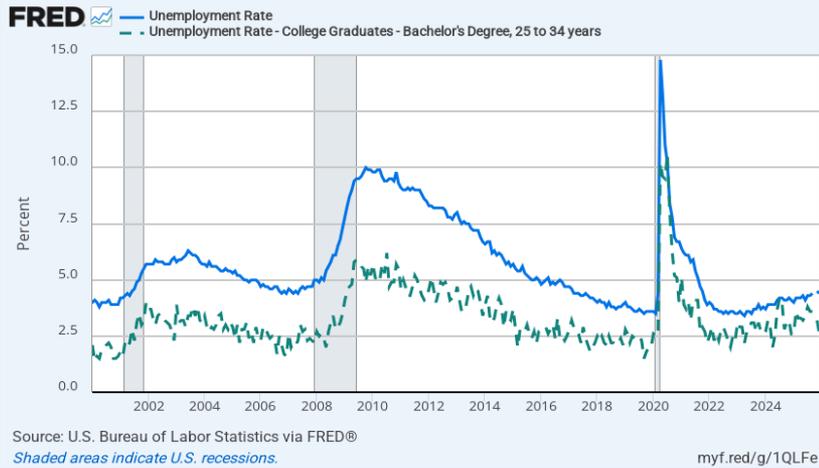
Verizon could soon announce store closures and layoffs as part of restructuring and cost-cutting efforts.

**For first-time job hunters, a college degree isn't unlocking the opportunities it once did, data shows**

**Paramount plans price increase, 1,600 layoffs to raise \$1.5 billion for new content**

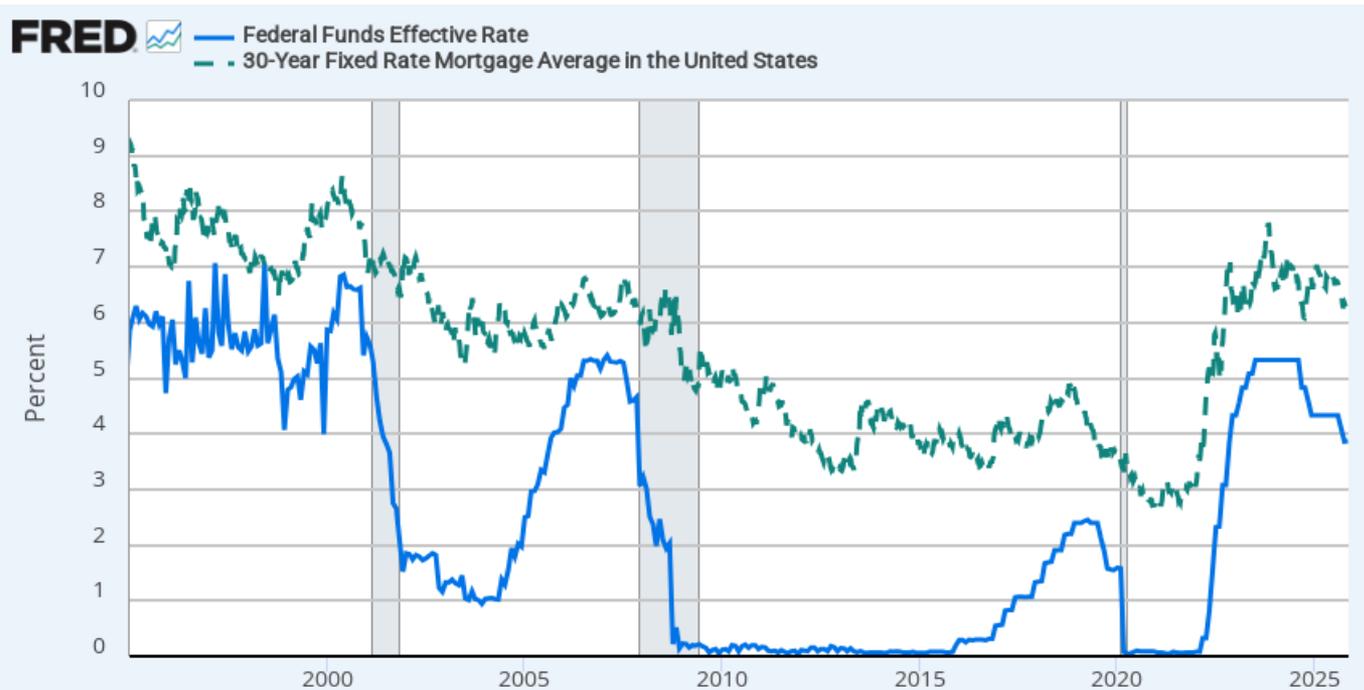


# Labor market data not terrible, what there is of it



## And so to housing....

- The relationship between short and long rates is murky:



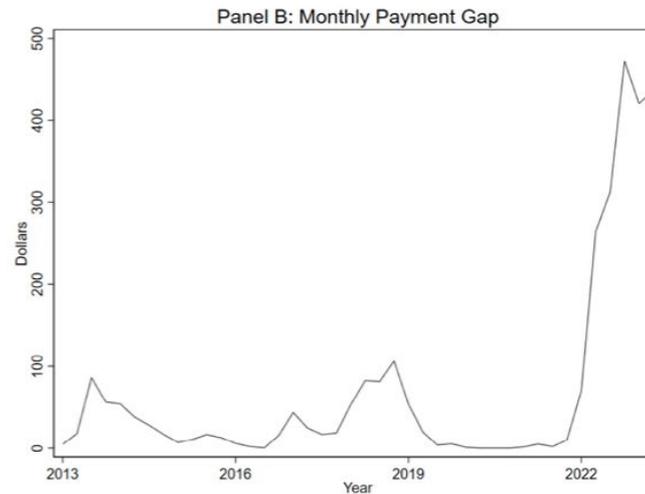
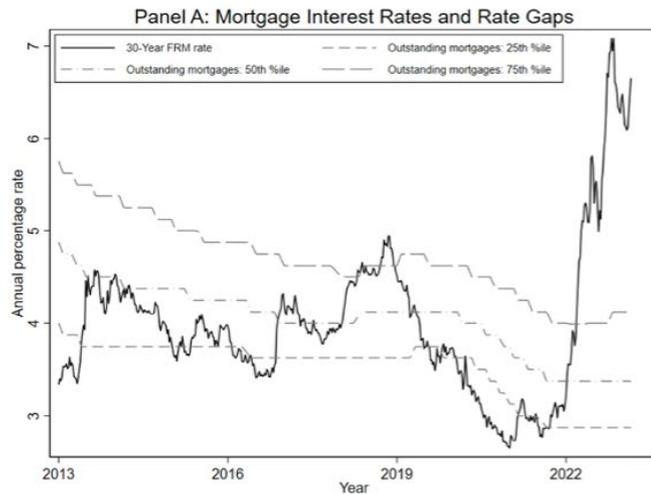
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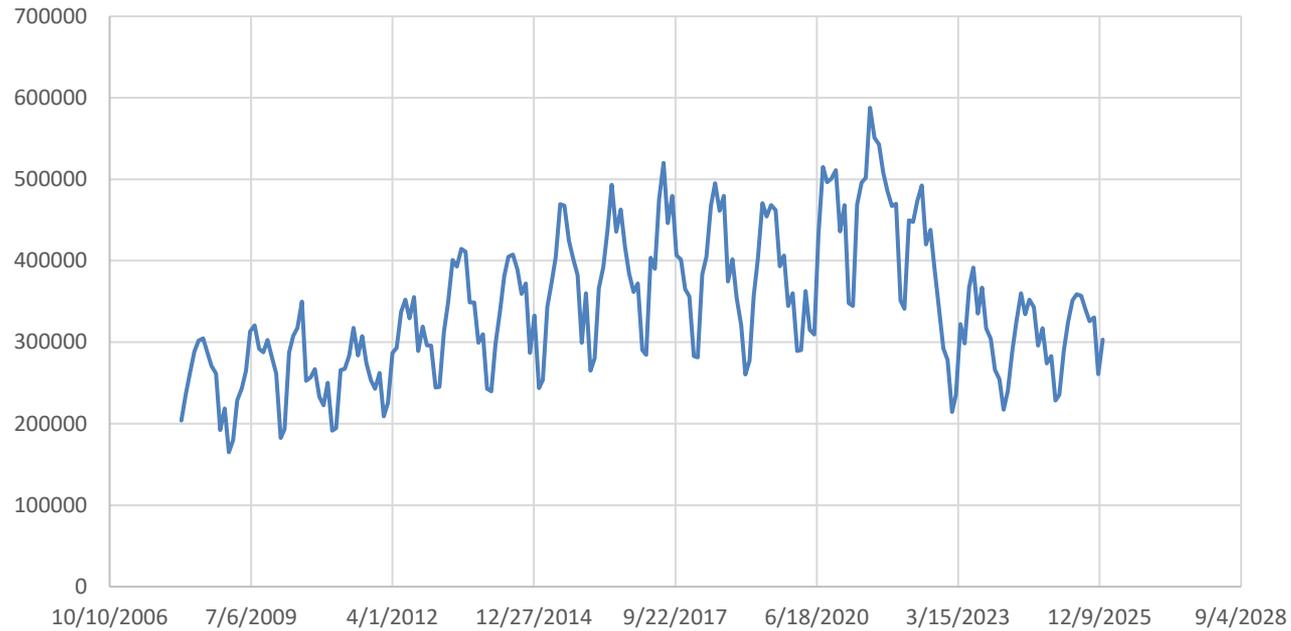
# There has been much discussion of “mortgage lock”

- So mortgage lock is a thing

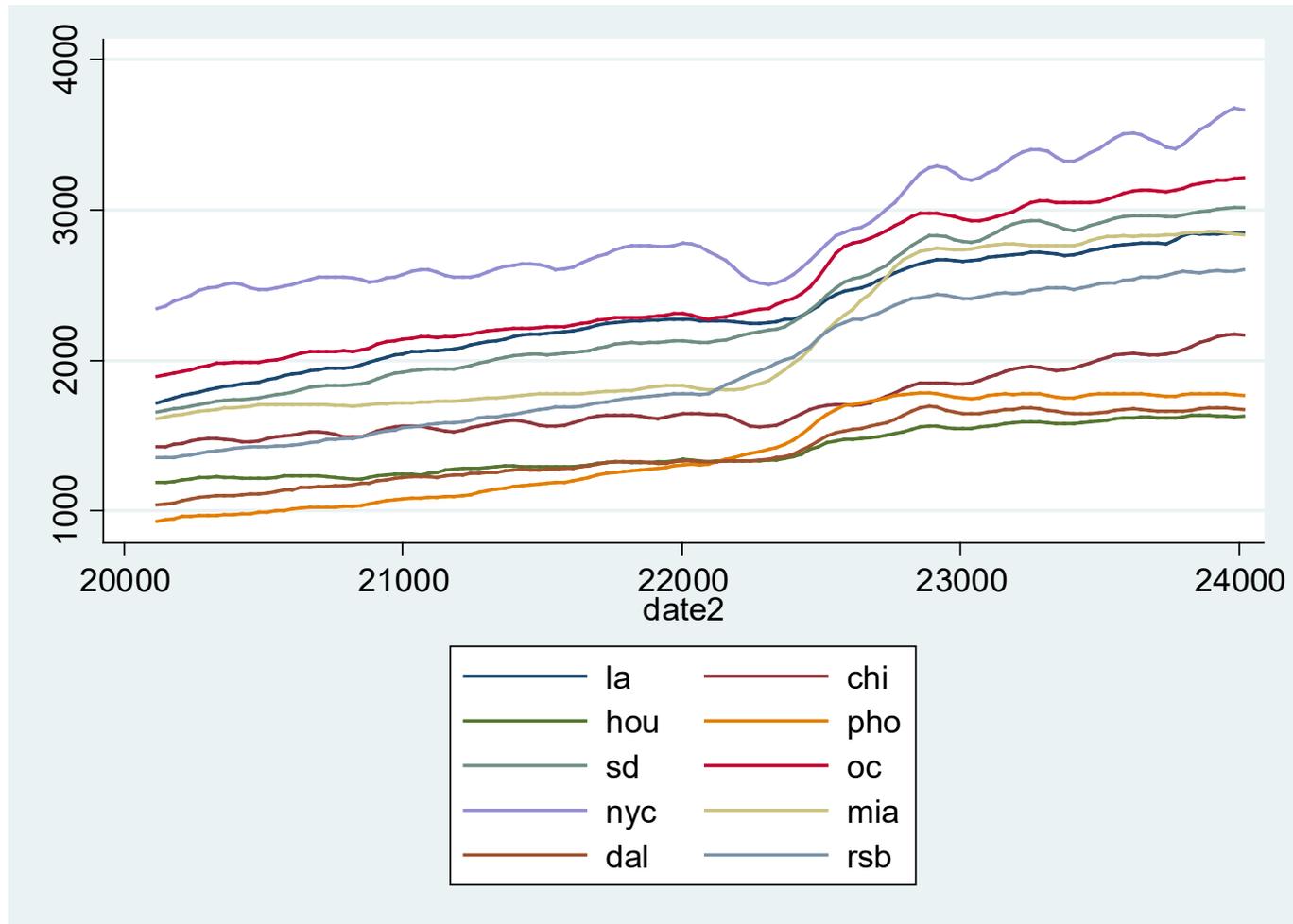


# Still a thing

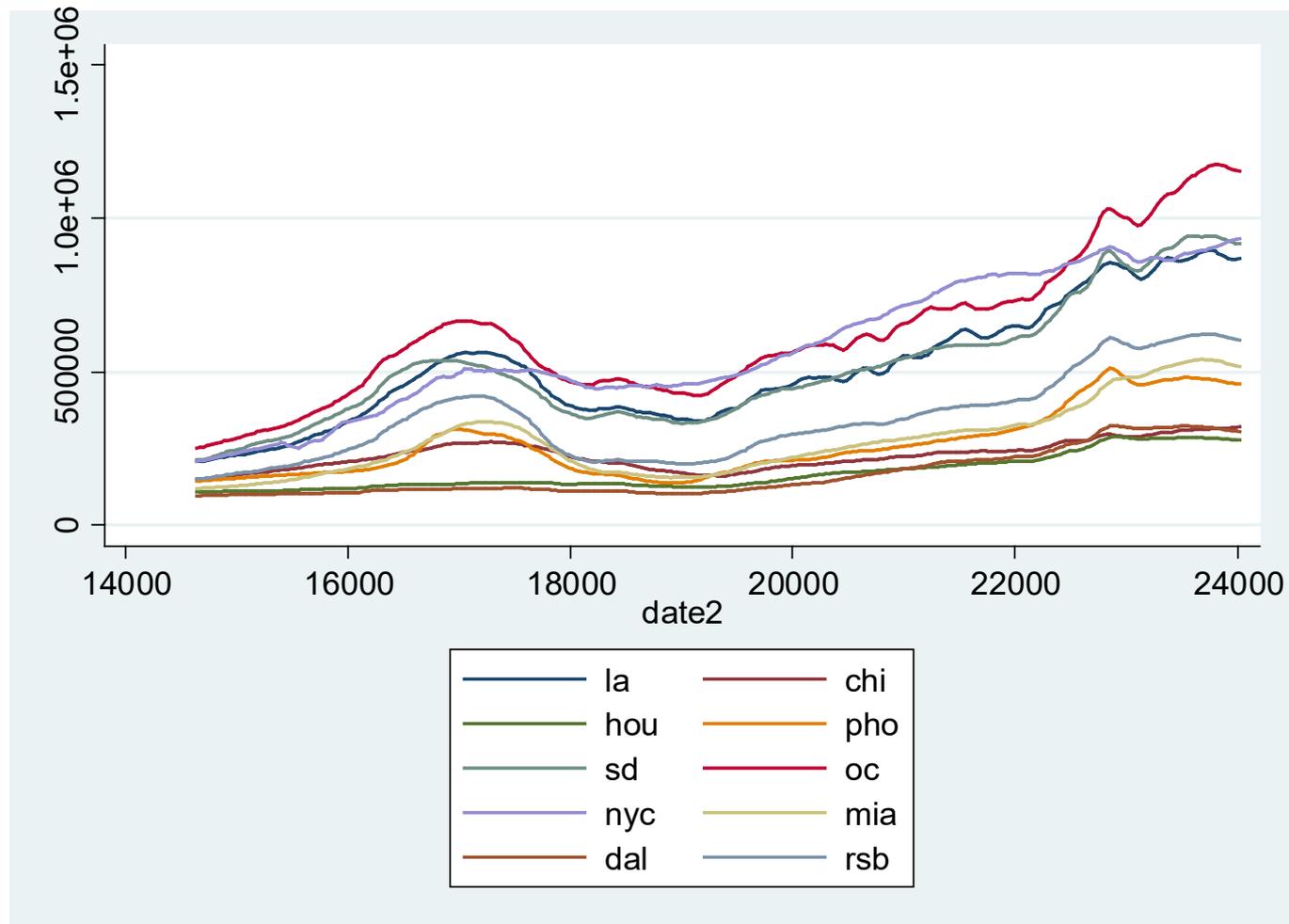
home sales



# rents



# Home prices



# The housing market equilibrium

- Net outmigration from California continues, but at a slower pace:
  - Hot off the press: Net domestic outmigration = ~200,000, down from ~260,000 previous year.
  - This should happen! This is good!
  - Mostly recent in-migrants
- Mortgage interest rates are still kinda high
  - Also tamping down housing demand
  - A reduction in FF rate will not have an immediate effect because of the lag between short and long rates.
- Does this mean the SoCal housing crisis is over?
  - Sorry, no.

# Commutes are too long

## Los Angeles County to County Commuting Estimates



## Orange County to County Commuting Estimates

