Investments - Flash

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CPI TO BENEFIT FROM FALLING U.S. RENTS

Positive impact on U.S. interest rates: buy bonds

New rents in the United States fell by -3.5% in January from their peak in August 2022. This is now the first consecutive six-month decline in five years. After having largely benefited from a rise in demand following the pandemic, which caused a 25% increase in rents, the US real estate market will now also face an important wave of new apartments arriving on the market, estimated at around 500,000 new properties. When affordability was at its lowest, partly due to higher financing costs, rental demand had initially supported rents. This is no longer the case. More than 50% of rents up for renewal in January were not renewed, suggesting that tenants were already finding cheaper housing elsewhere. Rents for houses are also stabilizing and vacant apartments have been rising for several months due to lower demand from potential tenants.

While rents are therefore beginning to fall, the shelter component of the CPI indices is slow to adjust and even shows an increase of +8% yoy in January. This phenomenon is not surprising. The likely 12-month lag should thus become more evident in Q2 and reinforce the decline in the US CPI. The Fed will certainly wait for this moment before taking into the impact of the real evolution of rents on inflation. The likely evolution of rents should therefore be a positive indicator for the next inflation figures and for interest rates, but it will weigh on the outlook for the construction sector.