FMLS Market Intel Report: The Fed Pauses, but Rates Stay Higher for Longer

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Executive Summary

The Federal Reserve paused last week, but borrowing costs did not ease. The Federal Open Market Committee voted to leave the federal funds rate unchanged following its quarter-point increase on September 16. The Fed's statement noted that inflation remains elevated, and policymakers appear to be holding off on further action until after the midterm elections.

The bond market continues to do the tightening. The 10-year Treasury yield remains near 5%. Freddie Mac reported an average 30-year fixed mortgage rate of 7.24%, down 16 basis points over two weeks but 50 basis points higher than in mid-September. Markets now place the probability of another rate hike at 83.3%, up from 78.4% before the meeting.

Economic data released the day after the meeting sent mixed signals. PCE inflation came in at 3.6%, matching forecasts, and GDP grew 3.4%, above expectations. Investment in artificial intelligence accounted for the great majority of that growth. A stock market sell-off the following day showed investors losing patience with Big Tech's AI spending.

For homebuyers, conditions are favorable apart from mortgage rates. Inventory is up and sellers are motivated. Home prices continue to set records in most of the country, which makes waiting costly.

The Fed Holds, the Bond Market Does Not

The Federal Open Market Committee voted last week to keep the federal funds rate unchanged. The decision followed a quarter-point increase on September 16. The Fed's official statement described inflation as elevated, and the committee appears to be delaying any further move until after the midterm elections.

Long-term rates have not waited for the Fed. As one analyst observed, Treasury yields have already risen enough to tighten financial conditions without additional action from the central bank.

The 10-year Treasury yield rose briefly after the decision. Strong GDP growth and hot inflation data the following day sent it back down, and it remains near 5%. Freddie Mac's average 30-year fixed mortgage rate was 7.24%, a decline of 16 basis points over the last two weeks but 50 basis points above mid-September levels.

Danielle Hale, Chief Economist at Realtor.com, said the Fed's hold will do little to unlock a stagnant housing market. She noted that investors appear to expect two or three more rate increases over the next 6 to 8 months, more than the Fed itself has projected. The market-implied chance of another hike rose from 78.4% before the meeting to 83.3% afterward. The likely path for rates is higher for longer.

Economic Data Sends Mixed Signals

The data released the day after the Fed meeting offered something for everyone. The Personal Consumption Expenditures (PCE) price index showed inflation running at 3.6%, matching forecasts. Gross domestic product (GDP), a measure of overall economic activity, grew 3.4%, above expectations.

Investment in artificial intelligence was responsible for the great majority of that growth. That concentration is a strength if the bet on AI pays off and a risk if it disappoints.

Investor sentiment has already shifted. A stock market sell-off the day after the GDP report reflected growing impatience with how much Big Tech is spending on AI. The Nasdaq fell sharply and is now 7.8% below its all-time closing high on October 6.

Data Centers and the Midterm Elections

The future of AI carries major implications for economic growth and investment portfolios, and data centers are now part of the midterm elections. Across 8 states, 41 ballot measures would slow data center development or add guardrails. Candidates from each party are also addressing public concerns about AI and data centers in their campaigns.

A recent report from the Annenberg Public Policy Center found that about three in five Americans oppose data centers in their local area, with majorities of Democrats, Republicans and Independents opposed. How AI and the data centers that power it are regulated will affect economic growth for years to come.

Why the Stock Market Matters for Housing

Stock market wealth is a key driver of spending among households at the upper end of the K-shaped economy. The stock market is often the most dramatic corner of the financial world, but its effect on real spending decisions, including homebuying among high-income households, should not be underestimated.

A Strong Market for Buyers, Apart From Rates

The challenge for buyers is that, setting rates aside, this is an excellent time to find a good deal on a home. Inventory is up and sellers are motivated.

Joel Berner of Realtor.com advised buyers to strengthen their position by improving their credit, making a larger down payment and comparing offers from multiple lenders. He also recommended that buyers test their budgets against a range of possible mortgage rates and loan products so they are prepared to act when conditions change.

For agents, a strong relationship with a trusted mortgage professional is more important than ever. Timely financing information helps clients move with confidence.

Home Prices Continue to Set Records

Home price appreciation has slowed from the double-digit pace of a few years ago, but prices are giving up little ground. Waiting carries a cost, and buyers who delay may find themselves trying to catch up to higher prices.

NAR Chief Economist Lawrence Yun summarized the association's new report on metro prices and affordability by noting that home prices continue to reach record highs in most parts of the country, even as affordability challenges slow the housing market.

Market Outlook

Rates are likely to remain higher for longer. The Fed has paused, but the bond market continues to set the tone for mortgage rates, and investors expect additional rate increases over the coming months. Economic growth remains solid but increasingly depends on AI investment, which adds uncertainty for stock values and for the high-income households whose spending supports the upper end of the housing market.

For buyers, rising inventory and motivated sellers create real opportunities for those who prepare for today's financing conditions. Buyers should test their budgets against realistic rates and work closely with lenders. With prices still near record highs, delaying a purchase may not lead to a better deal.

FMLS members can follow the latest housing statistics through Market Intel on the FMLS website. Data is updated weekly, with local-market resources that help real estate professionals evaluate changing conditions across the Greater Atlanta region.