Financial Planning* Asset Management* Investment Planning* Retirement Planning

COMMON CENTS PLANNING

1-800-647-0762

239 Baltimore Pike Glen Mills, PA • 6606 Central Ave. N. Sea Isle City, NJ

fdunbar@commoncentsplanning.com • www.commoncentsplanning.com

THE GOOD OLD DAYS?

By Fred Dunbar

Ah, the good old days. Every generation seems to refer to them as it grows old. Will the millennials, born from 1981 to 1996, or Generation Z, born after 1996, be saying the same thing years from now? Only time will tell.

The baby boomers, born from 1946 to 1964, might say they long for the good old days, but were they really good? I would say yes, since we didn't know any better back then. Times were tough, and the older boomers had to deal with the Vietnam War, along with the protests that spread across our nation in the late '60s. For younger boomers, the good old days included gas rationing due to the oil crisis, which began in October 1973. Boomers dealt with long gas lines, and odd-even rationing was introduced. This meant if the last digit of your license plate was odd, you could get gas only on odd numbered days. Thankfully, I was one of 10 kids, so my brothers and I would switch license plates when we needed gas. It was also during this time that the maximum speed limit was lowered to 55 mph to conserve gas. Ah, the good old days.

Back to the present. The U.S. Bureau of Labor Statistics states that over the past 12 months ending March 31, the Core Consumer Price Index (minus food and energy) inflation rate was 1.6%. Over the same time frame, food was up 3.5%, and energy was up a walloping 13.7%. So basically, if you don't need to eat or drive, then you are in good shape.

It is not just the weather heating up now, but inflation as well. It is now on track, and the light keeps getting brighter as it approaches. In an April 8 letter to South Carolina Sen. Rick Scott, Federal Reserve Chairman Jerome Powell wrote: "We understand well the lessons of the high inflation experience in the 1960s and 1970s, and the burdens that experience created for all Americans. We do not anticipate inflation pressures of that type, but we have the tools to address such pressures if they do arise."

The boomers remember hyperinflation and extremely high mortgage interest rates. Forty years ago, in 1981, mortgage rates peaked at 18.45% based on the statistics from Freddie Mac, which is the nickname of the Federal Home Loan Mortgage Corporation, a U.S. government-sponsored enterprise that buys mortgages. It does not make loans directly to homebuyers but helps keep money flowing to the lenders. This government agency's primary mission is to provide liquidity, stability, and affordability to the U.S. housing market. The current monthly average 30-year fixed rate mortgage in April was 3.06% based on Freddie Mac.

Think about it, interest rates were 15.39% higher 40 years ago. The U.S. housing market back then was fairly stagnant, as most Americans neither had the means nor the desire for an 18% interest rate mortgage for 30 years. On the plus side, higher interest rates kept housing prices lower, which provided opportunities to refinance your mortgage each time interest rates dropped a few points. When we purchased our first home in 1983, our mortgage was at 14.75%.

Today, real estate inventory (homes available for sale) is extremely low. The pandemic is now in its second year, and many employers still allow employees to work from home. Add in low interest rates and the insanity starts. If you recently purchased a new home, chances are when you submitted your offer, the seller also received several other offers pushing the sale price up above the original listing price.

I spoke with local real estate expert, Hugh Merkle of Compass RE in Stone Harbor, to see what the increase was for the average home down the Shore. Hugh explained that it is not the average price that matters but where the property is located. In real estate, it has always been location, location, location. The prices are highest along the beach and bay, and decrease as you move toward the center of the island. Hugh said that beach- and bay-front homes were up approximately 30% over this time last year. Wow! You may be sitting on a gold mine, but that only matters if you are going to sell and don't have to buy.

In addition to inflation, we see a labor shortage causing disruption particularly for restaurants, bars, and other small businesses. How is it possible to have a labor shortage when we still have high unemployment numbers? In March, the Bureau of Labor Statistics showed the New Jersey unemployment rate at 7.7% and Pennsylvania at 7.3%.

Perhaps many qualified workers are making more money sitting at home on their couch vs. heading back to work. Many are receiving state unemployment benefits and the supplemental $300 weekly benefit provided under the Federal Pandemic Unemployment Compensation law authorized on Dec. 27, 2020. This was followed by an executive order signed by President Joe Biden when he first took office directing the Labor Department to clarify that "workers have a federally guaranteed right to refuse employment that will jeopardize their health and if they do so, they will still qualify for unemployment insurance." In addition, they may qualify for food stamps, rent assistance, and the New Jersey Lifeline Program, which provides a free Android smart phone, data, unlimited texts, and minutes. So, who can blame someone if they are making more money at home than they can earn working? The longer someone doesn't work, the harder it will be to go back to work.

When the April jobs report was released, it was a major letdown. Employers only added 266,000 positions while the Dow Jones estimate was for 1 million new jobs. This information prompted President Biden on May 10 to reaffirm the basic rules of unemployment insurance. Anyone receiving unemployment insurance who is offered a suitable job must take it or lose their unemployment benefits. Many states are also implementing the rule that you must be actively looking for employment.

Hopefully, this will help jump-start many of these small businesses that can't find enough workers.

Maybe "Good Old Days," the 2017 song recorded by Macklemore, says it best: "Someday soon, your whole life's gonna change, you'll miss the magic of these good old days." With inflation now starting to kick up and a shortage of qualified workers, maybe this will be the start of the "good old days" for the millennials and the Gen Z's. Hopefully not.

So, boomers, now is the time to grab your chair, book, beverage and head to the beach and reflect on the good old days. Don't forget the sunscreen.

Fred Dunbar, CLU®, ChFC®, RFC®, AIF®, is President of Planning Directions, Inc., a registered investment adviser, and Common Cents Planning, Inc. He also offers securities through Commonwealth Financial Network, member FINRA/SIPC. Advisory services offered through Planning Directions, and fixed insurance products and services offered by Common Cents Planning, are separate and unrelated to Commonwealth. Fred may be contacted at 800-647-0762, by e-mail at fdunbar@commoncentsplanning.com or by mail at 239 Baltimore Pike, Glen Mills, PA, 19342. He's always happy to meet with you "down the shore" at 6606 Central Avenue N. Sea Isle City, NJ, 08243.