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Explaining the Rent-OER Inflation Divergence, 1999- 2006

By Robert Poole

BiblioGov. Paperback. Book Condition: New. This item is printed on demand. Paperback. 34 pages. Dimensions: 9.7in. x 7.4in. x 0.1in. Between 1999 and 2006, there were two episodes during which inflation in the Rent index in the CPI diverged markedly from inflation in the index for Owners Equivalent Rent (OER); early in 2007, these series began to diverge again. Such divergence often prompts many to question CPI methods. A key difference between these two series is that OER indexes are based upon rents which have received a utilities adjustment - an adjustment which is necessary because the OER index is intended to track pure rent-of-shelter, not shelter-plus-utilities. Critics have claimed that the Rent-OER inflation divergences stem from an inappropriate utilities adjustment. This claim is false. In this paper, we decompose the Rent-OER inflation differential into its various determinants, and explore the multiple causes of this divergence over time. There is only one divergence episode - of only six months duration - which is primarily attributable to the utilities adjustment procedure. Indeed, the utilities adjustment sometimes reduced potential divergence between the two series. Instead, the main culprit is rental market segmentation; that is, different rent inflation rates were experienced by different parts...



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