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Economic Report: Insights into Today's Housing Market

FMLS Market Intel Report

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Executive Summary

The economy continues to show resilience despite a weaker-than-expected first quarter GDP reading. Consumer spending remains positive, the labor market is still historically strong, and inflation is gradually easing. However, elevated shelter costs and persistent price pressures in several categories continue to complicate the Federal Reserve's path toward interest rate cuts.

The housing market remains constrained by affordability challenges, limited inventory, and elevated mortgage rates. While new college graduates are beginning to enter the labor force, many are also confronting a difficult job market and high home prices. Federal Reserve policy remains central to the housing outlook, as expectations for rate cuts continue to shift.

Economic Conditions

The broader economy remains solid despite a markdown in first quarter GDP growth from **2% to 1.6%**. Consumers remain engaged, even though borrowing costs and inflation continue to weigh on household budgets.

The labor market also remains relatively strong. While new college graduates are entering a challenging employment environment, broader labor indicators suggest that the job market is not signaling an imminent recession.

Inflation Trends

Inflation continues to moderate, with both the **Consumer Price Index** and **Personal Consumption Expenditures Index** moving in a more favorable direction. Annual rates are now below **3.5%**.

Some categories, including apparel, footwear, coffee, and certain beverages, have posted notable price gains. These pressures could influence future inflation readings, though the overall trend still suggests easing price growth.

The key issue remains whether inflation will cool enough to give the Federal Reserve confidence to begin cutting interest rates later this year.

Federal Reserve Outlook

Federal Reserve officials have maintained a cautious stance. Policymakers continue to hold rates steady while waiting for clearer evidence that inflation is moving sustainably toward target.

At the same time, the bond market has increasingly priced in the possibility of future rate cuts. The market's expectations suggest that investors believe lower rates are becoming more likely, even as Fed officials remain careful in their public comments.

Incoming Fed Chair Kevin Warsh is expected to lead his first Federal Reserve meeting on **June 16–17**. Although he has previously supported lower rates, he recently emphasized that price stability remains the central issue, noting that no one is currently “beating” price increases.

Housing Market Implications

Mortgage rates remain a major constraint on housing activity. Even if the Federal Reserve begins cutting short-term rates, longer-term bond yields and mortgage rates may not fall immediately or significantly.

If markets interpret a rate cut as inflationary, bond yields could rise instead of fall. That would keep mortgage rates elevated and continue to pressure affordability.

For housing, the ideal outcome would be a credible Fed rate cut that supports lower long-term rates while maintaining inflation expectations. That could help improve affordability and bring more buyers back into the market.

Outlook

The next several months will be important for the economy and housing market. Inflation is improving, but not yet fully contained. Labor conditions remain stable, but younger workers face growing challenges. Housing affordability remains strained by high prices and elevated borrowing costs.

A Federal Reserve rate cut could provide relief, but its impact will depend heavily on how bond markets respond. If long-term rates decline, housing activity could improve. If bond yields rise on renewed inflation concerns, mortgage relief may be limited.

Overall, the economic outlook remains cautiously positive, but the path forward depends on continued inflation progress and the credibility of future Fed policy decisions.