Rising Costs of Living

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South Texas Economic Development Center
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Takeaways

- As the economies of Corpus Christi and the rest of the nation are recovering from the pandemic-induced recession, the prices of most goods and services are surging as well.
- In addition to rapidly rising living expenses this year, Corpus Christi residents have been facing an uptick in the overall cost of living relative to the rest of nation in the past decade, driven largely by expenses on housing and utilities.
- Like inflation that acts like a tax, rapidly rising home values elevate the tax burden of local households.

As life has gradually returned to normal since the beginning
of 2021, the prices of just about everything have also risen. By the summer of this year, the increase in the Consumer Price Index, an overall measure of the rising cost of living, exceeded 5 percent year-over-year, the highest since 2008.

**The Price We Pay for Recovery**

Consumption spending has surged after most states began to fully reopen their economies. The $1.9 trillion American Rescue Plan Act passed in March—the largest federal relief package in U.S. history—has further boosted government spending on infrastructure investment in addition to spending by households and businesses.

Prices increase as growth in consumer demand outpaces recovery in market supply from the temporary disruptions in 2020.

On the other hand, the COVID-19 pandemic has continued to disrupt the supply chains around the world. Globally, the shipping costs of container carriers have surged by more than
50 percent from mid-2020.

Many domestic manufacturers are plagued by material shortages, such as computer chips for automakers. Regionally, trucking companies face driver shortages. Local restaurants and retail stores also face hiring difficulties.

Rising energy costs, especially for fuel in the transportation sector, further push up business costs and subsequently consumer prices.

In economic terms, the economy is facing an unprecedented condition of both demand-pull and cost-push inflation.

**Food and Energy Prices**

Historically, food and energy prices fluctuated more wildly over time than other consumer prices. In the wake of the stay-at-home and business shutdown orders across the nation in April 2020, energy prices as a whole dropped by nearly 20 percent year-over-year. Adjusted for inflation, the average regular gasoline price dipped to the lowest level since 1999.

As the world’s economies have reopened and travel by planes and vehicles have gradually been restored, energy prices have returned to the pre-pandemic levels. Gasoline prices more than doubled between mid-2020 and mid-2021.

The resulting higher overall energy prices by about 5 percent year-over-year became the leading driver of CPI inflation throughout much of 2021.
For rising food expenses, price increases differed between whether the food was prepared at home and whether it was purchased from restaurants. As people spent more time at home throughout 2020 in response to the coronavirus outbreak, groceries stores were among the few businesses that witnessed increased foot traffic and overall sales volumes.

Shortages in food supplies, particularly poultry and other meat, also contributed to price increases.

Relative to grocery prices, price inflation of food purchased from restaurants, either through dine-in or delivery, has been rather stable. But since visits to restaurants have regained momentum despite rising Delta variant COVID cases in the summer, the overall food price away from home picked up rapidly.

Higher menu costs also reflect ballooning labor costs amid challenges to recall workers or hire new ones in restaurants and other businesses in the hospitality sector.
Other than food costs, housing expenses make up a significant component (over 30%) of the CPI. Listing home prices across the nation plummeted following the outbreak of COVID-19 in early 2020 that restricted in-person home showings.

Fueled in part by historic low mortgage rates, the housing market turned red hot in 2021. There was also a shift of preferences for homes in more affordable neighborhoods in
suburbs and exurbs over the centers of major metro areas like New York City, Los Angeles and San Francisco.

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<thead>
<tr>
<th>City</th>
<th>Median Days on Market</th>
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<tr>
<td>Austin-Round Rock, TX</td>
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<td>McAllen-Edinburg-Mission, TX</td>
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<td>College Station-Bryan, TX</td>
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**Local Living Costs**

How much are we affected by the rising cost of living? Not everyone is affected equally by the so-called headline CPI for the nation as a whole.

The recent trend of the CPI broadly reflects the experiences of the typical resident of Corpus Christi. Still, the city has long boasted its affordable living costs, especially for homeownership.
A comparison of the costs of living in different areas gives a rough idea about the relative amount of spending in an area to maintain the standard of living with basic needs. When a person decides to relocate to another area, this is likely the first thing that comes to mind.

Basic needs take into account food, shelter, clothing, health care, utilities and education. Moving to a city with a higher cost of living means you need to spend more if you wish to maintain the same material lifestyle as before.

The Council for Community and Economic Research (C2ER) reports the most popular measure of the cost of living (COLI) at the local level. A local ACCRA COLI index is compared against the benchmark of 100 as the U.S. average. Local prices were collected by researchers at Texas A&M University-Corpus Christi in the 2000s and by Corpus Christi Regional Economic Corporation since the mid-2010s. Corpus Christi’s COLI was around 90 in the 2000s, meaning that it cost about 10 percent less to pay for all basic needs in the area compared to a typical city in the nation.
During the past decade, Corpus Christi’s COLI trended up steadily over time. The latest reading is about 96, meaning the cost of living locally is near the U.S. average today.

**Catching Up**

Corpus Christi’s overall cost of living has caught up not only with the rest of the state, but also the rest of the nation. In 2010, Corpus Christi’s COLI was behind that of Houston and Austin. Grocery and housing expenses for residents in these three Texas metros, especially Corpus Christi, were remarkably lower than those in the rest of the nation.

On the other hand, residents in Corpus Christi and Austin paid more than 10 percent more than the U.S. average for utilities, which include electricity.
Electricity and other utility expenses have risen much more rapidly in Corpus Christi. In 2021, the local index for the component of utilities is about 131, meaning Corpus Christi residents pay about 30 percent more for utilities than a typical U.S. resident does.

The rising temperature in the summer due to climate change is not a likely reason. With similar temperatures, Houston's COLI for utilities is about 20 points lower than that of Corpus Christi.

Housing expenses in Corpus Christi have also been catching up with the rest of nation, reaching 89 in 2021 as compared to 80 a decade ago. Home prices have risen faster in Austin, which has experienced substantially more growth in population and income.

While the median price of existing homes in Corpus Christi at about $254,000 in August remained significantly below the U.S. median of about $356,000, the current pace of annual home price appreciation at 15 percent is the strongest ever for the area.
Corpus Christi has become part of the statewide trend with a white-hot housing market. A typical house in the area now takes less than 50 days to sell, compared to more than 80 days five years ago. While the prospect of the current housing trend post-pandemic remains too early to tell, it is clear that housing is becoming less affordable for most residents in the region.

**Texas Taxes**

Conventional measures of the cost of living do not take into account taxes that residents pay in addition to living expenses. Benjamin Franklin said, “in this world, nothing is certain except death and taxes.” While Texans need not pay state income tax, their property tax and sales tax burdens in comparison to income are both among the U.S. states’ top 10 highest, according to WalletHub.

To make up for the lack of state income tax revenues, property tax revenues as a percentage of home values are relatively high among counties in Texas than in other states with income taxes, notably California.

Source: https://www.policymap.com/newmaps/

Because of the relatively higher property tax amount as a percent of home values, rapid home price appreciation has
further raised the tax burden of most households in Corpus Christi.

Inflation acts like a tax as well because it reduces the purchasing power of money, so households can afford fewer goods and services than otherwise.

**Quality of Life**

A concept related to the cost of living is the standard of living, which describes the lifestyle of people in an area with the income they earn, but without compromising their basic needs. Living standards depend largely on the quality of the goods and services, or the level of material well-being that people enjoy in an area.

As a typical indicator of relative prosperity, the standard of living is commonly measured by income per person. In a city with a higher standard of living, it typically costs more for the people to maintain that standard.

The standard of living is different from the quality of life, which also includes personal freedom, satisfaction or happiness, and other subjective factors.

Which U.S. states offer the best quality of life? To gauge this rather subjective aspect of an area, the U.S. News & World Report has considered a wide range of factors, including employment and business opportunities, education, health care, crimes, and natural environments in addition to tangible measures of the economy.
In 2021, Texas ranks 31st out of 50 states. While the state's overall economy is among the top 10, its natural environment, crime rates, and opportunity in terms of poverty and housing affordability are among the bottom 10.

Interestingly, despite the state's relatively low ranking in the overall quality of life, Austin and Woodlands in the Houston metro area join other high-tech hubs, like San Jose and Seattle, as the best places to live. These cities have high household incomes, strong job markets particularly for young professionals, and a relatively low cost of living in comparison with the national average.

**Money Illusion**

Inflation is a mere money illusion if your income catches up with the rising living costs. Indeed, since the beginning of this year, wages have been growing at a rapid pace due in part to mismatches in labor markets that have resulted in acute labor
shortages in some industries. In September, the average hourly wage rate was up 4.6 percent from a year ago, matching the pace of inflation.

![Graph showing leisure and hospitality wages outpacing overall wages.](image)


Hospitality is an outsized sector in Corpus Christi, accounting for roughly one in five local jobs. Labor shortages among restaurants and hotels/motels have boosted wage growth in this sector far above that in other industries.

Without any gain in productivity, strong wage growth may well set off a wage-price inflation spiral. The outcome is an even higher overall cost of living for the broader community over time.

So, one long-lasting outcome of the post-pandemic recovery might simply be a more rapid convergence of the local cost of living toward the national norm. Or in economic parlance, "there is no such thing as a free lunch."

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