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**BRAD SMITH, YAHOO FINANCE:**

We've got much more on this as March inflation is coming in hotter than expected. Shelter contributes to just over a third of the CPI print. Let's do a deeper dive into shelter with Tiffany Wilding, who is the PIMCO Managing Director and Economist. Tiffany, great to see you as always. Just want to get your takeaways here from the shelter component here as report after report, we continue to see shelter be the index that is really driving much of the stickiness in the inflationary picture right now.

**TIFFANY WILDING, PIMCO:**

Yeah, well, certainly shelter has come down I think much more slowly — shelter inflation

that is, not the actual price level — but shelter inflation has moderated much more slowly than I think many people expect. And I think the reason for that is that the BLS, when it's measuring rents, it is not only looking at what we call market rents. So rents of leases and homes that are literally changing hands, they're turning over in those new leases, but they're looking at the average rent across the entire rental stock. So those folks that are staying in their rental units or they're renegotiating prices after being in their rental units for some period of time, they're also capturing those. And you don't have a lot of real time good data. But ultimately, what we know is that the rents of the things that aren't turning over, those rents are actually under market levels now. In other words, you have landlords that are still trying to catch up by raising rents at incremental levels for the folks that stayed in their properties. And that's what we think is causing the stickiness in shelter. So although your market rents measures, even in the Sun Belt where maybe they're even coming down a little bit on a price level, they look like they've moderated. That's just not flowing through to the BLS data because the large stock of rental units in the country still are below those levels and they're catching up. So I think that's one of the things that people are certainly missing.

**SEANA SMITH, YAHOO FINANCE:**

Tiffany, what does that then tell us about future progress or lack thereof, I guess, on inflation? Is it likely that we're going to get stuck at these elevated levels?

**WILDING:**

I think for the shelter components, what it suggests to us is that, yes, you will still see moderation on a year-over-year basis, but we're not convinced that you're going to get back to — so the shelter components were running around three to three and a half percent inflation pre-pandemic. And we think it's going to take a while to get there. And the fact that you have just a broader shortage of housing within the housing market as a result of years of underbuilding since the great financial crisis, it suggests to us as well that you will probably settle in at rental inflation levels that were above those of the pre-pandemic period. So we're not convinced that rents and moderating rents are really going to get you sustainably back to 2%. But of course, that’s absent weakening in the labor market. Of course all of the game kind of changes here. If you start to see the unemployment rate move up and you start to see job losses, of course you'll get more rental disinflation at that period. But absent that, rents look like they're going to continue. Rental inflation is going to be sticky.

**BRAD SMITH:**

And it comes back to capacity, both on the home side and on the rental side. And on the rental side, there's a lot of construction build outs that a lot of people who have rents are waiting to get completed so that they have opportunities to move elsewhere, get more favorable pricing. What does that capacity part of the equation look like from your purview?

**WILDING:**

Well, one of the interesting things that's going on in the rental market is there's a bifurcation in market rental trends depending on what kind of a structure it is. So not to get too wonky, but people since the pandemic have had a preference for a single family, more suburban type of structure out of larger cities. So what we're seeing in the rental markets now is that where you're seeing the pricing weakness is in the multi-family structures that had a lot of building post pandemic, specifically in the Sun Belt in some of these more medium-sized cities. There's a lot of overbuilding there. And a lot of that supply is now coming to the market and it is resulting in discounted one, two-month free discounting of rents when you sign your lease. But nevertheless, that weakness in the multi-family structure category, that's not really spilling over in large degree to the single family detached categories. So everything else is holding up pretty well. And again, the BLS, when they're measuring this, they're capturing the broader rental market. They're not just getting those single or multi-family structures. So you have to take this into account, and again, all of this suggests to us that the broader shape of the housing market is very firm, very strong. And you're going to see that come across and just rents remaining sticky as well.

**SEANA SMITH:**

All right, Tiffany Wilding, always appreciate you giving us some insight, especially on a day like today when we're seeing some of the reaction here in the markets, obviously to this hotter than expected CPI print. Tiffany, thanks.