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## **FMLS Market Intel Report**

*Presented by Leslie Appleton Young, Chief Economist, FMLS*

### **FMLS Market Intel Report – January 2025**

As the new year begins, the real estate market finds itself in a holding pattern. While it is too early to definitively assess the accuracy of 2025 market forecasts, one thing remains clear: projecting mortgage rates continues to be a high-risk endeavor.

#### **Fed Actions and Mortgage Rates**

In September 2024, a weakening labor market and decelerating price increases prompted the Federal Reserve to begin cutting interest rates. A 0.50% cut on September 18 reduced mortgage rates to 6% by the end of the month, with many expecting further rate cuts. However, this expectation has not materialized. Currently, mortgage rates are hovering around 7%, and the Fed is unlikely to cut rates again until mid-year, if at all. The shift in expectations reflects a more complex economic environment, raising questions about its impact on the housing market.

#### **Economic Uncertainty and Inflation**

On the inflation front, price declines have stalled, and concerns over new tariffs, government borrowing, and debt sustainability remain. Additionally, the economic consequences of recent natural disasters, such as the devastating fires in Los Angeles, add further uncertainty to the outlook. These factors contribute to ongoing concerns for both the Fed and investors about future economic stability.

## **Labor Market and Economic Outlook**

The labor market's unexpected strength, with 256,000 new jobs added in December 2024, has created additional concerns. The robust job growth, combined with the potential for higher inflation, raises doubts about whether the Fed will continue its plan for rate cuts. As seen in past market behavior, investor expectations about future economic conditions strongly influence rates. As the new administration's economic policies become clearer, more concrete insights into the economy will emerge at the end of January.

## **2025 Market Forecast**

The forecast for 2025 suggests that inflation will be controlled, economic growth will slow, and the Fed will proceed with cautious rate cuts. Mortgage rates are expected to decline gradually throughout the year, and the housing market will see increased inventory, moderately higher prices, and slightly more sales. However, this forecast assumes that mortgage rates will stabilize. What if 6.5% or 7% becomes the new normal?

## **Early Market Data (January 5-11)**

The week of January 5-11 marked a key moment in the housing market, as it was the first week in the last three not affected by holiday scheduling. The Christmas and New Year holidays, falling on Wednesdays, had disrupted housing market activity due to travel and time off. Data from previous weeks showed declines in new listings: a 10% drop for the week ending December 28 and a 15% drop for the week ending January 4. However, new listings rebounded by 6.75% in the week of January 5-11. Similarly, closings fell by 15% for the week ending December 22, then increased by 4% the following week and surged by 61% for the week ending January 11.

These fluctuations suggest that while the housing market is still below pre-pandemic levels, there are early signs of a recovery, with more inventory and more sales. The full extent of the market's recovery will depend largely on how consumer expectations about mortgage rates adjust to a potentially higher rate environment.

## **Key Takeaways for Market Participants**

- **For Buyers:**

- Waiting for mortgage rates to return to 5.5% or 6% in 2025 is unlikely, making it important to assess the trade-off between current rates and the pace of price appreciation.
- Buyers should evaluate the long-term costs and benefits of purchasing in a higher rate environment, as waiting may not result in significant savings.

- **For Sellers:**

- Pricing properties competitively will be essential, as higher mortgage rates make buyers more sensitive to price.
- Sellers may want to consider offering mortgage rate buy-downs to attract more buyers, especially in a market with higher rates.

## **Conclusion**

While uncertainty remains high, there is clear pent-up demand in the market. Buyers have been sidelined for the past two years, waiting for mortgage rates to drop, while sellers have been reluctant to move due to low-rate mortgages and significant equity gains. At some point, these expectations will adjust, and the need to move will drive action.