

Fed Pause Continues, Housing Data Surprises



Ryan Champion
Certified Mortgage Advisor
NMLS# 2294595 • Maverick Capital Lending
Cell: (970) 403-5677
ryan@championmortgagepros.com
www.championmortgagepros.com



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Week of March 17, 2025 in Review

The Federal Reserve kept interest rates unchanged, as anticipated, while unveiling its latest economic projections. Meanwhile, existing home sales and housing starts exceeded expectations, even as home builder confidence declined. Read on for these updates and more.

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Fed Maintains Current Rate, Signals Economic Outlook

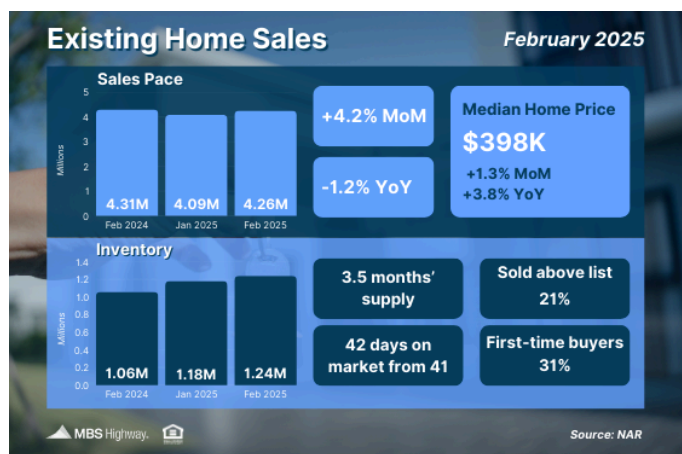
The Federal Reserve has opted to keep its benchmark Federal Funds Rate steady at 4.25% to 4.5%, maintaining the hold established during the January meeting. This decision to pause further rate cuts was anticipated.

The Fed Funds Rate, a short-term rate used for interbank lending, influences various interest rates across the economy, although it does not directly impact mortgage or long-term rates.

What's the bottom line? The Fed also released its Summary of Economic Projections (SEP) for 2025, acknowledging the considerable uncertainty surrounding the economic landscape. They project a slowdown in GDP growth for this year at 1.7%, down from the previous estimate in December of 2.1%, while inflation is expected to exceed earlier forecasts at Core PCE of 2.8%, compared to 2.5%. Additionally, the unemployment rate is anticipated to rise slightly to 4.4%, up from 4.3%. Nonetheless, most Fed members continue to foresee two rate cuts later this year.

In a further development, the Fed announced plans to slow its balance sheet runoff starting in April, which positively affected the Mortgage Bond market.

Existing Home Sales Exceed Expectations

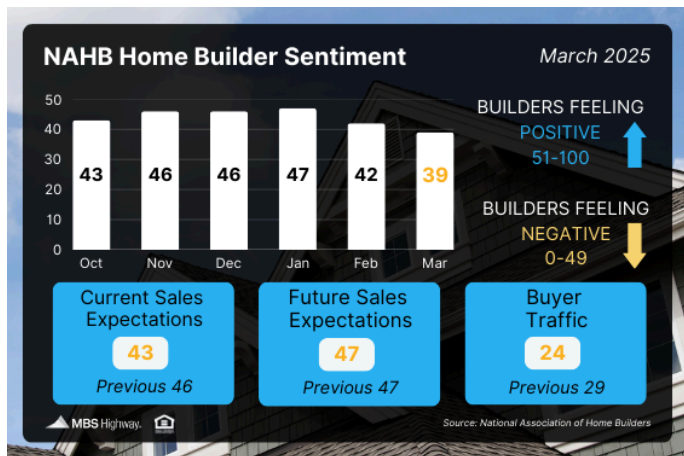


In February, existing home sales saw a notable uptick, rising by 4.2% from January's sluggish start to the year. This increase surpassed expectations of a 3% decline. The February report likely reflects sales from buyers who were shopping in December and January when mortgage rates were higher, making the upside surprise even more impressive.

What's the bottom line? "The momentum for home sales is flashing encouraging signs," according to the National Association of REALTORS® Chief Economist Lawrence Yun. He noted that more inventory has brought some buyers back to the market.

However, despite February's inventory climbing to 1.24 million units, the situation remains tight compared to pre-pandemic levels. Notably, only 848,000 of those listings were active; the remainder were under contract and not available for new buyers. This ongoing supply shortage, combined with pent-up buyer demand, bodes well for continued home price appreciation.

Home Builder Confidence Drops to 7-Month Low

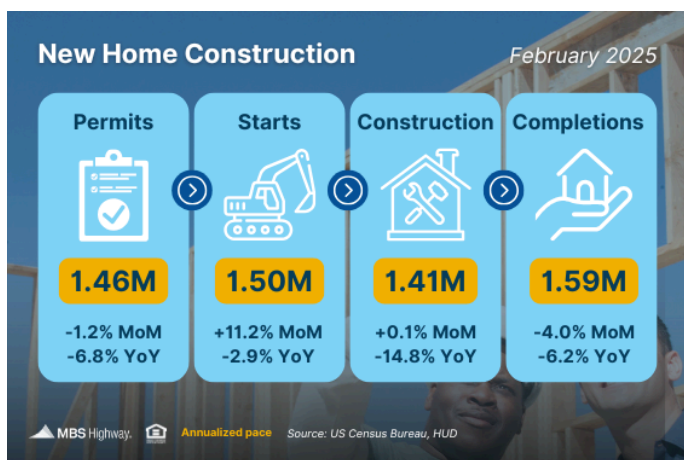


Home builder confidence declined for the second consecutive month, with the National Association of Home Builders (NAHB) reporting a drop in their confidence index from 42 in February to 39 in March. This figure represents the lowest level since August and falls well below the neutral benchmark of 50, signaling contraction.

All three components of the index – buyer traffic, current sales and future sales expectations – remain below 50. Notably, current sales conditions (down 3 points to 43) reached their lowest level since December 2023.

What's the bottom line? The key factors dampening builder sentiment were economic uncertainty, high costs, and tariff threats, though they expressed hope that a more favorable regulatory environment would improve the business climate, according to the NAHB.

Housing Starts Rebound



In February, housing starts rose 11% from the previous month, rebounding from a disruption in construction activity during January due to harsh winter weather, particularly in the South and Northeast regions. These regions saw even larger increases.

However, building permits, an indicator of future construction, dipped slightly from the prior month.

What's the bottom line? Overall, while February's housing starts improved to a seasonally adjusted annual rate of 1.5 million, they remain below the average household formations of 1.8 million per year seen over the past five years. This gap highlights a significant mismatch between demand and supply, which should also help sustain home values moving forward.

Retail Sales Disappoint

Retail Sales rose a modest 0.2% in February, well below the expected 0.6% increase. Additionally, January's sales figures were revised downward to a 1.2% decline, the largest monthly drop in nearly four years. However, the "control group" – excluding autos, gasoline, building materials, and food services – saw a better-than-expected 1% rise.

What's the bottom line? Retail sales are a key indicator of consumer spending, an essential component of economic activity. While the February increase was an improvement over January's sizable decline, the data so far this year suggests consumers are growing more cautious amid economic uncertainty. Fed members will be closely monitoring future retail sales reports, as the strength of consumer spending will factor in upcoming monetary policy decisions.

Latest Unemployment Claims Reflect Ongoing Trends

Initial jobless claims increased by 2,000, bringing the total to 223,000. Overall, this figure remains stable. Meanwhile, continuing jobless claims climbed by 33,000, reaching 1.892 million – close to a three year high. These continuing claims have stayed above 1.8 million since last June, indicating a concerning trend.

What's the bottom line? The most recent unemployment data continues to tell a consistent story. Although new claims are still at historically low levels, the sustained rise in continuing claims points to longer durations of unemployment for many job seekers.

Family Hack of the Week

With March Madness in full swing, these Chicken Nachos from Allrecipes make for a slam dunk gameday snack. This recipe serves 6.

Preheat oven to 350 degrees Fahrenheit. In a deep 12-inch skillet, heat 3 tablespoons of canola oil over medium heat. Sauté the white parts of 6 green onions along with 2 crushed garlic cloves until the onions are tender. Add 1 shredded cooked chicken breast and season with kosher salt and pepper, tossing to coat evenly. Stir in 1 cup of salsa.

On a large baking sheet, spread 6 ounces of tortilla chips. Top the chips with the chicken mixture, then sprinkle with 8 ounces of shredded cheddar and Monterey Jack cheese and 1/2 of a large diced tomato. Bake for approximately 10 minutes, or until the cheese has melted. Remove from the oven and garnish with sliced green onion tops before serving.

What to Look for This Week

The critical report this week will be published on Friday, focusing on the Federal Reserve's preferred inflation metric, the Personal Consumption Expenditures index.

Additionally, housing data will be released throughout the week, including appreciation figures and New Home Sales on Tuesday, as well as Pending Home Sales on Thursday. Thursday will also feature the latest Jobless Claims and the final estimate of fourth quarter GDP.

Technical Picture

Mortgage Bonds finished last week trading in a wide range, closing between key support at 101.39 and overhead resistance at 101.71. The 10-year Treasury yield closed above its 200-day moving average on Friday, forming a "Hammer" candlestick pattern, which generally portends to moves higher.