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Economic Report: Insights into Today's Housing Market

FMLS Market Intel Report

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Executive Summary

After several months of encouraging economic news, the outlook for inflation and mortgage rates has shifted once again. Earlier this year, easing geopolitical tensions and declining energy prices fueled optimism that inflation would continue to cool and mortgage rates would gradually move lower. However, renewed global conflict has quickly changed that trajectory.

In April, the ceasefire in the Middle East helped drive oil prices lower, easing inflationary pressures across the economy. June's Consumer Price Index (CPI) fell from 4.2% to 3.5%—the first year-over-year decline in more than six years—primarily due to significantly lower gasoline prices. Those lower fuel costs also affected June's retail sales report. While headline retail sales increased by only 0.1%, the modest gain largely reflected reduced gasoline receipts rather than weaker consumer spending. Excluding gas station sales, retail spending actually rose a solid 0.7%, demonstrating continued consumer resilience.

Mortgage rates responded positively during this period of optimism. Rates declined from 6.46% in early April to 6.23% by April 23 as investors anticipated lasting geopolitical stability and lower inflation. By the end of June, forecasts from Fannie Mae, Wells Fargo, and the Mortgage Bankers Association projected mortgage rates remaining within a relatively stable range of 6.3% to 6.5% through the remainder of the year.

That outlook changed dramatically in mid-July.

Renewed hostilities caused oil prices to surge nearly 37% in just two weeks, pushing crude oil above $100 per barrel for the first time since May. Rising energy prices quickly reignited inflation concerns, driving Treasury yields higher and increasing mortgage rates by approximately 15 basis points between July 2 and July 23. Until there is a lasting resolution to the conflict, expectations for significantly lower inflation—and by extension lower mortgage rates will likely remain on hold.

Looking beyond current events, several long-term economic forces suggest mortgage rates may remain elevated even after geopolitical tensions ease. While inflation remains a primary driver of long-term interest rates, persistent government borrowing and increased corporate debt issuance continue to raise the term premium investors require for long-duration bonds. As a result, long-term financing costs—including mortgage rates—could remain relatively expensive even if the Federal Reserve eventually lowers short-term interest rates.

These structural factors suggest forecasts calling for substantially lower mortgage rates should be viewed cautiously. Although modest improvements remain possible, the broader environment points toward rates remaining higher than many buyers and sellers have hoped.

Perhaps the greatest challenge facing today's housing market is not simply higher borrowing costs but ongoing uncertainty. As Warren Buffett famously observed, *"Markets hate uncertainty more than they hate bad news itself a known negative can be priced in, but an unknown is much harder to value."* This principle extends beyond financial markets to individual households. When uncertainty dominates the economic outlook, consumers often delay major financial decisions, including purchasing or selling a home, even when personal circumstances otherwise support making a move. While uncertainty is not the sole reason existing home sales have remained relatively flat over the past four years, it continues to be a significant contributing factor.

Despite these economic headwinds, Atlanta recently experienced a major success story through the FIFA World Cup. While comparisons to hosting eight Super Bowls may have overstated the economic impact, the tournament exceeded expectations in both attendance and public engagement. More than 536,000 people visited Atlanta's Fan Fest activities, ranking among the highest attendance figures of any host city. Mercedes-Benz Stadium earned widespread praise for its state-of-the-art facilities and fan experience.

Georgia World Congress Center Executive Vice President Joe Bocherer summarized the event by saying it "far exceeded our expectations and our dreams... it became the place to be." Mayor Andre Dickens echoed that sentiment, noting the tournament created unforgettable experiences not only for international visitors but also for Atlanta residents who rediscovered their own city. The global exposure generated by the World Cup may ultimately strengthen long-term demand for housing within Atlanta's urban core as more people recognize the city's appeal as both a destination and a place to call home.

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