

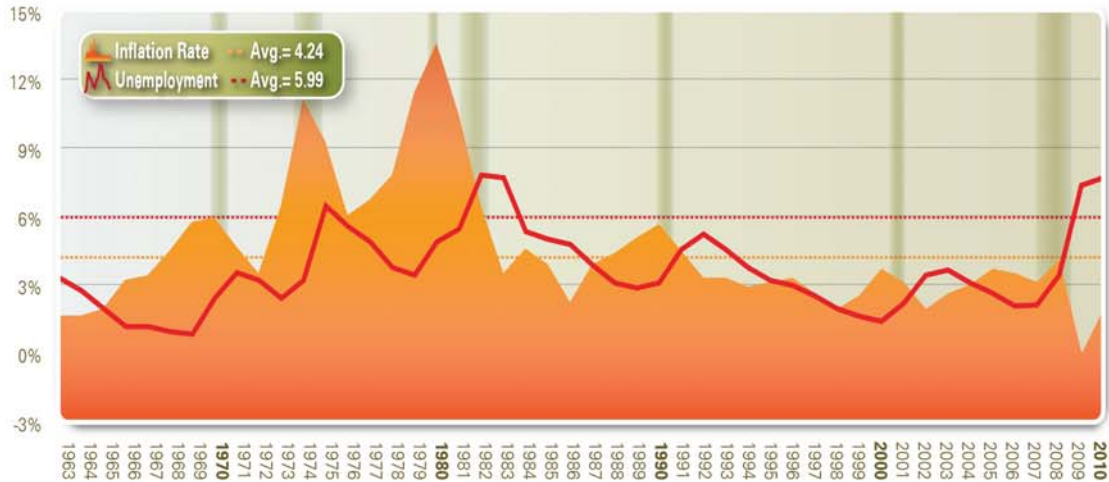
Inflation, Unemployment & Housing

How deep is the connection?



The History of Inflation & Unemployment

Interest rates are usually led by inflation and high unemployment correlates to low inflation



Inflation, the economy and the job market are all cyclical. As a result, so is the housing market. Inflation pumps up the cost of goods and services and there's a lot of both that go into the construction or replacement of a home. In other words, as the cost of lumber, cement, windows, cabinets, sheetrock, etc., and the process of nailing them all together rises, so too will the value of your home.

As labor is one of the most influential components of inflation, it will retreat during periods of high unemployment. Whether it's to build a house, to mine and process the materials that go into it or to deliver them to your site, there's the cost of personnel involved. If many are wanting for work, it's pretty hard for others to ask for a raise. Hours are cut back, sales slow and prices can fall. Ultimately, it's made even worse as the accompanying recessions tend to be self-fulfilling. The worse we hear it is, the less we spend, the less we all spend, the more the economy suffers and the deeper the retraction becomes.

Being aware of what's transpired in the past is not necessarily a road map for the future, yet when easily identifiable patterns repeat, one can certainly hold expectations built on strong probabilities. Looking at the chart above, we can see pretty clearly that the pattern of rising unemployment and falling inflation go hand in hand and that it occurs over and over. What we can also see is that these periods all end. At that point, the opposite then occurs as people go back to work and inflation returns. At the end of the day, the question becomes not "if" things will turn, but when. Working ahead of and in anticipation of this ultimate event can prove highly rewarding for those that recognize the cycle for what it is and use that timing to their advantage.



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