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Economic Report: Insights into Today's Housing Market

FMLS Market Intel Report

Prepared by Leslie Appleton Young, Chief Economist, FMLS

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Executive Summary

The U.S. economy continues to demonstrate resilience despite elevated inflation, geopolitical uncertainty, and persistently high borrowing costs. Following its latest meeting, the Federal Reserve maintained the federal funds rate target, signaling continued caution amid rising energy prices and mixed economic indicators. Financial markets reacted with increased Treasury yields and higher mortgage rates, reflecting growing expectations that rates could remain elevated longer than previously anticipated.

At the same time, economic growth remains stronger than expected. Real GDP expanded by 2.7% over the past four quarters, supported in part by business optimism and investment related to artificial intelligence (AI). However, inflationary pressures particularly from energy costs continue to strain consumers and the housing market.

Residential construction activity has slowed nationally and in the Atlanta metropolitan area as affordability challenges, economic uncertainty, and higher material costs weigh on builders and buyers alike. Builder sentiment has deteriorated significantly, while incentives and price reductions are becoming increasingly common across the new home market.

Monetary Policy and Interest Rates

Federal Reserve Holds Rates Steady

The Federal Reserve left the federal funds rate unchanged at its most recent meeting, reflecting ongoing concerns regarding inflation, geopolitical instability in the Middle East, and a labor market that remains relatively stable.

Only one Federal Reserve governor voted in favor of a rate cut, underscoring growing disagreement within the central bank regarding the appropriate direction of monetary policy.

Market Reaction

Financial markets responded negatively to the Fed's cautious tone:

- The 10-year Treasury yield increased sharply to **4.42% on April 29**, before easing slightly to **4.39% on May 1**.
- Mortgage rates followed suit, rising from **6.23% on April 23** to **6.30% on April 30**.

Rising yields indicate investors increasingly believe interest rates may remain elevated for an extended period.

Increasing Probability of Future Rate Hikes

Market participants are now pricing in approximately a **one-in-three probability of an additional rate hike within the next year**. This reflects uncertainty surrounding inflation trends and concerns that price pressures could reaccelerate.

The nomination of Kevin Warsh as the potential next Federal Reserve Chair introduces additional uncertainty. Warsh has historically favored lower interest rates, but inflationary conditions and market dynamics may limit the feasibility of accommodative monetary policy in the near term.

Economic Growth and Inflation

GDP Growth Remains Resilient

Despite restrictive monetary policy, tariffs, immigration restrictions, and flat population growth, the U.S. economy expanded at a healthy pace over the last year:

- **Real GDP growth:** 2.7% over the past four quarters

This level of growth has exceeded many economists' expectations given current economic headwinds.

AI-Driven Business Optimism

According to Gad Levanon, Chief Economist at the Burning Glass Institute, a major factor supporting economic resilience has been heightened optimism and investment surrounding artificial intelligence.

Businesses continue increasing spending and preparing for AI-driven productivity gains, helping offset negative impacts from broader macroeconomic pressures.

Inflation and Consumer Conditions

Inflation Accelerates

Inflation pressures intensified in March:

- The **Personal Consumption Expenditures (PCE) Index** rose to **3.5%**, the highest level since May 2023.

Energy costs have become a major contributor to inflation:

- Oil prices have surged nearly **60%** since the onset of conflict in the Middle East on February 28.
- Energy spending accounted for **42% of the increase in consumer spending** during March.

Consumer Spending Slows

Consumer spending growth has weakened considerably:

- Real consumer spending increased only **0.2% in March**

Meanwhile, households are increasingly drawing down savings to maintain consumption:

- The personal saving rate declined to **3.6%**, the lowest level in four years.

These trends suggest growing financial strain on consumers as inflation and borrowing costs remain elevated.

Housing Market Analysis

National Housing Starts Continue to Decline

The residential construction market remains under pressure from affordability constraints, high mortgage rates, and economic uncertainty.

Housing Starts

National housing starts peaked during the pandemic-era housing boom:

- **2021 peak:** 1.6 million housing starts
- **2025 level:** 1.36 million housing starts

This marks the fourth consecutive annual decline in residential construction activity.

Shift Toward Multifamily Development

The composition of new construction has shifted notably:

- Multifamily apartment construction has gained share
 - Single-family construction has weakened due to escalating home prices and affordability challenges
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Atlanta Metro Housing Market

Permit Activity Weakens

The Atlanta-Sandy Springs-Roswell metropolitan area—the fourth-largest single-family housing market in the United States—has mirrored national trends.

Permit Trends

- Permits increased **21% in 2021** during the housing boom
- Permits declined **12% in 2025**

The latest available data indicates continued deterioration:

- January permits totaled **1,478**
- This represents a **20% year-over-year decline**

The data points to slowing builder activity and weaker demand conditions across the region.

Builder Sentiment and Construction Costs

Builder Confidence Falls

Builder sentiment weakened sharply in April:

- The Builder Sentiment Index fell four points to **34**
- This marks the lowest reading since September 2025

All major components of the index declined:

- Current sales conditions
- Future sales expectations
- Prospective buyer traffic

The index has now remained in negative territory for more than **20 consecutive months**.

Rising Material and Energy Costs

According to NAHB Chief Economist Robert Dietz:

- **62% of builders** reported suppliers raising prices due to higher fuel costs
- Energy-related expenses account for approximately **4% of residential construction input and service costs**

Economic uncertainty has also complicated pricing decisions:

- **70% of builders** reported difficulty pricing homes due to uncertainty surrounding material costs

Pricing Strategies and Buyer Incentives

Builders are increasingly using price reductions and incentives to stimulate demand:

- Approximately **40% of builders** are cutting prices
- Average price reductions are around **6%**
- Nearly two-thirds continue offering buyer incentives

These concessions reflect weakening buyer demand and affordability constraints caused by elevated mortgage rates.

For prospective homebuyers, the new construction market may currently offer greater negotiating leverage compared to existing-home sellers.

Outlook

The U.S. economy remains in a transitional period characterized by:

- Persistent inflationary pressures
- Elevated interest rates
- Strong but slowing economic growth
- Housing market softness
- Geopolitical uncertainty

While AI-driven business investment has supported economic momentum, rising energy costs and reduced consumer savings pose growing downside risks.

The housing sector is expected to remain challenged in the near term unless mortgage rates ease meaningfully or affordability improves. Builders may continue relying on incentives and price reductions to sustain sales activity.

Financial markets are likely to remain highly sensitive to inflation data, Federal Reserve communications, and geopolitical developments throughout the remainder of the year.

Conclusion

The current economic environment presents a complex mix of resilience and risk. Strong GDP growth and AI-related optimism continue to support broader economic activity, yet inflation, high borrowing costs, and affordability pressures are increasingly weighing on consumers and the housing market.

For the housing industry, elevated rates and uncertainty are constraining both buyer activity and construction growth. However, increased builder flexibility may create opportunities for buyers willing to navigate current market conditions.

Continued monitoring of inflation, Federal Reserve policy decisions, and energy markets will be critical in determining the direction of both the broader economy and the housing sector in the months ahead.