July 30, 2025

Economic Report: Insights into Today's Housing Market

FMLS Market Intel Report

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Uncertainty still influences market perceptions, and recent economic data has been mixed. However, the economy is overall better than expected just a few months ago.

The CPI for June experienced the most significant monthly increase (+0.3%) since January, resulting in an annual growth rate of 2.7%. This rise from May's 2.4% was anticipated as tariff effects begin to influence consumer prices. It also provides some support to the Fed, though opinions remain divided, to postpone any rate cuts when they meet at the end of the month. Watching whether tariffs continue to contribute to inflation will be important.

Regarding employment, in June the economy added more than expected 147,000 jobs, lowering the unemployment rate to 4.1% from 4.3%. Good news despite some signs of potential weakness, such as increased difficulty for new college grads to find their first job.

Retail sales have fluctuated throughout this year amid expectations of tariffs and higher prices for consumer goods. May experienced the most significant monthly decline since January, partly a pullback from the large surge in spending in March—where consumers spent in advance to offset the impact of higher prices. The drop in May is more of a return to normal, especially for big-ticket items like autos, gas, and home goods.

The Federal Reserve Open Market Committee met in mid-June and kept rates unchanged—the fourth consecutive hold since last December. The “wait and learn more” stance remains in place as the Fed monitors tariff-related inflation uncertainty and labor trends.

Going forward, roughly half of the FOMC expects two cuts by the end of the year, while the rest are leaning toward no cuts at all in 2025.

Markets generally expect 1-3 rate cuts throughout the remainder of 2025, with the first likely in September.

The University of Michigan’s Consumer Sentiment Index experienced a noticeable increase in June as consumers felt a sense of “relief.” After widespread concern over tariffs and policy volatility, consumers relaxed in June as tariff pressures eased. While recent history influences perceptions, the upcoming 30% tariffs on imports from the EU and Mexico, set for August 1, could affect this more optimistic outlook.

Mortgage rates continue to fluctuate within a fairly narrow range. Driven partly by the hotter-than-expected jobs report and tariff uncertainty, rates increased on July 17 to 6.72%, marking the second week of higher rates after five weeks of decline. Note that rates are still down 14 basis points since the end of May, and analysts expect rates to trend downward over the next year, but not by much.

Averaging the forecasts from Fannie Mae, the Mortgage Bankers Association, and Wells Fargo indicates a gradual decline to 6.43% by Q2 2026. In short, the chances of dropping back below 6 percent in the next year are very slim.

Selma Hepp, Chief Economist at Cotality, summed it up well: “The prospect of elevated mortgage rates throughout 2025 suggests that housing market activity will continue to be challenged.”

It is the reality of elevated rates more than any other factor that is driving the revised and more subdued forecasts for home sales and prices.

Nationally, home sales are expected to be slightly above 2024’s 4.067 million, but not by much. At the same time, the average forecast for home prices this year is for a modest gain of 1.9%.

What should you do? My recommendation is to counsel clients on how to navigate market conditions today, rather than waiting for a market that may not materialize.