

MACRO STRATEGY

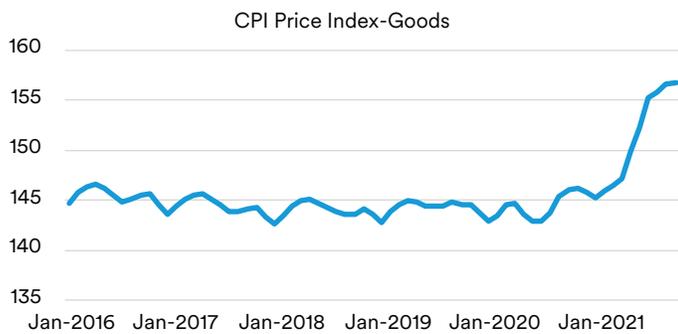
Inflation: Housing, not Supply Chains

Although headline inflation remained high in September at 5.4% year over year,¹ there are important compositional changes happening below the headline that show a change in the main drivers of inflation. The source of the changes may lead to longer-run elevated inflation that could outlast current supply chain disruptions.

Focus on the Month Over Month

Many observers are focusing on the 5.4% year over year number. But that number summarizes all the inflation that we've experienced in the past twelve months—we already know that there was high inflation over the last year. The more important number is the month over month figure which came in at 0.4%. Admittedly, it is almost 5% annualized, but looking through the high oil prices which we know rose rapidly in September, we see that core CPI was only 0.16% month over month, or just under 2% annualized. That's quite moderate by any definition.

Chart 1 | Goods Inflation is Plateauing



Source: BLS, Haver, MIM

Goods prices skyrocketed between January and July 2021 (see Chart 1). By contrast, in September annualized inflation was just over 1%. Yes, the price level is high, and they may go higher if supply chain issues worsen, but the September print shows a significant reprieve in goods price acceleration.

Services Deflation

Transportation services saw a decline of 0.5% month on month—the third month in a row of decline. Most, but not all, of this decline was in airline fares. Medical care services also saw a decline with a -0.1% month on month drop in prices.

Shelter Prices Rising

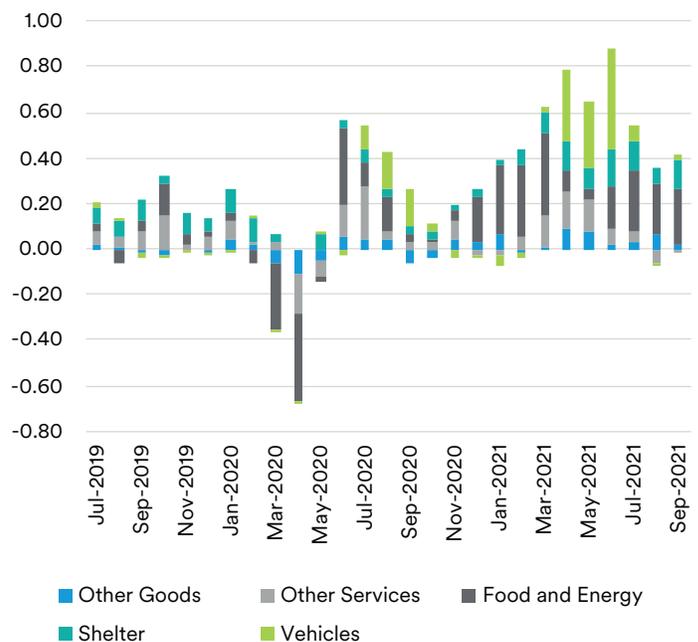
Then where is the inflation coming from? Housing. Rents rose by 0.5% month on month, the highest since October 1992.

In the summer we began to expect that shelter prices would start rising toward the end of the year. First, owner equivalent rents tend to lag home price increases.

Second, we suspected rents would rise, due to diminishing supply combined with increased spending power by lower wage workers as wages increased.

Of the 0.16% month on month core CPI, 0.13 percentage points (i.e., nearly all of it) came from shelter. Slicing that up even more, homeowners' equivalent rent makes up 0.09 percentage points. This portion of shelter inflation tends to lag home prices so it primarily communicates known information, that home prices increased recently CPI is playing catch up to that reality. Rent, which contributed 0.04 percentage points to inflation, is probably the most economically significant component, in terms of providing a potential source of chronic and problematic inflation.

Chart 2 | Inflation Decomposition (month over month)



Source: BLS, Haver, MIM

Conclusion: Worry About Housing Inflation

The September inflation print did not point to widespread inflation. The main culprit for the high print was energy prices. Looking at core CPI, which excludes food and energy, the print came in below 2% annualized for the month.² Energy prices should not be ignored, since they could eventually impact other parts of the economy. Beyond that, there was low inflation or outright deflation in many components of the print.

However, the big worry is shelter. Shelter inflation is a slow-moving series, and it tends to be quite persistent, meaning that it is likely to hang around for some time and become more embedded in people's expectations. Rent could cause additional wage pressure—workers would need to ask for more compensation in order to cover rent. At the moment, rents—while experiencing a large one-month increase—are still not contributing massively to inflation. If they persist, that could create a more chronic inflation situation.

Endnotes

- ¹ Bureau of Labor Statistics September 2021 Consumer Price Index Report.
- ² Bureau of Labor Statistics, September 2021 Consumer Price Index Report.

Author



TANI FUKUI

Global Economic & Market Strategy

Tani Fukui is an Economist and Associate Director for the Market Strategy and Research Group. Her responsibilities include assessing and communicating economic conditions and overseeing coordination of the global economic view. Prior to joining MetLife in 2015, Tani was an economist at the U.S. International Trade Commission, an independent Federal agency. Tani holds a B.S. in Finance from the Wharton School at the University of Pennsylvania, an M.A. in International Affairs from Columbia University and a Ph.D. in International and Macroeconomics from UCLA.

About MetLife Investment Management

MetLife Investment Management (MIM),¹ which had over \$642.4 billion in total assets under management as of June 30, 2021,² serves institutional investors by combining a client-centric approach with deep and long-established asset class expertise. Focused on managing Public Fixed Income, Private Capital and Real Estate assets, we aim to deliver strong, risk-adjusted returns by building tailored portfolio solutions. We listen first, strategize second, and collaborate constantly as we strive to meet clients' long-term investment objectives. Leveraging the broader resources and 150-year history of the MetLife enterprise helps provide us with deep expertise in navigating ever changing markets. We are institutional, but far from typical.

For more information, visit: investments.metlife.com

¹ MetLife Investment Management ("MIM") is MetLife, Inc.'s institutional management business and the marketing name for subsidiaries of MetLife that provide investment management services to MetLife's general account, separate accounts and/or unaffiliated/third party investors, including: Metropolitan Life Insurance Company, MetLife Investment Management, LLC, MetLife Investment Management Limited, MetLife Investments Limited, MetLife Investments Asia Limited, MetLife Latin America Asesorias e Inversiones Limitada, MetLife Asset Management Corp. (Japan), and MIM I LLC.

² As of June 30, 2021. At estimated fair value. Represents the value of all commercial mortgage loans and real estate equity managed by MIM, presented on the basis of gross market value (inclusive of encumbering debt). At estimated fair value. Includes MetLife general account and separate account assets and unaffiliated/third party assets.

Disclosure

This material is intended solely for Institutional Investors, Qualified Investors and Professional Investors. This analysis is not intended for distribution with Retail Investors.

This document has been prepared by MetLife Investment Management (“MIM”)¹ solely for informational purposes and does not constitute a recommendation regarding any investments or the provision of any investment advice, or constitute or form part of any advertisement of, offer for sale or subscription of, solicitation or invitation of any offer or recommendation to purchase

or subscribe for any securities or investment advisory services. The views expressed herein are solely those of MIM and do not necessarily reflect, nor are they necessarily consistent with, the views held by, or the forecasts utilized by, the entities within the MetLife enterprise that provide insurance products, annuities and employee benefit programs. The information and opinions presented or contained in this document are provided as of the date it was written. It should be understood that subsequent developments may materially affect the information contained in this document, which none of MIM, its affiliates, advisors or representatives are under an obligation to update, revise or affirm. It is not MIM’s intention to provide, and you may not rely on this document as providing, a recommendation with respect to any particular investment strategy or investment. Affiliates of MIM may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) of any company mentioned herein. This document may contain forward-looking statements, as well as predictions, projections and forecasts of the economy or economic trends of the markets, which are not necessarily indicative of the future. Any or all forward-looking statements, as well as those included in any other material discussed at the presentation, may turn out to be wrong.

All investments involve risks including the potential for loss of principle and past performance does not guarantee similar future results. Property is a specialist sector that may be less liquid and produce more volatile performance than an investment in other investment sectors. The value of capital and income will fluctuate as property values and rental income rise and fall. The valuation of property is generally a matter of the valuers’ opinion rather than fact. The amount raised when a property is sold may be less than the valuation. Furthermore, certain investments in mortgages, real estate or non-publicly traded securities and private debt instruments have a limited number of potential purchasers and sellers. This factor may have the effect of limiting the availability of these investments for purchase and may also limit the ability to sell such investments at their fair market value in response to changes in the economy or the financial markets

In the **U.S.** this document is communicated by MetLife Investment Management, LLC (MIM, LLC), a U.S. Securities Exchange Commission registered investment adviser. MIM, LLC is a subsidiary of MetLife, Inc. and part of MetLife Investment Management. Registration with the SEC does not imply a certain level of skill or that the SEC has endorsed the investment advisor.

This document is being distributed by MetLife Investment Management Limited (“MIML”), authorised and regulated by the UK Financial Conduct Authority (FCA reference number 623761), registered address Level 34 One Canada Square London E14 5AA United Kingdom. This document is only intended for, and may only be distributed to, investors in the EEA who qualify as a Professional Client as defined under the EEA’s Markets in Financial Instruments Directive, as implemented in the relevant EEA jurisdiction. The investment strategy described herein is intended to be structured as an investment management agreement between MIML (or its affiliates, as the case may be) and a client, although alternative structures more suitable for a particular client can be discussed.

For investors in the Middle East: This document is directed at and intended for institutional investors (as such term is defined in the various jurisdictions) only. The recipient of this document acknowledges that (1) no regulator or governmental authority in the Gulf Cooperation Council (“GCC”) or the Middle East has reviewed or approved this document or the substance contained within it, (2) this document is not for general circulation in the GCC or the Middle East and is provided on a confidential basis to the addressee only, (3) MetLife Investment Management is not licensed or regulated by any regulatory or governmental authority in the Middle East or the GCC, and (4) this document does not constitute or form part of any investment advice or solicitation of investment products in the GCC or Middle East or in any jurisdiction in which the provision of investment advice or any solicitation would be unlawful under the securities laws of such jurisdiction (and this document is therefore not construed as such).

For investors in Japan: This document is being distributed by MetLife Asset Management Corp. (Japan) (“MAM”), 1-3 Kioicho, Chiyoda-ku, Tokyo 102-0094, Tokyo Garden Terrace KioiCho Kioi Tower 25F, a registered Financial Instruments Business Operator (“FIBO”) under the registration entry Director General of the Kanto Local Finance Bureau (FIBO) No. 2414.

For Investors in Hong Kong: This document is being issued by MetLife Investments Asia Limited (“MIAL”), a part of MIM, and it has not been reviewed by the Securities and Futures Commission of Hong Kong (“SFC”).

For investors in Australia: This information is distributed by MIM LLC and is intended for “wholesale clients” as defined in section 761G of the Corporations Act 2001 (Cth) (the Act). MIM LLC exempt from the requirement to hold an Australian financial services license under the Act in respect of the financial services it provides to Australian clients. MIM LLC is regulated by the SEC under US law, which is different from Australian law.

¹ MetLife Investment Management (“MIM”) is MetLife, Inc.’s institutional management business and the marketing name for subsidiaries of MetLife that provide investment management services to MetLife’s general account, separate accounts and/or unaffiliated/third party investors, including: Metropolitan Life Insurance Company, MetLife Investment Management, LLC, MetLife Investment Management Limited, MetLife Investments Limited, MetLife Investments Asia Limited, MetLife Latin America Asesorias e Inversiones Limitada, MetLife Asset Management Corp. (Japan), and MIM I LLC.

L1021017419[exp1023][All States] L1021017419[exp1023][All States] L1021017415[exp1023][All States] L1021017437[exp1023][All States]

Appendix

This appendix contains details for the preceding charts and provides additional information for greater accessibility.

Goods Inflation is Plateauing

Note:

- All values are approximate
- Source: BLS, Haver, MIM
- The line is relatively flat from January 2016 to January 2021, varying from 143 to 147. After January 2021, the line rises fairly fast to 157.

Month-Year	Price Index
Jan-2016	145.0
Jan-2017	144.5
Jan-2018	143.5
Jan-2019	143.5
Jan-2020	143.5
Jan-2021	146.0

Inflation Decomposition (month over month)

Note:

- All values are approximate
- Source: BLS, Haver, MIM

Month-Year	Other Goods	Other Services	Food and Energy	Shelter	Vehicles	Bar Range	Size Relative to Largest Bar
Jul-2019	0.02	0.06	0.03	0.07	0.03	0.20 to 0.00	0.23
Aug-2019	0.01	0.05	-0.06	0.07	0.01	0.14 to -0.06	0.22
Sep-2019	-0.01	0.08	0.05	0.09	-0.03	0.22 to -0.04	0.29
Oct-2019	-0.03	0.14	0.14	0.03	-0.01	0.32 to -0.04	0.41
Nov-2019	0.00	0.03	0.04	0.09	-0.01	0.16 to -0.02	0.20
Dec-2019	-0.01	0.06	0.03	0.06	-0.01	0.14 to -0.03	0.18
Jan-2020	0.05	0.08	0.11	0.11	-0.01	0.26 to -0.02	0.31
Feb-2020	0.03	0.01	-0.06	0.10	0.01	0.14 to -0.07	0.24
Mar-2020	-0.06	0.03	-0.30	0.03	-0.01	0.07 to -0.37	0.49
Apr-2020	-0.11	-0.18	-0.39	0.00	-0.01	0.00 to -0.68	0.76
May-2020	-0.04	-0.08	-0.03	0.07	0.01	0.08 to -0.14	0.25
Jun-2020	0.06	0.14	0.34	0.03	-0.03	0.57 to -0.03	0.66
Jul-2020	0.04	0.24	0.10	0.06	0.11	0.55 to 0.00	0.62
Aug-2020	0.04	0.03	0.15	0.03	0.20	0.42 to 0.00	0.47
Sep-2020	-0.06	0.03	0.03	0.03	0.16	0.25 to -0.06	0.36
Oct-2020	-0.03	0.03	0.01	0.03	0.03	0.11 to -0.04	0.17
Nov-2020	0.04	0.08	0.04	0.03	-0.03	0.19 to -0.04	0.27
Dec-2020	0.03	-0.03	0.19	0.03	-0.01	0.27 to -0.04	0.35
Jan-2021	0.07	-0.03	0.30	0.03	-0.05	0.40 to -0.08	0.53
Feb-2021	-0.01	0.06	0.31	0.07	-0.03	0.44 to -0.05	0.54
Mar-2021	0.01	0.14	0.36	0.09	0.03	0.63 to 0.00	0.70
Apr-2021	0.09	0.16	0.09	0.13	0.32	0.79 to 0.00	0.89
May-2021	0.08	0.14	0.04	0.09	0.30	0.65 to 0.00	0.73
Jun-2021	0.03	0.07	0.19	0.16	0.45	0.89 to 0.00	1.00
Jul-2021	0.03	0.05	0.27	0.13	0.07	0.54 to 0.00	0.61
Aug-2021	0.07	-0.06	0.22	0.07	-0.01	0.35 to -0.08	0.48
Sep-2021	0.03	-0.01	0.25	0.13	0.03	0.41 to -0.02	0.48