



Basis Points – April 27, 2021

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Above the Fold

How Inflation Sneaks Into (or Out of) Our Pockets

In an effort to ensure its target goal of 2% inflation, the Federal Reserve uses several metrics including the Consumer Price Index (CPI) and the Personal Consumption Expenditures (PCE). Both are wide measures of the prices of goods, with the CPI measuring what urban consumers are buying and the more comprehensive PCE gauging the prices businesses are selling at.

Ironically, three of the highest consumer expenditure items, such as food, energy and even housing, are often stripped out of those indexes (called Core measurement) or misrepresented in the equation. In the case of housing, it's rents, not actual home prices, that are used to measure inflation (or deflation). This is likely why the massive rally in home values hasn't had a dramatic

effect on interest rates and inflation readings over the last couple years. It can also work in reverse as evidenced in 2007 and 2008 when housing CPI actually rose steadily as home prices were tumbling nationwide.

At the consumer level, price hikes often go unnoticed due to clever tactics by producers. The meteoric jump in many commodity costs and rising demand have triggered a rise in typical consumer goods costs. According to research firm NielsenIQ, prices for general consumer merchandise are up 7.1% year over year. But most hikes go unnoticed as consumer staple companies like Coca Cola, J.M. Smucker, General Mills, PepsiCo, P&G and others use modified packaging, smaller serving sizes (in the same size container) and even temporary sales to buffer the price shock to consumers. So like it or not, prices for our goods are rising and are likely to continue to do so — even if we don't notice it.

Three Things

1. *Do You Really "Own" the Apps You Buy?* – Apple is being sued after terminating an account with nearly \$25,000 worth of apps and videos. Even though the user "bought" all the content, the lawsuit alleges that Apple doesn't truly allow users to purchase, but rather "rent" content, so long as the account is in good standing and active. There are similar suits involving Amazon as well. Experts encourage users to download any purchased content to a local drive.
2. *The Reddit Army Pays Big Tech Execs* – Masses of small online investors tried to "stick it to the man" by pushing struggling GameStop's stock to record levels. The heavy publicity did spark a bona fide turnaround, but has also triggered a possibly unintended consequence. With shares going from \$19 to a current level of more than \$150, departing executives, like CEO George Sherman, will receive massive windfalls given their vested stock. Mr. Sherman's holdings are currently valued at nearly \$169 million.
3. *Rents Are Back on the Upswing* – After a year of stagnant and falling rent rates during the pandemic, urban areas are once again seeing rents rise as Americans feel more confident that social interactions will return to normal. According to a report from Realtor.com, median rents across 50 of America's largest markets rose an annualized 1.1% in March.

Did You Know?

The Beginning of the Universe?

According to famed German astronomer and mathematician Johannes Kepler, our universe was created on this day in 4977 B.C. Kepler, considered by many to be a founder of modern science, was best known for his theories around planetary motion (which he got mostly right). Unfortunately for Kepler, modern science's Big Bang Theory puts his estimation off by about 13.7 billion years.

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