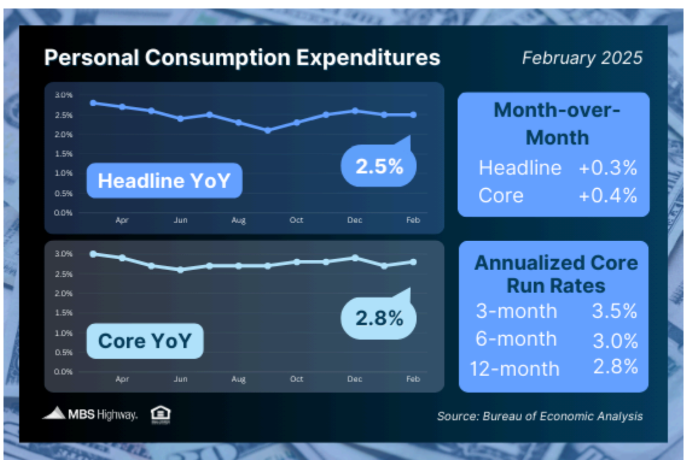
Inflation Move a Concern, Home Sales Rebound

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

Week of March 24, 2025 in Review

The Federal Reserve's key inflation gauge moved in the wrong direction in February, a concerning development. However, signed contracts for new and existing homes rebounded after a sluggish start to the year, and home prices nationwide continued to show solid growth. Read on for these updates and more.

The Fed's Preferred Inflation Gauge Ticks Higher



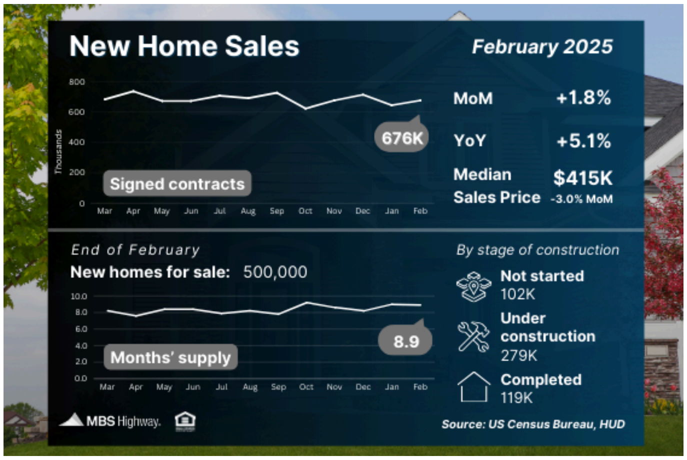
The latest Personal Consumption Expenditures (PCE) report showed that headline inflation was in line with estimates, rising 0.3% from January to February and 2.5% year-over-year. However, the core PCE rate - the Fed's preferred measure that strips out volatile food and energy prices - was hotter than expected, up 0.4% from the prior month and 2.8% year-over-year, still stubbornly above the Fed's 2% target.

Costs for utilities, healthcare, and computer software all rose more than anticipated, contributing to the elevated inflation reading. Shelter costs were a bright spot, as they continued to catch up with softer real-time rental data compared to the more elevated government figures seen previously.

What's the bottom line? The trend of annual core inflation raises concerns, particularly as it's assessed on a rolling 12-month basis. This means the total of the past 12 monthly inflation readings will determine the year-over-year rate. Looking ahead, lower readings for April through December 2024 could prove challenging to bring inflation back to the Fed's 2% target if they are replaced by higher numbers as the year progresses.

Also worrying was lower-than-expected consumer spending in the report. Combined with sticky inflation and record-high credit card debt nationwide, this is adding to fears of an economic slowdown.

New Home Sales Bounce Back After Slow Start to 2025



After a disappointing start to the year, new home sales rebounded in February, rising 1.8% from January to a 676,000-unit annualized pace. This rebound would have been even stronger, but inclement weather in the Northeast dampened activity in that region. On a year-over-year basis, sales were up 5.1%. January's sales figures were also revised higher.

The median home price dropped 3% from January to $414,500, but this dip was not due to a nationwide decline in home prices. The median sales price represents the middle-priced home sold, which can be influenced by the mix of home sales in each month. In this case, the decline in sales in the more expensive Northeast and West regions shifted the median price slightly lower, even as home prices continue to rise across the country overall.

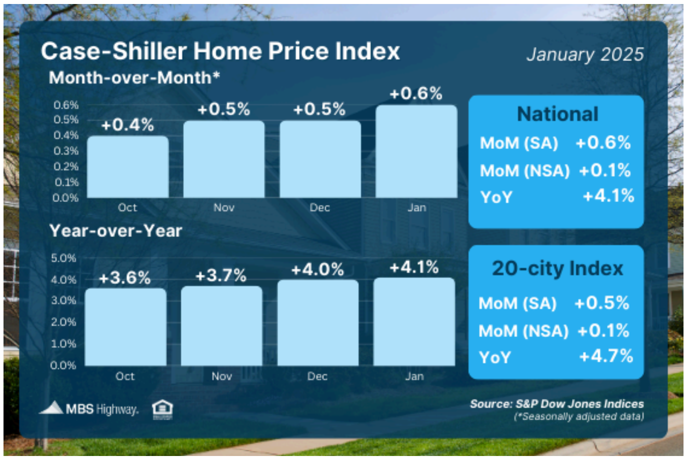
What's the bottom line? The limited inventory of existing homes, combined with strong buyer demand, has shifted focus to the new construction market. However, more inventory is needed to fully meet this buyer interest. As of February, there were 500,000 new homes available for sale, but only 119,000 had been completed, with the rest still under construction or not yet started.

Pending Home Sales Improve

After two months of declines, pending home sales rose 2% from January to February, according to the National Association of REALTORS® (NAR). This metric, which tracks signed contracts on existing homes, typically precedes closings by 1-2 months and is a key indicator of housing market performance.

What's the bottom line? The rise in signed contracts comes from a historically low baseline, with much of the increase attributed to the South, where severe winter weather in January likely delayed transactions until February. This trend aligns with recent reports on new home sales and existing home closings, both of which displayed improvement following a sluggish January.

Home Prices Maintain Solid Nationwide Growth



The closely watched Case-Shiller Home Price Index, the industry standard for measuring home value appreciation, reported a 0.6% increase in home prices across the country from December to January after seasonal adjustments.

On an annual basis, home values rose 4.1% in January, building upon the 4% gain seen in December. The 10-city composite index posted a more robust 5.3% year-over-year increase, while the 20-city index saw a 4.7% rise, indicating stronger growth trends in major urban markets compared to the national average.

Separately, the Federal Housing Finance Agency's (FHFA) House Price Index showed a seasonally adjusted 0.2% increase from December to January, with prices 4.8% higher than the prior year. Unlike Case-Shiller, the FHFA's measurement excludes cash buyers and jumbo loans, focusing solely on conventional mortgage financing.

What's the bottom line? Homeownership remains a solid wealth-building opportunity. For example, a $600,000 home that appreciates 4% in a year would see a $24,000 gain, reflecting a robust investment return.

Also, of Note

The U.S. economy experienced solid growth in 2024, with GDP increasing by 2.4% in the fourth quarter – slightly higher than the initial 2.3% estimate. This capped off a year with growth of 1.6% in Q1, 3% in Q2, and 3.1% in Q3. The Q4 uptick was driven by increased government and consumer spending, though investment declined.

Looking ahead, forecasts suggest the economy has slowed in the first quarter of this year. The Federal Reserve will be closely watching the Q1 GDP data, set for release on April 30, as they weigh future monetary policy decisions.

On the employment front, Initial Jobless Claims held fairly steady at a historically low 224,000. However, Continuing Claims remained elevated above 1.8 million, dropping 25,000 to 1.856 million. This suggests longer unemployment periods for job seekers, a trend that has persisted since last June.

Family Hack of the Week

This decadent Dark Chocolate Mousse from Food Network is the perfect way to celebrate National Chocolate Mousse Day on April 3. The recipe yields 4 to 6 servings.

Begin by coarsely chopping 5 1/4 ounces of bittersweet chocolate and placing it in a large bowl over a bain marie or double boiler set to a low simmer. Stir until the chocolate is fully melted, then remove from heat and set aside.

In a separate bowl, beat 14 ounces of cold heavy cream over ice until soft peaks form, then set aside at room temperature. Using a mixer, whip 3 large egg whites to soft peaks, gradually adding 1 ounce of sugar until firm peaks form.

Once the chocolate has cooled, add to a large bowl and fold in the egg whites using a whisk. When almost fully incorporated, gently fold in the whipped cream. Cover the mousse and refrigerate for about 1 hour or until set. Serve in goblets, garnished with additional whipped cream and shaved chocolate.

What to Look for This Week

This week promises to be insightful for the labor sector, with key reports on the horizon. On Tuesday, we'll see updates on job openings, followed by private payrolls on Wednesday. Thursday brings us unemployment claims, and we'll wrap up the week with the non-farm payrolls and the unemployment rate on Friday.

Technical Picture

Mortgage Bonds concluded last week above the dual ceiling formed by the 101.39 Fibonacci level and the 25-day Moving Average. There is more room for improvement before the next ceiling at 101.71. Meanwhile, the 10-year yield fell below its 25-day Moving Average and finished the week nearing the next support level at its 200-day Moving Average.